भारतीय बीमा संस्थान
INSURANCE INSTITUTE OF INDIA

INSUNEWS

Weekly e-Newsletter

25th – 31st March 2023

Issue No. 2023/13

QUOTE OF THE WEEK

"The future of any corporation is as good as the value system of the leaders and followers in the organization."

N. R. Narayana Murthy

INSIDE THE ISSUE

INSURANCE TERM FOR THE WEEK

Carry-Over Provision

A carry-over provision is a provision in an insurance contract that allows expenses incurred at the end of the year to be carried over and added to the deductible of the following policy year. This type of provision is sometimes found in certain health insurance policies, and in reinsurance policies. Some insurance policies offer carry-over credits as an incentive for prospective policyholders to go ahead and make the decision to buy the insurance policy.

A carry-over provision is also known as a deductible carry-over credit.

INSURANCE INDUSTRY

Role of the Indian Insurance Sector in India's prosperity – The Times of India – 30th March 2023

India aspires to become a multi-trillion-dollar economy by 2047; for us to realise this dream, there are a few major roadblocks that should be addressed. These key downside risks to prosperity can be weak health infrastructure, damages from natural calamities, the impact of climate change on agriculture and an unforeseen health crisis like COVID-19. In this context, the insurance industry can play a significant role in insulating the Indian economy from various risks and losses and helping it become a multi-trillion dollar.

Insurance sector to contribute in India's prosperity by insulating it from various risks According to the Swiss Re Institute (SRI) report titled & "India's insurance market: poised for rapid growth", India has one of the highest Health Protection Gap (HPG) in the world, as nearly 30% of Indians have no health insurance. The fact that a large section of the population (including self-employed people working in informal or semi-formal sectors along with SME employees) has no health risks covered was underlined during the outbreak of the COVID-19 pandemic. They often lack awareness about health insurance and find health insurance products unaffordable or low-priority expenses. Therefore, we propose to design a comprehensive health insurance product that can be termed "Pradhan Mantri Udyami Karamchari Bima Yojana". This programme will cover the untapped population to minimise the health protection gap.

Further, India is prone to a wide range of natural catastrophes, including earthquakes, tropical cyclones, floods, and wildfires. With the rising frequency of natural calamities lies a wide protection gap of more than 90%. The large, unprotected population eventually leads to higher government expenditure on relief measures after any such event. Parametric insurance (index-based solution) can help bridge this protection gap.

Besides sudden health crises and natural calamities, the impact of climate change on the agriculture sector poses a considerable downside risk to the growth of the Indian economy. Although the Pradhan Mantri Fasal Bima Yojana has provided risk cover and helped reduce farmer suicide rates due to crop loss, the scope for improvement still persists.

Emerging opportunities for the insurance sector amidst challenges

The COVID-19 pandemic has enhanced awareness about life and health insurance; despite the pandemic providing significant tailwinds to the insurance sector growth, insurance penetration in India remains abysmally low at 4%. Moreover, given the rising life expectancy of the Indian population, the higher mortality protection gap, over 90% (as per SRI), will pose a significant challenge to the Indian economy's growth targets in the coming years.

In this scenario, digital technology will be a game changer for the insurance sector. Digital technology, with its potential to break the traditional barriers of the insurance sector, like product awareness level, limited customer touchpoints, and service availability and payments, will make the Indian insurance industry more dynamic and competitive. It will also help insurance companies achieve efficiency and reduce costs by around 20-30% for non-life insurance products and 15-20% for life insurance products.

Enabling government measures to boost the insurance sector

To boost the insurance sector and enhance its penetration, the Indian Government and the insurance regulator – the Insurance Regulatory and Development Authority of India (IRDAI), have taken several enabling steps, such as increasing the FDI limit in the insurance sector to 100% for the insurance intermediaries to attract foreign capital & expertise 1 . As per the General Insurance Business (Nationalisation) Amendment Act, 2021, the central government can dilute its stake to less than 51% of the equity capital in a specified insurer 2 . Moreover, IRDAI has created a 'Regulatory Sandbox' to enhance the pace of innovation in the insurance sector. Besides these measures, digital transformation will help the Indian insurance industry emerge stronger. In addition, the digital transformation will offer seamless customer experience, last-mile distribution, product innovation, and smooth claims processes.

The way forward

In order to achieve the insurance for all goal by the end of Amrit Kaal, India would need more insurance players, a wide range of insurance products, more distribution partners, and a conducive business environment. Given that India is a diverse nation, more unique products that can meet the insurance needs of customers from varied socio-economic backgrounds are required to enhance insurance penetration in India.

(The writer is Saurabh Verma.)

