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# Life insurers see demand surging for savings products

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**THE COUNTRY'S LIFE** insurance industry expects insurance products in the savings and investment category to see a surge in demand after the government's decision to remove long-term tax benefits for debt funds.

Life insurers feel they would derive benefits from the change in taxation norms of debt mutual funds, as investors are likely to move money from mutual fund debt schemes to insurance products in order to avail tax benefits.

"The opportunities created by recent government decisions are a welcome development. Life insurance companies will benefit from the decision to change the tax treatment on debt funds. A shift is expected from mutual funds debt schemes, which will no longer have indexation benefits, towards ULIPs of less than ₹2.5 lakh. This would be advantageous for the life insurance industry," IndiaFirst Life Insurance deputy CEO Rushabh Gandhi told *FE*.

A person allocates his/her investment portfolio among different investment instruments, such as equity, fixed income, insurance, gold and real estate, among others. The allocation towards life insurance is expected to increase at the cost of some other fixed income investment options.

"ULIPs with premium below ₹2.5 lakh and traditional policies with premium below ₹5 lakh are expected to see a surge in demand," Gandhi added.

With this change in taxation norms of debt mutual funds, there is "parity across all debt instruments" and a level playing field is being created, an insurance industry expert said.

According to him, traditional life insurance products in the savings and investment category fulfill the need for planning and saving towards long-term financial goals such as buying a house, funding one's child's education and planning for retirement, among others. The term for such plans is usually in the range of at least 10–40 years.

"Looking at the current scenario where premiums over ₹5 lakh will be taxed, we can conclude a few things — firstly, for a life insurance policy, the tax would be applicable only on maturity; secondly, with a life insurance plan, there is no risk of reinvestment; also, the IRR for traditional savings plans is relatively higher in comparison to other instruments such as Debt MF," the person said.

Notably, individuals investing less than ₹5 lakh in traditional policies would be able to continue availing the tax benefit as before.

The government, in the Union Budget for FY24, proposed to tax income from all non-ULIP products i.e. par and non-par where aggregate insurance premium paid in a year exceeds ₹5 lakh. The proposal will come into effect from April 1, 2023.

Interestingly, insurance companies are not likely to witness any impact of the removal of long-term tax benefits for debt funds in terms of their investments in debt mutual funds. Insurers typically invest in short-term maturity debt-funds for their short-term cash management requirements.

"Typically, insurance companies invest in short-maturity debt funds and that too typically is for their short-term cash management requirements. So, our investments will not be there in these funds for more than a few weeks or months. In any case, we are not taking advantage of long-term capital gains even earlier. So, nothing changes for insurance companies because we will still continue with the same kinds of investments. Because these investments are basically for cash management and not for long-term holding. So, from investment point of view, nothing much changes as such," Bajaj Allianz General Insurance chief investment officer Amit Joshi told *FE*.

On whether the insurance companies will continue to invest in debt funds for short-term cash management after the government's decision to remove long-term tax benefits for such funds, Joshi said, "For short-term cash management, the tax treatment remains the same. It has not changed. What has changed is that long-term capital gains will not be available if you hold these funds for three years. But for us, in any case, it was not there because we were not holding for three years. We were holding for few weeks or months. So, for us it does not make any difference."

**INVESTORS LIKELY TO SHIFT MONEY**

- The industry expects high demand for products in the savings, investment category
- Life insurers feel they would derive benefits from the change in taxation norms of debt MFs; investors are likely to move money from MF debt schemes to insurance products in order to avail tax benefits