

Acquisition of Exide Life Insurance Company Ltd (Exide Life) by HDFC Life Insurance Company Ltd (HDFC Life) and subsequent merger of Exide Life with HDFC Life – Placed before the Authority seeking

(A) Approval for

- a) Transfer of fully paid-up equity shares (100%) of Exide Life by Exide Industries Limited to HDFC Life,**
- b) HDFC Life, to hold 100% of the equity share capital of Exide Life, beyond the exposure norms prescribed in Regulation 9 of the IRDAI (Investment) Regulations, 2016, upto the completion of merger process and**
- c) Reconstitution of directors of Exide Life subsequent to the acquisition of Exide Life by HDFC Life**

(B) In-principle approval for

- a) The proposed Scheme of amalgamation through which Exide Life would be merged with HDFC Life**

1. Background

- a) The Authority was informed by Exide Life and HDFC Life, vide their joint communication dt. 14.09.2021, about the transaction involving acquisition of Exide Life by HDFC Life and subsequent merger of Exide Life with HDFC Life.
- b) The acquisition and merger are proposed in two steps.

Step-1: HDFC Life will acquire Exide Life through the acquisition of 100% of paid-up equity share capital of Exide Life from Exide Industries.

Step-2: Merger of Exide Life with HDFC Life post acquisition.
- c) Exide Industries and its nominee shareholders are holding 100% of paid-up equity shares (185,00,00,000 shares) of Exide Life. In connection with the proposed acquisition, 100% of paid-up equity shares of Exide Life are proposed to be transferred to HDFC Life and the nominees of HDFC Life for a consideration of Rs.6,687 crore, at Rs.36.145 per share.
- d) Towards the purchase consideration (Rs.6,687 crore) payable to Exide Industries, (i) HDFC Life will make a cash payment of Rs.725,97,77,930 (Rupees Seven hundred twenty five crore ninety seven lakh seventy seven thousand nine hundred and thirty) to Exide Industries and (ii) issue 8,70,22,222 (Eight crore seventy lakh twenty two thousand two hundred and twenty two) equity shares of HDFC Life (representing approximately 4.1%

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of the share capital of HDFC Life as of September, 3, 2021) to Exide Industries on a preferential basis, at a per share price of Rs.685.

- e) Accordingly, an application in terms of Section 6A of the Insurance Act, 1938, read with IRDAI (Transfer of Equity shares of Insurance companies) Regulations, 2015, for approval of transfer of 185,00,00,000 (One hundred and eighty-five crore) fully paid-up equity shares of Exide Life by Exide Industries to HDFC Life, along with the supporting documents, has been submitted to the Authority by Exide Life.
- f) HDFC Life has also sought the Authority's prior approval under Section 27 of the Insurance Act, 1938, read with the IRDAI (Investment) Regulations, 2016, for acquiring and holding 100% of the equity share capital of Exide Life as a wholly owned subsidiary, up to completion of the merger process pursuant to which Exide Life will be merged with HDFC Life.
- g) Further, in connection with the proposed amalgamation under section 35-37 of the Insurance Act, 1938, read with the IRDA (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013, (i.e., merger of Exide Life with HDFC Life subsequent to the acquisition process), a Notice of Intention to implement the Scheme of amalgamation along with a statement of the nature of the amalgamation and transfer, reasons thereof and documents, as required under regulation 4 of the IRDA (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013, has been submitted to the Authority by HDFC Life.
- h) As per section 35 (3) of the Insurance Act, 1938, read with regulation 4 of the IRDA (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013, the notice of intention has to be filed at least two months before the application for implementation of the amalgamation Scheme is filed with the Authority. In this regard, HDFC Life, vide mail dt. 21.10.2021, requested the Authority to exempt operation of the two-months period, to enable the insurers to jointly file their application for in-principle approval of the Authority. The Authority advised HDFC Life, vide mail dt. 27.10.2021, to adhere to the timelines prescribed in this regard in the Insurance Act, 1938 and the IRDA (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013.
- i) The insurers (Exide Life and HDFC Life), through mail dt. 10.11.2021, have submitted application for in-principle approval of the Authority for implementation of the amalgamation Scheme, along with the supporting documents. The physical application and other documents were received at the Authority's end on 11.11.2021. The fee for processing of the application, Rs.5 crore in this case, as required under regulation 11 of the IRDA (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013, was also remitted by the insurers (Rs.2.50 crore each) on 10.11.2021.
- j) As on date, two months are over from the date of Notice of Intention submitted by the insurers.