[TOP]

Removal of commission caps for insurance agents likely to boost innovation, customer-centricity – Business Insider India – 29th March 2023

The Insurance Regulatory and Development Authority of India (IRDAI) has removed the cap on commission payments to agents and brokers. While there will still be an overall cap on expenses of management of insurers, the sub limit on commissions have been removed. Expenses of management includes all operating expenses of an insurance company.

"The regulatory change announced by IRDAI to remove individual commission payment limits is a major and long-awaited reform in the insurance sector. This shift is anticipated to benefit insurers in a variety of ways, including increased product innovation, the development of new distribution models, and a more customer-centric approach to operations," says Sanjiv Bajaj, joint chairman and managing director, Bajaj Capital Insurance Broking. The removal of the cap on agent commissions will enable insurers to allocate their resources more effectively. "This policy change will encourage insurers to focus on developing new and innovative products," says Prashant Tripathy, MD and chief executive officer, Max Life Insurance. This development is likely to help in the proliferation of more insurance policies being sold.

Companies can introduce new products that cater to all sections of society, thereby penetrating new and previously untapped markets. "The elimination of the commission payment limit is expected to increase competition among insurers, as they will be able to offer more appealing policies and better pricing to customers," says Vishnu Kumar, chief distribution officer, Aviva India. With the potential for increased competition, insurers may need to focus more on meeting customer needs and providing high-quality service. "This could lead to a more customer-centric approach to business and the development of products and services that better meet the needs of customers," says Bajaj.

More flexibility to manage expenses

This will give more flexibility to insurance companies to determine what amount of commission they wish to pay to the insurance agents. This will also increase sales and business. Says Joydeep Roy, partner, PWC, India financial services advisory leader, "Insurers can now decide what commissions they pay for what products and to which distributor. Especially in micro-insurance, the premiums are low, so a premium percentage cap hurts distributors." That is going to change now. Agrees Bahroze Kamdin, partner, Deloitte India, "So if it is a normal product, insurance companies may pay a lower commission, if it is a new product they may pay higher commissions," says Kamdin.

New distribution models

The removal of the cap on commission payments could also lead to the development of new distribution models, which could help insurers reach a wider range of customers. This could in turn lead to increased insurance penetration in India, particularly in remote or underserved areas. Until now, insurance companies were operating under regulated commission structures. This created a challenge for companies as it was difficult to incentivise agents based on their performance. "However, with the recent development by IRDAI, insurance companies now have the freedom to evolve their compensation philosophy. This implies higher pay for higher performance and allows companies to recognise and reward agents who demonstrate higher persistence, therefore retention rates," says Kumar. Roy believes that it will also help insurance companies to set goals for distribution. Not only will sales matter, but distributors may be incentivised (or penalised) on other parameters like quality of business, better quality of customers, better data collection, and so on, leading to healthier business.

(The writer is Anagh Pal.)

TOP

New tax not to impact pure term, small policies: MoS Finance – Financial Express – 29th March 2023

The proposal to tax high value insurance policies will not impact pure term life insurance where money is payable to nominee on death of the subscriber, minister of state for finance Pankaj Chaudhary informed the Rajya Sabha on Tuesday. He further said that it will also not affect the exemption of any money received by the nominee on the death of the subscriber in any insurance product. Further smaller policies which are required for social security are also not impacted.

"Over the years it has been observed that several high-net-worth individuals are misusing the exemption provided under clause (10D) of section 10 of the Income Tax Act by investing in policies having large premium contributions (as it is like an investment policy) and claiming exemption on the sum received under such life insurance policies," he said in response to an unstarred question on income tax amendment.

Clause (10D) of section 10 of the IT Act provides for income-tax exemption on the sum received under a life insurance policy, including bonus on such policy subject to certain conditions. The Union Budget 2023-24 has proposed to tax income from all non-ULIP products, that is par and non-par where aggregate insurance premium paid in a year exceeds Rs 5 lakh. The Finance Act 2021 had removed a similar tax exemption on unit linked insurance products with annual premium of over Rs 2.5 lakh in a year.

(The writer is Surabhi.)

TOP

Govt looks to tweak insurance plaint rules to cut case count – The Times of india – 27th March 2023

With insurance being the biggest source of consumer disputes, the government is pushing for an array of tweaks, including higher limits for the ombudsman, to ensure that the case count drops. Nearly 1.7 lakh cases out of the total 5.5 lakh pending cases before consumer commissions are related to the insurance sector. Following a brainstorming by the department of consumer affairs, the finance ministry and insurance regulator Irdai have been asked to increase the ceiling for the ombudsman beyond Rs 30 lakh as a majority of the plans, especially in the life insurance segment, are higher than the limit.

One of the key gaps that has been noticed is the inability of the designated executives from the companies to decide on the matter as they often say that they are not empowered to decide beyond a limit, delaying a decision in the matter. "The multilayer approach within an organisation needs to be reduced or eliminated by companies and disputes have to be resolved in a timely manner. Companies should be held responsible for excessive delays," an official said.

