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Can a company provide insurance policy its shareholders?

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NEW DELHI : Deepak Nitrite, the company that manufactures chemical intermediates to serve the domestic and international market, offers an investors' welfare scheme to its shareholders. It is a personal accident insurance policy that covers the risk of death and permanent (total/partial) disablement sustained due to an accident by a shareholder of the company.

Policy coverage

The policy covers death and permanent (total/partial) disablement. Here, the permanent total disablement means losing sight of both the eyes or of actual loss by physical separation of the two entire hands or two entire feet. Similarly, permanent partial disablement means losing sight of one eye or of actual loss by physical separation of one full hand or one entire foot.

Any shareholders whose age is between 18 and 65 years will get the coverage. Further, the sum insured is offered according to the number of equity shares held. For instance, those holding up to 1,500 equity shares will get the sum insured of ₹40,000. If a shareholder holds equity shares between 1,501 and 5,000, he gets a sum insured of ₹60,000. For those holding equity shares above 5,000, the sum insured is ₹80,000. This means that if you hold shares of ₹29.25 lakh, that is, 1,500 shares that are currently trading at ₹1,950, you get a personal accidental coverage of just ₹40,000.

If you hold shares for ₹97.5 lakh, that is, 5,001 shares currently trading at ₹1,950, you get a personal accidental coverage of just ₹80,000. By contrast, if a 30-year-old had purchased a personal accident cover from a private insurer for a sum insured of ₹1.5 lakh, he would just have to pay a premium of about ₹380 annually.

"This is a curious case where various laws of two regulators, the Insurance Regulatory and Development Authority of India (Irdai) and the Securities and Exchange Board of India (Sebi), are at interplay. Generally, insurance premium or sum insured cannot be calculated in the form of listed equity shares. The purposes of insurance and investment are also distinct. In the past, Sebi and Irdai went on war on a fundamental issue whether unit-linked insurance policies were insurance products or securities.

A listed company proposing such a scheme by calculating the sum insured on the floating value of listed shares may raise eyebrows of both the regulators unless the company has sought exemption or approval from them. Regulators would like to ensure that such an innovation is not an inducement or scheme or artifice to protect shareholders and policyholders. Under corporate and securities laws, usually, a company is prohibited from inducing a purchase, sale or holding of securities and financing of such activities by the company or its promoters," said Sumit Agrawal, founder, Regstreet Law Advisors & former Sebi officer.