

Birlas, Sun Life to invest Rs 500 cr in local arm

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ADITYA Birla Nuvo and its partner Sun Life Financial of Canada will invest Rs 500 crore in Birla Sun Life Insurance in the current fiscal (FY10) to finance joint venture's growth plans. Aditya Birla group holds 74% and Sun Life the remainder in the life insurance JV. The partners will bring in capital in keeping with their stake.

Mayank Bathwal, chief financial officer, Birla Sun Life Insurance, told ET that the promoters were pumping in the money to meet the "capital strain" caused by the sale of new policies. New business capital strain refers to acquisition costs — expenses such as medical checks, etc, involved in selling policies — that have to be borne from shareholder funds in the first year of the policy.

It is this capital strain that is causing most insurance companies, including Birla Sun Life, to post accounting losses. "In the US GAAP, companies are allowed to spread out the acquisition costs over the life of the policy. If our P&L were brought out in US GAAP we would be making profits," said Mr Bathwal.

When contacted by ET, Venkatesh Mysore, country head for India, SunLife Financial, confirmed that both partners would be bringing in capital in accordance with their shareholding. Since most of the business growth takes place in the second-half, the financing is also likely to happen during that period.

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