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What Insurance Industry Expects From Budget 2023

Industry experts are expecting proposals such as a single cap for management expenses and a composite license.

Insurance reforms and the growth were key themes of 2022. Industry experts now expect a single cap for management expenses and a composite licence for life and general insurers to come through in the budget.Last year, the regulator introduced various reforms, including allowing 'use and file', reducing time for new product launches, reducing compliances, permitting private equity firms to directly invest, increasing tie-up limits for...

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Last year, the regulator introduced various reforms, including allowing 'use and file', reducing time for new product launches, reducing compliances, permitting private equity firms to directly invest, increasing tie-up limits for corporate agents from three to nine for life, general, and health insurance companies each, amending solvency requirement norms, and allowing alternate routes for investment by foreign investors, among others.

In a bid to further boost the sector, in December, the Finance Ministry proposed certain amendments to the Insurance Act of 1938 and the Insurance Regulatory and Development Authority Act of 1999. These include granting composite licences to insurers, allowing insurers to distribute other financial products, and doing away with the current minimum capital requirements for insurance and reinsurance businesses.

A senior executive from leading listed general insurer expects the expenses of the management proposal to be approved in the regulator's board meeting in January.

According to the revised November draft on expenses of management, this would mean:

Abolition of separate caps on commissions across life, general, and health insurers while prescribing an overall cap for management expenses, including commissions and operating expenses.

Limits on expenses for certain segments of life insurance are to be enhanced, with overall monitoring at the company level.

Increased the management expenses cap for health insurance to 35% from 30%.

Management expenses for general insurers are to be allowed at 30%.

However, for the proposed amendments to the act, which include allowing the issuance of composite licences to insurers, the executive quoted earlier is hopeful that they should be cleared in this budget session. However, an amendment to the act requires clearance by both houses of parliament and could consequently take some time, he said.

Vighnesh Shahane, chief executive officer of Aegas Federal Life Insurance, is hopeful that the government may fast-track approval and that composite licences may become a reality in this year's budget. He believes that the management draft expenses are still under deliberation and may take longer to be notified.

Budget Wishlist

With the current enthusiasm surrounding the efforts to bolster growth of the sector, it might not be a surprise if the government gives in to the industry's demand for tax benefits incentivising insurance purchase, which has been an ask for the past couple of years.

Shahane has summarised industry expectations on tax deductions under the Income Tax Act:

Raising the health insurance deduction limit to Rs 1 lakh from Rs 25,000 under Section 80D.

Allowing a deduction of up to Rs 50,000 on investments in pension schemes of all life insurance companies and not limiting it only to the National Pension Scheme as currently allowed under Section 80CCD, and also making all pensions received under the insurance scheme tax-free in the hands of recipients. This would boost investments in annuities and contribute towards providing social security to the elderly.

Increasing the deduction ceiling limits under Section 80CCC, which offers a cumulative tax deduction of up to Rs. 1.5 lakh per year for investments in PPF, life insurance, recognised pension funds, and others, from Rs 2 to 2.5 lakh, or allowing a separate deduction under Section 80CCC of Rs 50,000 to Rs 1 lakh to include investment in protection plans.

Currently, investments in unit-linked insurance plans exceeding Rs 2.5 lakh are taxed. These should be abolished to make large-ticket ULIPs more competitive.

Increasing the tax deducted at source limits for insurance agents on commissions received in excess of Rs 50,000 instead of Rs 15,000 currently.

Chief Underwriting and Claims Officer at ICICI Lombard General Insurance Co. Ltd., Sanjay Datta, also spoke about the industry's demand to reduce goods and service tax on the purchase of insurance policies from the current 18% levels, which is adding to the cost burden of customers.

In addition to this, Tapan Singhel, managing director and CEO of Bajaj Allianz General Insurance Co. Ltd., spoke to BQ Prime about his thoughts on opening up the space to make insurance more inclusive and, in turn, uplifting economic growth in a simple manner.

Insurance, he said, could be an alternative to relief funds given by the government towards damages from natural calamities, allowing them to deploy these resources towards infrastructure and thereby contributing to India's GDP. Also, a comprehensive health insurance cover for all, as implemented in Rajasthan, including the "missing middle," could protect households from being pushed below the poverty line due to healthcare expenses.

India has recently emerged as the world's fifth-largest economy, he said. "We now aim to reach the milestone of a $5 trillion economy by 2027, for which we require growth of about 9%. But as of now, our expected growth rate is about 7.1%."

Insurance, he said, can help provide solutions to bridge the 2% gap.

"About 30% of the population, or more than 40 crore Indians, have no cover at all. Certain states and union territories like Rajasthan, Jammu and Kashmir, Ladakh, and Gujarat have successfully covered all citizens. If all states and union territories follow suit, then we can truly have universal, all-inclusive

health coverage. This would prevent people from being pushed below the poverty line due to healthcare expenditure and thereby support economic growth."

Insurers could contribute by designing low-cost comprehensive health insurance products for this "missing middle." Apart from the coverage through government schemes, mandatory employee insurance could be enforced where employers can buy insurance at a government-tender rate, he said.

Recommending an alternative to relief funds for natural calamities, he said that an index-based policy—parametric insurance—can be taken to compensate for the damage caused by the natural catastrophe, where the triggers of the catastrophe event are predefined. "Developed countries like the U.S. have this insurance, allowing people access to funds immediately post disaster, and India, as a developing country, could take a cue from this."

"The government can look for financing for this parametric insurance through a cess while collecting property tax. At the state government levels, states can utilise up to 5% or even less of the annual State Disaster Relief Fund allocations to purchase insurance for public assets and emergency funding," he suggested as a part of his recommendation to the government.

To address the issue of uninsured motor vehicles plying on the road due to issues with compulsory motor insurance enforcement, he said that now, using technology and the data that is already out there, this issue can easily be addressed. "Notices can be sent to vehicles plying without insurance, and their insurance can be done. This will address the issue of adequate compensation for accident victims, who will not be pushed below the poverty line like before, and thus will add to the economic growth of the country."