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- k) The acquisition process is part and parcel of the whole transaction through which Exide Life would be merged with HDFC Life. Subsequent to the acquisition, Exide Life will become wholly owned subsidiary of HDFC Life and then the merger process involving merger of the subsidiary (Exide Life) with the parent company (HDFC Life) would start. Till the completion of the merger process, Exide Life would continue as a subsidiary of HDFC Life.
- l) The insurers have also requested the Authority to permit them to reconstitute the board of directors of Exide Life subsequent to the acquisition of Exide Life by HDFC Life.
- m) In this regard, Authority's approval/in-principle approval is sought as follows:

(A) approval for

- i) transfer of 185,00,00,000 (One hundred and eighty-five crore) fully paid-up equity shares (100%) of Exide Life by Exide Industries Limited (Exide Industries) to HDFC Life, in terms of section 6A of the Insurance Act, 1938, read with IRDAI (Transfer of Equity shares of Insurance companies) Regulations, 2015,
- ii) HDFC Life, to hold 100% of the equity share capital of Exide Life, beyond the exposure norms prescribed in Regulation 9 of the IRDAI (Investment) Regulations, 2016, considering Exide Life would be a wholly owned subsidiary of HDFC Life, up to completion of the merger process pursuant to which Exide Life would be merged with HDFC Life, in terms of note 12 to Regulation 9 (Exposure/Prudential Norms) of the IRDAI (Investment) Regulations, 2016 and
- iii) reconstitution of the board of directors of Exide Life subsequent to the acquisition of Exide Life by HDFC Life, as requested by the insurers, in terms of the Insurance Act, 1938.

(B) In-principle approval for

- i) the proposed Scheme of amalgamation through which Exide Life would be merged with HDFC Life, in terms of IRDA (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013, filed with the Authority vide letter dt. 10.11.2021.

2. Expected results of the proposed amalgamation as perceived by the insurers

- a) The consolidated transaction of acquisition of Exide Life by HDFC Life and merger/ amalgamation of Exide Life into HDFC Life through the scheme of amalgamation is expected to result in value creation for shareholders of HDFC Life and Exide Life, as well as for the customers, i.e., the policyholders, through the availability of a wider product suite and enhanced distribution, higher service points, acceleration in revenue growth, enhanced efficiencies and lower costs, as well as more opportunities for upselling, cross selling, and entering new markets.

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- b) Employees and agents will benefit from a larger, stronger organisation that realizes the synergies arising out of complementary business models built on similar ethos. The transaction is also set to accelerate the growth of the agency business of HDFC Life, thus expanding the proprietary distribution channel of HDFC Life who will also benefit from some deep relationships in Exide Life's other distribution channels including broker, direct and cooperative banks.
- c) In addition, Exide Life complements HDFC Life's geographical presence and has a strong foothold in South India, especially in Tier 2 and 3 towns, thus providing access to a wider market.
- d) HDFC Life's market-leading digital and product innovation capabilities and prudent risk management strategy will aid in optimizing cost and over time, achieve higher margins for the acquired business. The transaction will enhance value for all stakeholders by improving new business margins via operating leverage and product mix optimization.
- e) HDFC Life will drive higher cross sell and upsell by utilizing wider product suites available for the combined entity. It will also expand into tier 2 and tier 3 locations through Exide Life's distribution channels and at the same time invest in digital platforms to provide an online platform to Exide Life's customers, thus increasing accessibility to life insurance.

3. Comments

- a) HDFC Life is a company incorporated under the provisions of the Companies Act, 1956 with its registered office at Mumbai. HDFC Life is registered with the Authority to carry on life insurance business in India with registration number 101. HDFC Life is a publicly listed entity. Exide Life is a company incorporated under the provisions of the Companies Act, 1956 with its registered office at Bangalore. Exide Life is registered with the Authority to carry on life insurance business in India with registration number 114. Exide Life is a wholly owned subsidiary of Exide Industries Limited.
- b) The Authority has been giving forbearance to Exide Life on Expenses of management whereas no such adverse information is noted against HDFC Life. As perceived by the insurers, HDFC Life's digital capabilities and risk management strategy may aid in optimizing cost and access to policy services and benefit the policyholders of Exide Life.
- c) Through operating leverage and optimization of the product mix, HDFC Life may strive to drive higher profitability for the merged businesses.
- d) The merged entity may have access to a wider market in view of the extended geographical presence and increased distribution channels, which will be beneficial for the growth of the life insurance business.

