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Budget 2022: Insurance industry seeks lower tax, separate carve-out for 80C to push penetration

Awareness around insurance has increased significantly in the wake of the Covid-19 pandemic. The insurance industry is now counting on lower taxes and a bigger tax-saving benefit to increase penetration.

ISHAN SHAH | DECEMBER 06, 2021 / 10:22 AM IST

Representative image

In the run-up to Budget 2022, the insurance industry has several demands, including a reduction of GST on insurance premiums, carving Life Insurance out of Section 80C (which allows deductions on various investments), addressing double taxation in case of annuity payments, among other asks.

The insurance industry has gone through an accelerated transformation. Covid-19 managed to push up the awareness and penetration around insurance to some extent, something decades of campaigns couldn't achieve.

Budget 2022 is expected to emphasise on strengthening the healthcare push, local manufacturing and overall economic revival, amid concerns around the new variant of Covid-19, industry experts said.

Separate 80C benefit sought

The life insurance industry wants a separate carve-out for 80C in the IT deduction. Currently, most financial purchases are clubbed under this same section and capped at Rs 1,50,000.

“We would like the government to really look at some of the asks, which have been a long term ask … (such as) to have a separate carve-out for 80C because it is crowded with other financial instruments,” Vibha Padalkar, MD & CEO, HDFC Life Insurance, said. Life insurance penetration can increase significantly, and there’s a very evident need for it, she added.

Similarly, Subhrajit Mukhopadhyay, Executive Director at Edelweiss Tokio Life Insurance, says a separate section would enable a more logical segregation of customers’ funds into long-term and short-term kitties.

Tax & GST rationalisation

According to industry experts, 18 percent GST on insurance premium is on the upper end and lowering it could provide relief while giving insurance penetration a fillip.

According to Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance, a dynamic health environment has stimulated the rise in the need for health insurance. However, a policy's premium plays a key role in the purchasing decision of a customer. The 18 percent GST on health insurance increases the premium rate, which hinders people from opting for sufficient coverage.

“We are truly in times when health insurance is not an option but has become a necessity to be appropriately protected against health-related exigencies,” Singhel said. “I strongly recommend reducing GST rates from 18 percent to 5 percent on health insurance premiums, which will encourage people to opt for better health coverage rather than lower coverage owing to premium pricing,” he added.

According to Mukhopadhyay of Edelweiss Tokio Life Insurance, tax incentives can be used to focus on customers opting for life insurance for the first time, along with special incentives that may also be announced for women who account for barely a third of the county's life insurance covers.

GST rate rationalisation from the current rate of 18 percent on term products may also help make it more affordable for the masses, who are keen on buying protection-oriented products like life insurance, Mukhopadhyay said.

Further, anomalies like double taxation in the case of annuity payments can be addressed in the budget. There needs to be relief in the case of annuity payments, especially for senior citizens, at least in terms of having a capital gains type of reduction for purchase of an annuity or in some other form, said Padalkar of HDFC Life.

“You wouldn't want to tax when people need money in their golden years, and today there's double taxation where annuities are taxed,” Padalkar added.

Taxes on health insurance can be minimised so that people benefit from buying health insurance and this reduces the burden on the government as well, said Devesh Srivastava, CMD, GIC Re.

Other Demands

The industry is also asking that life insurance not be compared with other financial instruments as two things stand out. “First, there’s a lot more risk we carry in the balance sheet, and second, capital invested on average is Rs 2,000 crore, which private-sector companies require even before they see break-even,” Padalkar said. “So, it can't be compared with some of the companies in other sectors, where one starts and runs with a lower amount of capital.”

Insurers can also help in the infrastructure push as traditional financers with short-term funding sources are struggling to extend loans.

Life insurance firms with their long-term assets can help spur the country's infrastructure sector, and consequently, its GDP growth, Mukhopadhyay said. Therefore, the government should consider this aspect as well to incentivise investments into life insurance products, which will facilitate infrastructure and overall development of the country, he added.