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Insurers want higher FDI and more tax incentives in the Budget 2020

"Collectively as an industry, we do see a lack of parity in the tax treatment of pension products of life insurance companies and pension products under NPS. Both the products have similar objective of building long term savings for meeting retirement goals, hence, this disparity should be addressed by the government in the Union Budget 2020, agreed Tarun Chugh, MD & CEO, Bajaj Allianz Life

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In a bid to facilitate higher and faster growth, the domestic insurance industry wants union finance minister Nirmala Sitharaman to provide more tax incentives and higher foreign direct investment(FDI) in the forthcoming Budget,to be presented by her on Feb 1,for the sector

``We request finance minister Sitharaman consider a separate deduction to be provided for premium paid on individual life policies. If no separate deduction is provided, the existing limit of Rs 1,50,000 (i.e. section 80C) should be enhanced from Rs 1,50,000 to Rs 3,00,000, since the existing limit of Rs 1,50,000 is too crowded with both short-term and long-term investment vying for its share," said .S N Bhattacharya, secretary, Life Insurance Council.

Life Insurance Council,the official representative of the life insurance industry that generated over six trillion rupees of premium in 2018-19, has recommended that in order to reduce gap between taxation of pension policies issued by life insurance companies vis-à-vis National Pension Scheme (NPS), the additional deduction of Rs 50,000 for premium paid (as available for NPS) should be extended to pension policies issued by life insurance companies.

For a pension plan issued by life insurance companies, an individual contribution to the pension fund is deductible under section 80CCC under the overall limit of section 80CCE of Rs 150,000. The Finance Act 2015 inserted a new sub-section (1B) under Section 80CCD of the Income Tax Act to encourage investment in NPS by any individual by allowing an additional deduction of Rs 50,000 over and above the Rs 1.5 lakhs available under Section 80CCE of the Act, said Bhattacharya.

Life insurance meets the twin needs of providing protection as well as long-term savings with the goal of meeting living needs. It is particularly needed in the absence of the government's social security scheme that is present in many global economies, explained Bhattacharya.

General Insurance Council, the body representing non-life insurance players, has urged the government to reduce goods and services tax (GST) from 18 per cent to 12 per cent."Insurance has become a necessity. In order to encourage risk management among people, there is a need to bring down the GST rate on general insurance products to 12 per cent from 18 per cent, at present," General Insurance Council's Secretary General M N Sarma said.

The non-life players have also requested for tax deduction of Rs 10,000 under income tax for insurance of residential property. ICICI Lombard GIC chief financial officer and chief risk officer, Gopal Balachandran, said general insurers currently are at a disadvantage as compared to other financial services companies.

While other classes of assesses were provided the benefit of grandfathering of all gains earned on such long terms capital assets up to February 1, 2018, this benefit has not been clarified for general insurance firms.

"This is important for insurers since it will help them in maintaining solvency margins and risk mitigation against catastrophes. This will help insures to provide affordable products and cost effective solutions to customers," Balachandran said..

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Further, in order to enable customers to see life insurance beyond a tax saving tool and invest in it to fulfil their long term financials goals, the government should either consider a separate deduction section or enhance to limit under Section 80C of Income Tax Act, 1961, to Rs 3,00,000, since the current limit of Rs 1,50,000 is too low to cater to all the contributions it covers, said Kamlesh Rao, MD & CEO, Aditya Birla Sun Life Insurance.

Introducing separate deduction of Rs 50,000 for first time life insurance buyers and an additional capping of Rs 50,000 for someone purchasing a pure protection (term) plan will put life insurance on fast track, he said.

According to Rao, another important move would be to encourage women to insure their lives and savings. Extra tax benefit for women policyholders will be a significant step. Moreover, relaxation of section 10(10)(D), where minimum sum assured is required to be 10 times of annual premium will be a desirable move.