Further, the department of consumer affairs has suggested that cases below Rs 2 lakh should be resolved without attorneys. Officials also said that mediation in pending cases as well as effective participation in Lok Adalats was another tool that should be deployed to reduce pendency. Besides, insurers are seen to be wanting in their sales process as well as disclosing terms, which is sought to be rectified, although industry may not be amenable to the exercise. A mechanism to grade insurance companies has also been proposed although some private platforms are already doing it.

The government is of the view that high level of disputes reflects poorly on how companies as well as regulator deal with the consumer. There is a perception that regulators have ignored consumer interest, giving more attention to issues that are seen to be key for the development of the industry.

(The writers are Sidhartha & Dpiak K Dash.)

TOP

Future of insurance in India – The Times of India – 25th March 2023

India's insurance market has undergone numerous changes and is one of the fastest-growing markets today. The pandemic has sped up the industry's rapid digitalization, reflected a rise in its demand, necessitated the development of new products, and more. Furthermore, the prospects show there have been disruptions owing to the extraneous factors that have led to the evolution of the industry itself. According to IRDAI, the sector has witnessed growth between 12 and 15 percent over a five- to six-year horizon.

Evolution of the insurance industry

The history of insurance in India is deeply rooted, and the journey extends over 200 years. Business-wise, life insurance was introduced in 1818 when the Oriental Life Insurance Company launched in Calcutta. However, during this era, the market was dominated by foreign insurance offices. Then, in 1912, the Indian Life Assurance Companies Act emerged as the first statutory body to regulate life insurance in India. The nationalisation of the insurance sector happened in January 1956 with the emergence of LIC (Life Insurance Corporation), which subsequently absorbed a total of 245 Indian and foreign insurers. Until the 1990s, the LIC had a monopoly in the market until the insurance sector reopened for the private sector and the changes started to show up.

With the recommendations of the Malhotra Committee, IRDA (the Insurance Regulatory and Development Authority) was incorporated in early 2000 as a statutory body to regulate the insurance industry, and it changed the landscape of the industry irrevocably. Over the past two decades, the insurance market in India has experienced impressive growth, thanks to increased private sector involvement, better distribution capabilities, and significant increases in operational efficiency. The insurance sector has never looked back since the sector underwent liberalisation, and it is now one of India's most competitive and developing industries. Today, there are 34 general insurance companies and 24 life insurance companies, according to IRDAI. Furthermore, the total addressable market (TAM) in FY 22 was $66.5 billion, according to Redseer Consulting, and it is anticipated to reach $222 billion by FY 26. Despite the stunning numbers, India is underinsured as a country.

Three separate milestone events:

Nationalisation of General Insurance Companies during 1972, where in 107 insurers were grouped and amalgamated into four Companies – National Insurance Co. Ltd., The New India Assurance Co. Ltd., The Oriental Insurance Co. Ltd. and United India Insurance Co. Ltd

IRDAI opened the market for private insurance companies in the year 2000, that helped boost insurance penetration in the country

Introduction & licensing of standalone health insurance companies by IRDA in the year 2006

Have resulted in more focus & penetration of insurance in the Country

Challenges and opportunities

The insurance industry in India faces challenges that need to be addressed in order to ensure elevated growth. There is significantly more population living in rural areas than in urban areas. According to the estimates of the World Bank, roughly 65% of the population lives in these areas. The issues arise because there are relatively few buyers as well as sellers of insurance in rural areas. Some of the main reasons for its low penetration in India include inadequate insurance awareness, gaps in product understanding, and the value of the return on investment of the insurance purchased. Another significant challenge is getting insurance distribution to every area within the last mile. However, not everything is doom and gloom.

The Covid dramatically increased public awareness of health insurance, resulting in a surge in policy purchases. The other insurance products, however, still experience slow growth. Insurance penetration in India during 2021–22 was 4.2 percent, which remained the same as in 2020–21, according to the Annual Report of IRDAI. However, in India, a number of regulatory changes are being implemented to boost the penetration of insurance, boost capital inflow, boost valuation, and ease the entry of small, specialised, and niche players. The increase of the FDI, the General Insurance Business Amendment Bill (August 2021), the introduction of the National Health Stack, and disbursing huge amounts of capital for the development of the industry are some of the key examples. As a result, today, with the entry of private players who are targeting the underinsured market and the rising use of the new distribution, the long-term expansion of the industry has been facilitated by the use of new distribution methods and technological advancements.