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e) Financial information of the insurers:

Financial Year 2020-21 Figures as on 31.03.2021	Amount in Rs. Crore		
	Particulars	Exide Life	HDFC Life
Total Premium (Gross)	3324.75	38583.49	41908.24
New Business Premium	781.05	20106.63	20887.68
New Business Premium - % of Linked Business	10.70%	13.49%	13.38%
New Business Premium - % of Single Premium	11.97%	65.89%	63.87%
New Business Premium - % of Individual Business	86.40%	50.11%	51.47%
New Business Premium - % of Group Business	13.60%	49.89%	48.53%
Income from Investments	1660.33	32677.57	34337.90
Policy Benefits (Net) = Benefits Paid (Net)+Interim Bonus paid	1724.71	22574.77	24299.48
Policy Benefits (Net) to Total Premium (Net)	53.08%	59.22%	58.74%
Surplus / Deficit	120.55	1098.44	1218.99
Surplus / Deficit to Total Premium (Gross)	3.63%	2.85%	2.91%
Commission and Opex. to Total Premium(Gross)	26.32%	16.32%	17.11%
Profit / Loss after tax	54.62	1360.10	1414.73
Paid-up Share Capital	1850.00	2020.94	3870.94
Net Worth	1207.08	8637.72	9844.80
AUM (Investments under SH, PH and Linked Funds)	17620.44	173839.44	191459.88
Funds for Future Appropriation	393.94	990.58	1384.52
Unclaimed amount of policyholders	52.25	697.75	750.00
Solvency Ratio	2.24	2.01	2.04

4. Other observations

- a) Post-acquisition, Exide Industries will be holding 4.1% (approximately) in HDFC Life as an investor. Based on the present level of shareholding of the promoters (53.81%) of HDFC Life, post- acquisition, the existing promoters (HDFC Ltd and Standard Life) will continue to hold 51.59% of paid-up share capital of HDFC Life, as per the submissions made by HDFC Life vide mail dt. 19.10.2021. HDFC Life must comply with the IRDAI (Listed Indian Insurance Companies) Guidelines, 2016, with regard to the minimum shareholding (50%) by promoters/promoter group at all times.
- b) The application submitted by Exide Life for approval of transfer of 185,00,00,000 (One hundred and eighty-five crore) fully paid-up equity shares of Exide Life by Exide Industries

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to HDFC Life has been examined and it is observed that the documents/confirmations, including approval from the Competition Commission of India, as required under IRDAI (Transfer of Equity shares of Insurance companies) Regulations, 2015, have been furnished by the insurers.

- c) The application submitted by the insurers seeking in-principle approval of the Authority for the proposed Scheme of amalgamation through which Exide Life would be merged with HDFC Life has been examined and it is observed that the documents as required under IRDA (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013, have been furnished by the insurers.
- d) The Insurance Act, 1938, empowers the Authority to permit managing director or other officer of an insurer carrying on life insurance business to be a managing director or other officer of any other insurer carrying on life insurance business for the purpose of amalgamating the business of the two insurers or transferring the business of one insurer to the other.
- e) Regulation 9 "Exposure / Prudential Norms" of the IRDAI (Investment) Regulations, 2016, specifies the limits for investment of controlled funds/all assets. Note 12 to Regulation 9 (Exposure / Prudential Norms) of the IRDAI (Investment) Regulations, 2016, specifies that
*"An insurer shall not out of the controlled fund / assets invest or keep invested in the shares or debentures of any one company more than the exposure prescribed in Regulation 9 above, **provided** that nothing in this regulation shall apply to any investment made with the previous approval of the Board of the Authority by an insurer, being a company with a view to forming a subsidiary company carrying on insurance / re-insurance business".*

In this case, Exide Life would become a wholly owned subsidiary of HDFC Life subsequent to the proposed acquisition and will be carrying on life insurance business. The acquisition process is part and parcel of the whole transaction through which Exide Life would be merged with HDFC Life. Accordingly, HDFC Life will hold 100% of the equity share capital of Exide Life up to completion of the merger process.

5. Conditions proposed for approval of the acquisition of Exide Life by HDFC Life

The approval/in-principle approval as mentioned at para 6 hereinafter may be granted subject to the following terms and conditions:

- a) The proposed acquisition of Exide Life by HDFC Life is considered as a part of the process involving merger of Exide Life with HDFC Life. The parties to the proposed transactions (HDFC Life, Exide Life and Exide Industries) shall confirm to the Authority that no revisions shall be made in the agreements entered between the parties in connection with the proposed acquisition and subsequent merger without permission from the Authority.

