Life Insurance Industry and Budget Expectations

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Budget 2023 will be the last full budget of the present Government ahead of the general elections to be held in mid-2024. This budget is expected to be focused on Health and Education apart from other matters like fiscal deficit, capex, make in India among others.

As India enters its next phase of growth, the Government, with a vision for development, may implement various reforms across the sectors, and insurance is one such area that will likely see notable announcements.

The COVID-19 pandemic has led to a dramatic loss of human life worldwide and presents an unprecedented challenge to families which lost the only bread earner. Uncertainty about life and what the future holds has made it more pertinent to focus on life insurance. The importance of Life Insurance amongst people has increased as it helps to guard the family against financial instability and to carry on their lives with dignity and comfort.

To keep this momentum going, following are the reasonable expectations of industry from budget 2023:

Separate Deduction for Life Insurance Premium

The Income-tax Act, 1961 (‘the Act’) has separate deduction for health insurance under section 80D and the amount allowed as a deduction is upto INR 50,000. This section covers the health risk of an assessee and his family members. On similar lines, we expect a separate deduction of INR 50,000 for pure term product to cover the premium paid on life risk of insured and his family members.

Separate deduction for pure term product will inspire the people to go for insurance cover and guard the family against any life related contingency.

Lower GST rates

Higher mortality risk premiums already made insurance products out of reach for many of the customers and the GST rate of 18% added the load on the pocket of customers.

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

Amendment in Section 10(10D) of the Act

We recommend a provision for withdrawal of section 10(10D) of the Act exemption in case of non-payment of insurance premiums during the first five years of the policy inception. Linking section 10(10D) to the minimum number of premiums paid instead of the Sum Assured multiplier will ensure systematic long-term savings in addition to life cover.

Currently, insurance proceeds are exempt from tax under section 10(10D) of the Act, subject to the premium paid for any year during the term of the policy not exceeding 10% of the actual capital sum assured (15% in cases of disability).

Conclusion

The current penetration ratio of insurance in India is 3.2% which is lower than many other Asian geographies such as South Korea and Singapore. The major reasons for this low insurance penetration is low awareness about the importance of insurance. Further, insurance is a long-term product, which requires long-term commitment, many prefer to skip it in favour of short-term investment instruments. Above relief in tax provision will help to increase penetration of insurance in India.

** Views expressed are personal and may not reflect that of the organization.*