Rise of tech-based insurance

India's insurance industry has embraced technology's advancement. Today, it uses Blockchain, machine learning (ML) to automate claim management, the Internet of Things (IoT) to personalise insurance pricing, and telematics for auto insurance. According to the India Fintech Report 2022, a number of insurance businesses have emerged that have enhanced their core offerings by implementing various technologies like AI, IoT, ML, and various other software. Additionally, in the years following Covid, the sector has become more digital. Insurance companies have also improved their digital platforms by replacing outdated systems and adding virtual assistants. The customers are also using more portals and apps, per the National Investment Promotion & Facilitation Agency's data. They are preferring digital insurance options; for GI (General Insurance) and HI (Health Insurance) products, 73% and 62% of customers, respectively, preferred the online mode. As technology becomes more prevalent in the industry, more people will have access to insurance and will connect with the insurance industry. The data clearly points towards a trend that though the consumers are using the online tools to compare and research the various insurance products, they however, prefer offline support to understand the intricacies and ultimately making the final purchase.

Despite the technological advancements, there is still a requirement for the human touch in the insurance industry. As the products are complex, the customers may not understand the technicalities or the jargon of the industry. Rural residents tend to be less tech-savvy, so there is a clear need for knowledgeable agents who can guide clients through the complexities of their policies and make sure they are adequately covered. Additionally, they can offer advice on the different kinds of policies that are available and assist clients in selecting the one that is most appropriate for their requirements. Therefore, the growth of the industry will be assured with the amalgamation of technology with the human touch.

Way forward

The future of the insurance industry in India looks promising owing to several changes in the regulatory framework, technological advancements, government support, and increasing awareness. The insurance industry in India is likely to introduce new trends like product innovation, multi-distribution, better claims management, and regulatory trends in the Indian market as incomes rise and purchasing power and household savings grow exponentially. According to a recent research report by Swiss Re, the Indian insurance industry is poised to become the sixth largest market by 2032.

The insurance industry plays a vital role in the financial sector. The insurance companies, with their accumulated funds from premiums, invest in ways that contribute to the growth of the economy. The organised insurance system offers numerous direct and indirect advantages to the individual, his family, business, community, and country as a whole, as well as to industry and commerce. As a result, the expansion of the insurance sector in India will contribute significantly to GDP growth. For this to happen, there is a pressing need to penetrate the underinsured markets.

However, it is very evident that Phygital is the way forward as, in spite of technological advancements, the human interface will continue to play a big role in the penetration of insurance in the country. Also, it is poised to be one of the largest employment generators for the educated youth in the country, a sector that brings out the entrepreneurial side of the youth and thereby offering excellent growth opportunities while contributing to the growth of the nation.

TOP

INSURANCE REGULATION

Higher insurance agent commissions to continue, but IRDAI asks insurers to adhere to EoM caps – Moneycontrol – 29th March 2023

IRDAI's new rules are unlikely to bring down commissions. From April 1, life, general and health insurance companies will have the flexibility to pay commissions to agents as per their board-approved policies.

However, they will have to ensure that they do not breach the overall expenses of management (EoM) ceiling that they have to adhere to. EoM, which is computed as a percentage of premiums collected, includes commissions and other expenses such as technology spends, employee costs, administrative expenses and so on.

As per an IRDAI notification issued on March 28, expenses of management of general insurers cannot exceed 30 percent of gross premium written in India in a financial year. In case of standalone health insurers, this ceiling is slightly higher at 35 percent. This excludes expenses related to the rural sector, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Fasal Bima Yojana and costs incurred towards insurtech and insurance awareness initiatives.

In case of life insurance, EoM caps are linked to product categories. Under the pure risk product basket – for instance, regular premium term insurance policies with tenure of over ten years - the EoM ceiling will be 100 percent of first-year premium. In the subsequent years, it will be 25 percent of renewal premiums. For other individual categories except pension products, the maximum limit is 80 percent of first-year regular premiums. The ceiling is 15 percent in the first year for deferred annuity products.

More flexibility to insurers
After proposing a 20 percent cap on first-year life insurance commissions in August last year, the Insurance Regulatory and Development Authority of India (IRDAI) relented and relaxed the draft rules in November to allow more flexibility to insurers. At present, the cap on first-year commissions is 35 percent of the premiums.

Greater flexibility to insurance companies could mean that commissions will not come down substantially, as was expected when IRDAI first framed draft rules on commission revisions. However, the mandate to stick to the overall EoM ceiling could still work in favour of policyholders, as the commissions—and rewards—will have to be subsumed into EoM. According to the notification, insurers will have ensure that their payment of commissions policy is in the interest of policyholders and agents, and increases insurance penetration in the country and "brings cost efficiencies."

High commissions' role in mis-selling
Commission payouts in the insurance sector are high, especially when compared to other financial sector segments such as mutual funds where expense ratios have been trending downwards. Higher commissions are seen as the key reason why the mis-selling menace in life insurance persists. Intermediaries often sell unsuitable life insurance products to gullible investors looking to make tax-saving investments at the last minute or senior citizens who may not be financially savvy. For instance, senior citizens end up buying unit-linked insurance policies (Ulips) and long-tenure traditional endowment policies without realising their advanced age could eat into potential returns.