The budget should also bring about measures to bring parity between pension products offered by life insurers and NPS. Lowering rate of GST at 12% (with input tax credit benefit) will be beneficial for both policyholders and companies. These measures will pave the growth path for the LI sector, besides increasing the security net of the nation's people at a very low cost, said Rao.

G Murlidhar,managing director,Kotak Life Insurance said,``Some constructive steps which can create the right environment include creating a separate limit for tax deduction in addition to Rs.1,50,000 available under section 80C, and making annuities from life insurers tax-free. Ensuring parity in tax treatment of pension products across all investment platforms by providing deduction limit for life insurance pension product similar to NPS under section 80CCD and waiving GST on annuity purchased out of maturity of pension policies in line with NPS, will further aid in mobilizing long-term savings."

The households prefer life insurance for building long-term savings for various life goals and retirement needs. Life insurance industry also plays a significant role in nation-building through investment in government securities (holding Rs.12 tn or 21 per cent of outstanding central government securities) and long-term infrastructure investments (Rs. 3.9 tn). The industry can supplement the government's efforts towards the growth objectives, he added.

R M Vishakha, managing director & CEO, IndiaFirst Life Insurance felt,"The upcoming budget is anticipated to be consumer focused. In line with the same, we are hopeful that the 80C tax benefit is enhanced from the current Rs 1.5 Lakh. Additionally, for greater focus on risk management across protection and long-term savings, a specific 80C sub limit solely for life insurance is desirable.

Government needs to emphasise on increasing domestic consumption to bring back the growth momentum. For an individual, the income tax exemption limit can be raised from the current limit of Rs 3 lakh. This will provide a boost to the middle-income and lower-income population. Another area that could be further enabled is that of pension and retirement by moving annuity pay-outs into an EEE regime (Exempt Exempt Exempt) regime from the current EET (Exempt Exempt Tax) structure, suggested Vishakha, Casparus Kromhout, MD & CEO, Shriram Life Insurance, said The tax environment should be such that it opens up paths to make it easier for people to take up insurance; improving the lower penetration levels and thus expanding the security net.

Mahesh Balasubramanian, MD & CEO, Kotak General Insurance, said,`` From the General Insurance (GI) industry perspective, one hopes that there is enough impetus given to get private sector Project investments as that would help grow the commercial lines; the auto sector needs a revival package as slump in auto demand has affected insurance industry premium growth.

``The Catastrophe incidents highlight the fact that less than 20 per cent of all losses are actually insured. With such low penetration, the cost of the losses is borne largely by the government and individuals. It is recommended that steps are taken to encourage individuals and small businesses to take insurance. There are currently certain anomalies in the GST for reinsurance contracts. While GST is not levied on the original insurance contract between the insurer and customer like crop insurance, the reinsurance contract between insurer and the reinsurer attracts GST - this needs to be relooked into," he observed.

Sharing his expectation from the upcoming Union Budget, Pankaj Arora, MD and CEO of Raheja QBE General Insurance said, India is grossly under insured. In terms of health insurance ,the budget can increase the tax incentives for this segment.

``Increasing the FDI from the current 49 percent to 74 percent for the insurance industry would help bring foreign investment to India and go a long way in increasing the insurance penetration. Some tax incentives for home insurance will also be welcomed." he said.

Dhirendra Mahyavanshi, Co-Founder, Turtlemint said insurance, as a product, serves the primary purpose of acting as a tool for protection. In a young and growing economy like India, it is imperative that insurance finds its way into every household.

``However, along with serving as a tool for protection, it can also be a great tax planning instrument. The FM can use tax SOPs to further incentivise the end-user to buy insurance. These could include enhancing the deduction limit under section 80C, increase the cap for allowable deductions under section 80D and reduce the GST on all personal lines of products. The FM can also consider introducing a new deduction specifically for women insurance buyers and first-time insurance buyers. Such steps would not only have a positive impact on the insurance sector but also help individuals with their financial plans, he said.