

## In the News

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### ● BUDGET IDEAS: LIFE INSURANCE



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## Give separate tax exemption for pension and life insurance products

WITH THE UNION BUDGET round the corner, the market is speculating on the goodie bags for their respective industries. The last big announcement for the insurance industry was in FY 2014-15 where the foreign FDI limit was increased from 26% to 49%. While various propositions were made in the last few Budgets, a big-ticket stimulus is still awaited to help match global penetration levels.

India lacks a formal social security system and therefore, long-term savings and investments need sovereign promotion for development of private social security nets. We lay out some of the key levers that can help grow life insurance penetration in the country:

### Separate tax exemption limits for life insurance

Currently, all financial instruments such as school fees, insurance premium, contribution to EPF are covered under one slab of ₹1.5 lakh, which in itself has remained constant over many years, rather than growing with the times.



ILLUSTRATION: SHYAM

Life insurance is a long-term savings in nature with over 90% of policies being purchased with the goal of meeting objective based accumulation needs as living benefits. In most Asian countries, there is a high correlation between increase in tax incentives through segregated limits to consumers leading to higher insurance penetration, therefore creating an increase in long term funds availability in the country for development.

### Waiver of GST on premium

With the increase in GST on insurance premium, life insurance investments have become more expensive for the customers making it less attractive for the customers as an option for financial savings. Removal of GST will lead to a significant reduction in premium thereby providing an impetus to the industry as a whole by allowing better reach amongst the rural segment. This will also give a boost to the insurance companies to develop rural specific products to meet the needs of this segment.

In a country where the long-term yield is not materially different from the short term, this incentive will help boost financial attractiveness for customers to remain invested in long-term products.

The Budget should create provision for systematic withdrawal from EPF account towards life insurance premium. Permitting a defined proportion of EPF withdrawal towards payment of life insurance premium via standing instructions would also act as a push for the government to increase insurance penetration among the rural population where value created by life insurance products will be more.

### Pension products

With increase in privatisation and no guaranteed pension on retirement, retirement tools are becoming popular. Having a separate tax exemption limit for pension products, over and above savings products would result in creating awareness amongst the masses and hence help build financial security for senior living.

There should be a special dispensation offered to long term life insurance policies, with these treated at par with capital gain bonds. The insurance industry, world over, is a provider of long term capital for the economy. Classifying Long-Term Insurance Plans (or suitably designed product to meet specific needs of the infrastructure industry) as equivalent to capital gain bonds will offer a very significant boost to the industry and help channelise long term savings for infrastructure development in the country.

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