Also, agents tend to get customers to churn policies in the initial years in order to earn higher first-year commissions. As a result, such policyholders end up shelling out steep surrender charges (penal charges for early exit, in simple terms) in the initial years.

(The writer is Preeti Kulkarni.)

TOP

IRDAI releases revised EoM and Commission limits for Insurers; Industry cheers – The Economic Times – 28th March 2023

The Insurance Regulatory and Development Authority of India (IRDAI), in a major development has removed segmental and sub segmental caps on commissions for life, general, and health insurance companies, effective from 1 April, 2023. Under the IRDAI (Payment of Commission) Regulations, 2023, the insurance regulator has replaced the earlier cap on commission payments with an overall cap on expenses of management (EoM) of insurers.

It states that the commission must be decided by the board of the insurer and must be within the allowable expenses of management limit. Previously, different lines of insurance business had different commission limits, which made it difficult for insurers to operate in a unified manner. The move is widely believed to provide more flexibility to insurers in managing their expenses.

According to Anil Kumar Aggarwal, MD and CEO at Shriram General insurance, " The removal of the cap on commission payments will positively impact the insurance sector. It will facilitate greater product innovation, development of new product distribution models and lead to more customer-centric operations. It will also increase insurance penetration and provide flexibility to insurers in managing their expenses." EoM, which is computed as a percentage of premiums collected, includes commissions and other expenses such as technology spends, employee costs, administrative expenses and so on. These limits vary as per the product category.

Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance firmly believes that the shift from product level commissions to a company-wide limit of expenses, as proposed will ensure parity across varying business models while rendering greater flexibility in managing expenses for insurers. Moreover, with the majority of the insurers above the prescribed norms of expenses and with the industry reeling with a combined ratio of more than 118%, these EOM limits will help in bringing cost discipline and take the industry in the right direction of prudency and profitability, he explained.

He further added that this should translate into better pricing and products for customers in the medium to long term. The revised regulations also provides for an extra expense allowance for Insurtech expenses, spends on insurance awareness, and rural and social schemes of the government, all of which are targeted towards the IRDAI's overall objective of enhancing penetration and ease of doing business.

(The writer is Sheersh Kapoor.)

TOP

DCA asks FinMin, IRDAI to increase ombudsman limit to reduce pendency - The Economic Times – 27th March 2023

The government is looking to make an array of changes including higher limits for the insurance ombudsman to ensure that the large number of pending consumer dispute cases drop.

According to reports, insurance is the biggest source of consumer disputes with Nearly 1.7 lakh cases out of the total 5.5 lakh pending cases before consumer commissions being related to the said sector.

On back of this the department of consumer affairs (DCA) has asked the finance ministry and the Insurance Regulatory and Development Authority of India (IRDAI) to increase the ombudsman limit beyond Rs 30 lakh as majority of the plans are higher than this limit especially in the life insurance segment.

Further, it has been suggested that cases below Rs 2 lakh should be resolved without attorneys.

As per the DCA, one of the major reasons for high number of cases has been the inability of the designated executives from the insurance companies to decide on the matter as they are not empowered to decide beyond a limit, resulting in delayed outcomes.

"The multilayer approach within an organisation needs to be reduced or eliminated by companies and disputes have to be resolved in a timely manner. Companies should be held responsible for excessive delays," an official said.

Officials also said that mediation in pending cases as well as effective participation in Lok Adalats is another tool that should be deployed to reduce pendency.

Additionally, a mechanism to grade insurance companies has also been proposed although some private platforms are already doing it.

The government is of the view that high level of disputes reflects poorly on how companies as well as regulator deal with the consumer. There is a perception that regulators have ignored consumer interest, giving more attention to issues that are seen to be key for the development of the industry.

TOP

Life insurers' distribution cost may rise – Financial Express – 30th March 2023

With insurers now having the flexibility to pay commissions to agents as per the new Irdai regulations on commission and expenses of management, distribution costs of life insurance companies are likely to go up as intermediaries may ask for higher commission for product distribution.

Distribution cost for life insurers, which are not promoted by banks, may see a substantial rise on higher commission payouts, while those promoted by banks are likely to witness a lesser impact. "Distribution cost of life insurance companies will definitely go up due to higher commission payable to intermediaries under the overall cap on expenses of management. Now, as there will be no cap on commission payments in different lines of business, intermediaries may demand more payout as commissions for product distribution. Insurance companies will negotiate, but now the issue is there are nine insurance companies which can tie up with one institution," a senior official at a life insurance company said.