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- b) Exide Life shall inform about the proposed acquisition by HDFC Life and subsequent merger with HDFC Life, to all its policyholders and publish a notice of statement of the nature and terms of the proposed amalgamation at its offices and website.
- c) Exide Life shall continue as a separate entity and wholly owned subsidiary of HDFC Life till the merger process is completed.
- d) The insurers (Exide Life and HDFC Life), as separate legal entities and life insurance companies, shall comply with the Insurance Act/Rules/Regulations, orders, circulars, etc. as applicable to all the life insurance companies, till the merger process is completed.
- e) Promoters of HDFC Life shall file an undertaking committing infusion of capital for maintaining the regulatory solvency margin of both the insurers at all times. Certified copy of Board resolutions of promoters of HDFC Life shall be filed with the Authority.
- f) Exide Life shall report the shareholding pattern immediately post completion of proposed acquisition of shares by HDFC Life.
- g) Exide Life shall ensure filing copies of the amended Memorandum of Association and Articles of Association, if any, with the Authority.
- h) The proposed share transfer process must be completed within 3 months from the date of the approval of the Authority and the amalgamation to be completed within one year from the date of in-principle approval.
- i) The insurers shall initiate steps to seek such other regulatory approvals as may be required within a month from the date of acquisition of Exide Life by HDFC Life.
- j) Submission of certified extract of the Special Resolution passed at the general body meeting/extraordinary general meeting of the insurers approving the proposed merger.
- k) The cost of transfer of shares including implication of the income tax, if any, etc. incurred by the insurers shall be charged to Shareholders' Account only in their respective books of accounts. The acquisition cost payable by HDFC Life to Exide Industries, apart from the issuance of shares, shall be charged to Shareholders' Account by HDFC Life. The expenses incurred in connection with the amalgamation subsequent to the acquisition, shall also be charged to Shareholders' Account by HDFC Life.
- l) HDFC Life shall comply with the IRDAI (Listed Indian Insurance Companies) Guidelines, 2016, with regard to the minimum shareholding (50%) by promoters/promoter group at all times.
- m) The insurers shall ensure copies of the proposed Scheme are kept open for inspection by policyholders at their registered office and the main corporate office and the same are simultaneously uploaded on their website. Such inspection and access to the documents referred in the IRDA (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013, shall be kept open until the complete implementation of the Scheme.
- n) The insurers shall publish a Statement of the nature and terms of the Scheme in at least one National daily and one vernacular newspaper and file copies of such publications made with the Authority.

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- o) The insurers shall inform the Authority, in detail, about the steps taken to notify the policyholders and other stakeholders regarding (i) Exide Life becoming a fully owned subsidiary of HDFC Life, (ii) Change in office addresses/merger of operating offices proposed, if any and (iii) notice of the application submitted to the Authority and 'in-principle' approval obtained from the Authority in connection with the proposed merger of Exide Life with HDFC Life providing a statement of the nature and terms of the amalgamation.
- p) The Authority shall be kept informed about the changes, as and when initiated, in the Re-insurance programme/treaties both pre and post-merger.
- q) None of the agents shall be forced to continue with the merged entity nor shall be terminated without complying with the provisions provided under the regulatory framework.
- r) The insurers shall ensure compliance in respect of 'Total Foreign Investment' in accordance with the Indian Insurance Companies (Foreign Investment) Rules, 2015, as amended from time to time and FEMA Regulations on pricing as may be applicable.
- s) The policyholders and all other stakeholders of the insurers shall be informed of the developments as per the requirements of the Regulations and any other directions as may be issued by the Authority in this regard.
- t) During the interim period, the insurers shall ensure that the insurance operations are carried out in compliance with all requirements of the Insurance Act, 1938, the regulations framed thereunder and the directions issued by the Authority.
- u) The parties to the proposed transactions shall ensure compliance with all the requirements as regards taxation laws as may be applicable.
- v) The parties to the proposed transactions shall ensure compliance with all applicable laws, rules, regulations, orders, circulars, etc. as applicable from time to time.
- w) The parties to the proposed transactions shall take all the statutory/regulatory approvals as may be applicable to the proposed transactions.
- x) The insurers shall ensure that policyholders' interest is protected and not adversely affected in view of the proposed acquisition and subsequent merger.
- y) Decision taken with regard to the time period for separately managing the PAR funds of the merged entities post-merger shall be informed to the Authority while approaching for the final approval of the Scheme of amalgamation.
- z) The parties to the transaction shall ensure that equity, fairness and policyholders' reasonable expectations of policyholders of both the insurers are taken care of in reserve and asset share calculations between the funds.
- aa) The parties to the transaction shall ensure that expense allocation to the funds shall not be prejudicial to the policyholders' reasonable expectations, fairness and equity while

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carrying out overall expense allocation between the combined Non-PAR business of the merged entity and entity wise separated PAR business.

