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Budget 2023: Expectations From The Insurance Sector

As India enters its ‘Amrit Kaal', the government's vision for development, it may implement various reforms across the economic sectors, and insurance is one such area that will likely see notable changes.

As we draw closer to the Budget FY2023-2024, the insurance sector will likely witness some major changes this year, according to the expectations of leading experts.

The finance ministry recently released the Insurance Laws (Amendment) Bill 2022 for public feedback. It has proposed a score of changes to the insurance policy framework, including the distribution rules, capital requirements, and more. The government is likely to introduce this Bill in the Budget session.

Here are some key industry expectations from Budget FY2024:

FY24 Budget, Last Full Budget Of Present Government, To Be More Rural- And Infra-Focused: UBS India Economist Tanvee Gupta Jain

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Budget 2023-24: Meet The Key Persons Responsible For Country's Most Important Financial Document

Separate section for tax deduction: Life insurance is a long-term solution, unlike other financial products, which have a shorter investment horizon and are covered under the 80C provision. All financial purchases are currently clubbed under the same IT deduction section (80C), capped at Rs 1,50,000.

"We expect the Budget to consider creating a separate section for a tax deduction on premiums paid towards life insurance. This will effectively segregate customers' funds into long-term and short-term kitties. Considering the low single-digit penetration of life insurance in India, tax incentives can be expected to focus on first-time life insurers and the principal component of annuity income. Special incentives may also be announced for women who currently account for barely more than one-third of the country's life insurance covers," says Subhrajit Mukhopadhyay, executive director of Edelweiss Tokio Life Insurance.

GST rate rationalization : GST rate rationalization from the current rate of 18 per cent on term products may also help make it more affordable for the masses, who are keen on buying protection-oriented products like life insurance.

Incentivizing investments into life insurance products: India's infrastructure sector is struggling as the traditional financiers, with their shorter-term funding sources, are reluctant to extend loans, lest it skews their asset-liability balance. With their long-term assets, life insurance companies can help spur the country's infrastructure sector and GDP growth. The government should also consider this aspect for incentivizing investments into life insurance products that will facilitate infrastructure and the country's overall development.

According to some experts, while India has the ambitious goal of becoming a $5 trillion economy by 2027, to realize this, it has a few gaps which might become a roadblock in its growth. These gaps are weak health infrastructure, damages from natural calamities, climate changes affecting agriculture, and pandemics. The experts believe that the upcoming few budgets should address this issue.

Employee Insurance: India has a high Health Protection Gap (HPG); more than 40 crore Indians have no health insurance. This mainly consists of self-employed people or part of informal or semi-formal sectors. "This 'missing middle' needs affordable, comprehensive health insurance. The Union Budget should include a provision for health insurance at a government-tender rate for all. This tender pricing should be extended to all employers/companies to obtain employee insurance. Employee insurance should be mandated to cover more citizens," says Tapan Singhel, MD and CEO, Bajaj Allianz General Insurance.

Parametric Insurance: In recent years, India has seen an alarming rise in natural disasters such as earthquakes, landslides, and floods. Natural disasters are frequently increasing, while the gap between insured and economic damages remains wide. "After each NAT CAT event, governments have to allocate large sums of money toward relief measures. This issue can be addressed through parametric insurance (index-based solution), which will help bridge the protection gap. The provision to launch Parametric insurance should be included in the forthcoming Budget," says Singhel.

Pradhan Mantri - Kisan Aarogya Bima: Climate change has an adverse effect on agriculture. Even though the PM-FBY plan has reduced farmer suicides, only 25 per cent of cultivated land is insured. According to experts, to further minimize farmer suicides, we should bring the remaining 75 per cent of land and non-

loanee farmers under insurance protection. A scheme like Pradhan Mantri - Kisan Aarogya Bima will ensure that all farmers have access to health and crop insurance.

Pandemic control measures : We all have recently seen the impact of the pandemic on the country's economy. During the last three years of the pandemic, we lost about 52.6 lakh crore or nearly 12 per cent of our GDP. We must be prepared to combat the next pandemic, which may strike sooner than we think. The potential impact of the pandemic is currently a major concern for consumers and companies alike. Support from the central government is required for the successful start of a pandemic pool.

Increase penetration of pension: "To increase the penetration of pensions and to make India a pensioned society, especially since we don't have any social security cover, our request is to make pensions tax-free in the hands of the customer because the pension premium is already paid through taxable income. So, we recommend that the proceeds of the pension/annuity should be made tax-free in the hands of the customer or to allow a deduction for the principal components," says Vighnesh Shahane, MD & CEO, Ageas Federal Life Insurance.

"Alternatively, if we could have a separate bucket for pensions in the range of Rs. 50,000-75,000/- that would help to level the playing field with NPS," adds Shahane.

Limit of health premium to be increased: The current limit of health premium (including preventive medical check-up costs) under Section 80D is only Rs 25,000/- and needs to be increased. The last two years of Covid have proven that the current limit is not enough, and they need to improve it significantly. Whatever is said and done, people do buy life and health insurance for tax-saving purposes, so we do need to give them a hook of a higher deduction limit.

Taxability of ULIPs should be reversed: As per a Budget announcement a couple of years ago, for ULIPs with an aggregated premium amount of Rs 2.5 lakh per annum or more, the maturity amount, which was earlier tax-free under Section 10(10D) of the Income Tax Act, became taxable. This should be reversed as it disincentivizes big-ticket investments.

Separate bucket for life insurance policies: Section 80C of the Income Tax Act is currently cluttered with several investment options such as life insurance premium, PPF, ELSS, NSC, NPS, and principal on home loans, amongst others. If you are a salaried employee, most of it goes into EPF and PF. So, we would recommend a separate bucket for life insurance policies or an increase in the limit from Rs 1.5 lakh to Rs

2-2.5 lakh. A separate section for Term policies would be helpful, given the huge protection gap in the country.

Raising the TDS exemption limit on the insurance commission : Raising the TDS exemption limit on the insurance commission (under section 194 D of the Income Tax Act) from the current level of Rs 15,000/- would provide a greater impetus to insurance agents.

Basic protection plans should be available under zero-rated GST: "We recommend zero-rated GST for protection products as 18 per cent GST makes the term plans costlier. To increase insurance penetration in the country, the basic protection plans should be made available under zero-rated GST," says Singhel.

According to experts, an announcement of this magnitude should be made in the Union Budget. The industry has been through a process of reorientation in line with these expectations to make the sector more lucrative. This is only achievable with the assistance of the government.