"Banks, which are promoters or shareholders of insurance companies, will realise the importance of value creation, which will always be substantially more than what will be the commission trade-off. As a result, the impact on such insurance companies might be lesser. However, some other banks, which are not promoters or shareholders of insurance companies, may ask for higher commissions for bancassurance partnerships from those insurers. So, some insurance companies will be willing to pay them more. That is how the life insurance industry will pan out going forward," the official told FE.

According to industry insiders, insurance companies may need to pay higher commission to agents and intermediaries for pushing new products and more penetration to gain market shares in the competitive environment. "Freeing up of the commission cap raises the question – if this could trigger a 'commission war'– especially by unlisted players, who have no pressure to show profitability but are focused on gaining market share and get a foothold in the sector. This 'commission war'-led pressure on listed life and general insurers adds further worry to the listed life and general insurers' share price that have been under pressure amid a difficult macroeconomic environment and adversely changing regulatory (especially taxation) environment. In this backdrop, insurance stocks will remain range bound despite the valuation turning attractive," Emkay Global Financial Services said in a note.

Commission payouts by HDFC Life Insurance and Max Life Insurance have been on the higher side among listed players, and hence, they see relatively lower risk from aggressive unlisted players competing, according to the Emkay's note. "However, SBI Life and IPRU (ICICI Prudential Life) have enjoyed favourable commission rate and exclusivity in their key banca (bancassurance) channel. Increased banca partnership limit and freeing up of commission would mean that there will be a long list of suitors for the banca partnership of SBI and ICICI Bank, among others, and that might add pressure to either increase commission payouts by SBI Life and IPRU or opening up of their key banca channels, or both," the note added.

NS Kannan, MD & CEO, ICICI Prudential Life Insurance, said the updated regulations on commission and expenses of management are a welcome change. The increased flexibility in commission limits will allow insurers to react to market forces in a quicker manner, thereby supporting the Irdai's vision of improving penetration of insurance. "The expenses of management have increased allowability in the later years of the policy while limiting expenses in the initial year. This will persuade insurers to work on improving long-term persistency, which, in turn, will improve the customer proposition as well as the company's profitability," Kannan said. The life insurance industry is moving from a rule-based regulatory regime to a principle-based regulatory regime, said IndiaFirst Life Insurance deputy CEO Rushabh Gandhi. "This augurs well for the industry at large and will play an important role in realising the vision of 'Insurance for All' by 2047."

"Insurance companies will decide on how to manage expenses of management under the overall limit. They have flexibility now on how much they will pay as commission. They may give extra commission to intermediaries when they want to penetrate more. Then they may incur a higher cost. However, they will have to manage the distribution cost within the overall limit on expenses of management," said Bahroze Kamdin, partner, Deloitte India.

(The writer is Mithun Dasgupta.)

TOP

Parliamentary committee concerned about dip in sale of life insurance policies due to new tax regime – The Hindu Business Line – 29th March 2023

A Parliamentary committee apprehends an attractive new income tax regime may impact life insurance penetration and also investment fund. "The committee is concerned that with the tweaks in the slabs and rates in the new tax regime, there might be decline in the life insurance penetration in the country as a major chunk of the population invests in life insurance products such as tax saving instruments, which is also the most important source of loanable/investment fund in the economy," the Standing Committee on Finance said in its report on Demands for Grants of the Finance Ministry tabled in the Parliament. As per the annual report of Insurance Regulatory and Development (IRDAI) for financial year 2021, the insurance penetration in the country stands at 4.2 percent, as compared to global average of 7 percent. It also mentioned that life insurance industry recorded a premium income of ₹6.93 lakh crore during 2021-22 as against ₹6.29 lakh crore in the previous financial year, registering growth of 10.16 percent.

Introduced with effect from fiscal year 2020-21, the new Income Tax regime prescribes lower income tax rate in lieu of forgoing deductions against various allowances forming part of salary (eg. HRA, LTA, etc) and also for specified investments/ expenses such as premium paid on life insurance policy. Now with effect from April 01, the scheme has been made more attractive by raising the exemption limit to ₹3 lakh from ₹2.5 lakh and also the tax rebate on income earned up to ₹7 lakh from ₹5 lakh. Benefits such as standard deductions will also be available.

(The writer is Shishir Sinha.)

TOP

Life insurance sector expects demand surge for products – Financial Express – 25th March 2023

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 Rs 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 Rs 2.5 lakh and traditional policies with premium below Rs 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 Rs 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 Rs 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 Rs 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."

(The writer is Mithun Dasgupta.)

TOP

Life insurers may gain from debt MFs being taxed at marginal rate – Business Standard – 24th March 2023

Removal of long-term capital gains tax (LTCG) with indexation benefits status on debt mutual funds might have evened out the playing field for long-term debt products, even as the life insurance industry has not been granted any of the relaxations it sought from the finance ministry. Experts said with this change, the insurance industry might find itself slightly better-placed as customers looking for tax-free returns under Rs 5 lakh investment per year may choose guaranteed products of life insurance companies. The Finance Bill tabled in Parliament by the finance minister did not have any amendments to the tax changes proposed by the government in the Union Budget this year. "...the change in taxation for debt mutual funds (MFs) bridges the tax arbitrage and brings all debt products at par," said CLSA in a note on Friday.

