

Exposure draft	
Ref: IRDA/F&A/2020-21/ED/437	Date: 05-11-2020
IRDAI (Manner of Determination of Compensation to Shareholders on Merger of an Insurer under a Scheme Prepared under Section 37A) Regulations, 2020	
Exposure draft of IRDAI (Manner of Determination of Compensation to Shareholders on Merger of an Insurer under a Scheme Prepared under Section 37A) Regulations, 2020	
Section 37A (4A) of the Insurance Act, 1938 reads as under:	
<i>“(4A) Every policyholder or shareholder or member of each of the insurers, before amalgamation, shall have the same interest in, or rights against the insurer resulting from amalgamation as he had in the company of which he was originally a policyholder or shareholder or member:</i>	
<i>Provided that where the interests or rights of any shareholder or member are less than his interest in, or rights against, the original insurer, he shall be entitled to compensation, which shall be assessed by the Authority in such manner as may be specified by the regulations.”</i>	
In accordance with the proviso of the said section, the shareholders and members whose rights have been adversely impacted by the scheme of amalgamation /merger framed under Section 37A shall be entitled to compensation. For the purpose of determination of such compensation, the Authority needs to frame the Regulations.	
Accordingly, draft regulations have been prepared. A brief summary of the draft regulations is as under:	
<ol style="list-style-type: none"> 1. It provides for compensation to the shareholders whose rights against the acquiring insurer has been reduced. Such compensation shall be paid based on the residual value of the assets. 2. The residual value of the assets shall be the amount equal to the value of the assets of the acquired insurer as on the day immediately before the appointed day, less the total amount of liabilities. 3. The compensation shall be paid either in cash and/or in kind or partially in cash and partially in kind. 4. It provides for separate provisions for payment of compensation for merger/ amalgamation of the branch of a foreign reinsurer. 	

5. Every shareholder of the acquired insurer shall be given such amount as compensation, as bears to the residual value of the assets, the same proportion as the amount of paid-up capital of the shares held by the shareholder bears to the total-up capital of the acquired insurer.

Where equity shares of one or more shareholders are not fully paid-up, the unpaid portion on such equity shares shall be deducted from the compensation payable.

Further, where the preference shares of acquired insurer have not been taken over by the acquiring insurer, such preference shareholders shall get preference over equity shareholders.

6. Where the amount of compensation offered in terms of these regulations is not acceptable to holders of not less than 10 percent of the paid up equity capital of the acquired insurer to whom the compensation is payable, such aggrieved persons may prefer an appeal to the Securities Appellate Tribunal before such date as may be notified by the Authority.

The time period for appeal may be specified by the Authority which shall not be less than 30 days from the date of intimation of compensation.

The draft of the IRDAI (Manner of Determination of Compensation to Shareholders on Merger of an Insurer under a Scheme Prepared under Section 37A) Regulations, 2020 is at Annexure-A.

The comments / suggestions on the draft Regulations may be forwarded to Mr. Sumit Arora, Assistant Manager at sumit.arora@irdai.gov.in with a copy to Mrs. R Uma Maheswari, Deputy General Manager at uma@irdai.gov.in by 20th November, 2020 in the format [Annexure-1] attached herewith.

R K Sharma
General Manager

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