- bb) The Authority shall be informed, while approaching for the final approval of the Scheme of amalgamation, about the strategy to be adopted by the merged entity in respect of the products available with comparable benefit levels and structure with varied premium rates.
- cc) The parties to the transaction shall keep the Authority informed of all developments in the matter, including but not limited to the process of acquisition and merger, at periodic intervals till the completion of the exercise and the integrations proposed there under.
- dd) Exide Life and HDFC Life shall confirm compliance of Reg. 4 (3) of the IRDA (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013, which specifies that the documents submitted to the Authority along with the Notice of Intention are kept open for the inspection of the members and policyholders at their principal and branch offices.
- ee) HDFC Life shall submit an undertaking to the Authority as follows:
 - i) An assessment of existing operating model including distribution and policyholder systems and evaluation of systemic risks in the existing business model of Exide Life and concentration of risks shall be carried out and a report on the assessment carried out shall be submitted to the Authority.
 - ii) Estimated Costs of integration shall be documented and debited to shareholders' account over the projected period of implementation and the details shall be shared with the Authority.
 - iii) Integration of people, processes and technology shall be carried out in such a way that it does not lead to any disruption to the orderly growth of life insurance industry and will be in the best interest of policyholders.
 - iv) Expense policy shall be designed in such a manner that the future expenses allocation will not be disadvantageous to the policyholders of the respective insurers.
- ff) Both Exide Life and HDFC Life shall submit a joint undertaking to the Authority as follows:
 - i) Physical and electronic records or other valuable data relating to policyholders shall be maintained and integrated properly.
 - ii) All open cases of litigation and grievances as on the effective date of transfer shall be expeditiously pursued and resolved.
 - iii) Policyholders shall be communicated and engaged with during transition and thereafter.

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- iv) Communication to policyholders shall include how the scheme is likely to affect them and how they will continue to receive the same standard of service and scale of benefits.
 - v) Contractual rights of policyholders in terms of benefits and options shall continue unaltered pre- as well as post-merger and no reductions shall be made in benefits /guarantees /options to the policyholders due to the scheme of amalgamation.
 - vi) No changes shall be made to the policy terms of Exide Life policies that result in a change in risk or coverage.
- gg) The insurers shall ensure compliance with any other directions as may be issued by the Authority in this regard from time to time till the grant of final approval to the Scheme.
- hh) Both the insurers shall
- i) confirm that no reasonable objections have been received from the policyholders in respect of the proposed acquisition and amalgamation.
 - ii) confirm that they have complied with all the requirements/provisions of the Insurance Act and Regulations made thereunder in this regard and will comply with all the other directions that may be issued by the Authority from time to time in this regard.
 - iii) confirm that the proposed Scheme of amalgamation is in the interests of the growth of the insurance sector.
- ii) Final approval of the Authority to the proposed Scheme of amalgamation shall be subject to the insurers obtaining order from High court/NCLT approving the Scheme of amalgamation.

6. Approval sought from the Authority

This agenda item is placed before the Authority for consideration and grant of

(A) approval for

- i) transfer of 185,00,00,000 (One hundred and eighty-five crore) fully paid-up equity shares (100%) of Exide Life by Exide Industries Limited (Exide Industries) to HDFC Life, in terms of section 6A of the Insurance Act, 1938, read with IRDAI (Transfer of Equity shares of Insurance companies) Regulations, 2015,
- ii) HDFC Life, to hold 100% of the equity share capital of Exide Life, beyond the exposure norms prescribed in Regulation 9 of the IRDAI (Investment) Regulations, 2016, considering Exide Life would be a wholly owned subsidiary of HDFC Life, up to completion of the merger process pursuant to which Exide Life would be merged with HDFC Life, in

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terms of note 12 to Regulation 9 (Exposure/Prudential Norms) of the IRDAI (Investment) Regulations, 2016 and

- iii) reconstitution of the board of directors of Exide Life subsequent to the acquisition of Exide Life by HDFC Life, as requested by the insurers, in terms of the Insurance Act, 1938.

(B) In-principle approval for

- i) the proposed Scheme of amalgamation through which Exide Life would be merged with HDFC Life, in terms of IRDA (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013, filed with the Authority vide letter dt. 10.11.2021.

Placed before the Authority for consideration.