"So, life insurers, from being a superior product pre-Budget (no tax on debt savings) moved to being an inferior product post-Budget (full tax on premiums >Rs 5 lakh). Now, it is neutral as alternate debt investments are also taxed at marginal tax rate. At these valuations, we believe this is a marginal positive for life insurers," said the brokerage firm in the note. "This sort of gives everyone a level-playing field when it comes to long-term products. With indexation benefit being taken away from debt mutual funds, insurers will not be at a disadvantageous position. Now, the competitiveness of the product will decide the demand for the products," said Mahesh Balasubramanian, MD & CEO, Kotak Life Insurance. Having said that, industry insiders said the introduction of taxation on debt mutual funds and high-value participatory life insurance policies may mean bank fixed deposits will get attractive. Earlier, interest on bank deposits was taxed at individual tax rate and debt MFs enjoyed LTCG of 20 percent with indexation and life savings products had tax free returns.

According to Rushabh Gandhi, deputy CEO, IndiaFirst Life Insurance, all prudent investors will work towards their own asset allocation basis risk profile and life stage. In light of recent developments, we could see a possible shift in the allocation in favour of life insurance products — both ULIPs and traditional. An insurance industry insider said this move seemed to be aimed at pooling more money towards bank deposits to support the credit demand in the economy. Removing tax benefits from both life insurance products and debt mutual products doesn't necessarily work in any industry's favour. Taxation on proceeds from life insurance policies, with premiums exceeding Rs 5 lakh per year, was introduced in the Budget. This was brought in to plug the arbitrage that high-net worth individuals (HNIs) are using to get tax-free returns on their high-value insurance policies through Section 10 (10D) of the Income Tax Act. The life insurance industry had approached the government seeking some relaxations on the proposed taxation policy. They asked the premium threshold to be increased from Rs 5 lakh to Rs 10 lakh. Further, instead of taxing the proceeds from these policies under income from other sources, which could result in negative returns for policyholders (adjusted for inflation), the benefits could be taxed under LTCG with indexation benefits. Although relaxations had been sought, most insurance players had started reworking strategies to combat the negative impact of this policy. To negate the impact of the government's decision, life insurers have been looking to sell more policies with lower sum, and move into the smaller towns instead of focusing at metros. They are also looking to make unit-linked and annuity products more attractive.

(The writer is Subrata Panda.)

TOP

HEALTH INSURANCE

How health insurance saved them from financial ruin – Live Mint – 31st March 2023

Medical insurance is what allows people to be ill at ease!" This popular quote by Alfred E. Neuman, the fictitious mascot of MAD magazine, will resonate with anyone who has ever used a health insurance policy during a medical emergency. Mumbai-based Hitesh Gajaria is a case in point. Gajaria was diagnosed with a serious ailment in July, which required him to be hospitalized suddenly. After a week's observation, he was advised to undergo an emergency surgery. "I was not aware of this condition until I got hospitalized. I was leading a normal life and then, all of a sudden, I was pushed out of action for almost four months. Soon after the diagnosis, I had to do a lot of running around—first trying to find a good surgeon and then a bed in a bigger hospital. For almost one-and-a-half days, I could not get a bed in the desired hospital even in a city like Mumbai," Gajaria recounts, adding that the diagnosis came as a shock.

Yet, what helped Gajaria during this traumatic period was his health insurance policy. In fact, he had two of them as also two top-up covers and he could also avail of a no-claim bonus. His total coverage was ₹89 lakh. The cost of his treatment came to ₹17.71 lakh. Having adequate medical coverage alleviates the mental trauma associated with hospitalization and the financial implications, as in the case of Gajaria. “When you are unsure about the treatment costs, you can’t think straight. It impairs your judgement on the best course of treatment. The strain and stress of financial problems can worsen the illness," says Gajaria. The impact of a sudden illness, in most cases, is however not limited to the patient themselves. In Bangalore, Ravi, who declined to disclose his full name, had to literally step into his father’s shoes overnight and take on all the responsibilities of a head of the family when the latter was diagnosed with advanced stage brain cancer (Glioblastoma Multiforme) in 2013. Ravi was just 25 years old at that time.

(The writer is Shipra Singh.)

TOP

As cases rise, should you take Covid insurance, again? – The Hindu Business Line – 30th March 2023

As much as one would want to avoid the topic, Covid cases seem to be on the rise again. The fresh Covid cases reported at 1,573 on March 28 may be small compared to peaks; 4 lakh per day in early May 2021 and 3 lakh per day in January 2022 (Omicron wave). But after flatlining to 100-200 cases per day year-to-date, the daily case count has inched up to four figures again, worrying authorities. The current season also has an increased viral activity (flu, influenza) apart from Covid. Covid-related health insurance aspects may need to be revisited and we reiterate why OPD covers should gain importance as part of health insurance packages. Covid Raksha and Covid Kavach were two policies (benefit plan and indemnity plan) launched in the early days of the pandemic, mandated by regulator IRDAI as part of its Covid response. But after being extended till September 2022, in March of that year, by IRDAI, there may not be much traction for the two currently. Even otherwise, a comprehensive health insurance should be the main stay of protection, beyond the patchwork insurance offered by the two.

Covid, being a viral infection, can be covered by any insurance policy, if the policyholder is hospitalised on doctor’s recommendation. The sum insured without sub-limits can be expected to cover the hospitalisation expenses. But while insurance cover for hospitalisation is not a hurdle in many other diseases, in a few Covid cases hospitalisation may not be required as per doctor’s recommendation. Even for patients suffering from long-Covid (an umbrella term for as yet undiagnosed impact of Covid, including breathlessness, brain fog and fatigue for long periods) insurance cover may fall short, without hospitalisation. Again, the cover for hospitalisation does not include consumables, which is typically higher for Covid-related cases where sterile equipment has to provided for the Covid wing of the hospitals. This particular practice gained ground post-pandemic and may top 20 percent of the bill (which is not covered by insurers). Some policies cover consumables as part of the basic cover (HDFC Ergo Optima Secure, TATA AIG Medicare) and others have a purchasable add-on to cover consumables.

(The writer is Sai Prabhakar.)

TOP

Health insurance policies can't substitute emergency fund needs: Beshak CEO Mahavir Chopra – Live Mint – 30th March 2023

The right health insurance policy helps insulate financial goals from any significant healthcare expenditure. And, it ensures that I don't compromise on the quality of care ever," says 42-year-old **Mahavir Chopra, founder and chief executive of Beshak.org**—a **Mumbai-based independent consumer awareness insurtech platform** for individual insurance buyers., underling the importance of a health insurance policy for every individual. In an interview with Mint, Chopra also explains why one shouldn't substitute health insurance for an emergency fund. Edited excerpts:

Who are your clients? How do you help insurance buyers?

We don't work on a client-provider model. We have built Beshak as a community of well-meaning people and offer insurance seekers the best blend of technology and community services that ensures complete peace of mind. Technology helps keep the advice unbiased. Customers can make regret-proof decisions based on deeply personalized recommendations that match their needs against more than 150 products in the market. The community ensures the availability of human expertise if and when things go wrong. Insurance is largely offline after sales. The community of curated experts handholds the customer—from purchases to renewals to claims.

How do you give unbiased advice on insurance products?

It's very simple. We have decoupled the advice from the advisor in the community. The advice—the product recommendation—is generated by our proprietary algorithm that uses our independent research across more than 100 products. We have ensured that the research is 100 percent unbiased by not affiliating ourselves with any insurer or platform for distribution, marketing or sales.

(The writers are Navneet Dubey & Neil Borate.)

TOP

Ayushman 2.0 in works for 400 million mid-income citizens – The Economic Times – 27th March 2023

India is readying a Ayushman Bharat version 2.0, which will cater to 400-million middle income citizens, officials familiar with the development said. The Niti Aayog and health ministry are working on the contours of the proposed plan to provide health cover to this section of the population. A senior government official, on the condition of anonymity, said that various options are being examined keeping in view the financial implications and the challenges in implementing the plan that would have wide application - on the lines of Ayushman Bharat. Different options being considered include providing a similar ₹5 lakh coverage as under Ayushman Bharat to these individuals with an option of a partial contribution or a top-up by the individual. Another option being examined is to enable health insurance companies to come up with an economically viable package that provides basic medical coverage at a reasonable cost. "The private companies are willing to develop a new dedicated product to cater to this segment, provided the government assures them of high volume of coverage to make it viable," the official said. The Aayog has held several rounds of consultations with the insurance companies and the draft policy could come up soon for consideration.

Ayushman Bharat, rolled out by Prime Minister Narendra Modi in 2018, provides up to ₹5 lakh coverage for secondary and tertiary healthcare to the underprivileged sections of the society. The programme is fully funded by the government to nearly 110 million poor and vulnerable families (approximately 500 million beneficiaries). Beneficiaries are identified based on the deprivation and occupational criteria of the Socio-Economic Caste Census 2011 (SECC 2011) for rural and urban areas, respectively. This number also includes families that were covered in the Rashtriya Swasthya Bima Yojana but were not present in the SECC 2011 database. The government is of the view that bottom 40 percent of the population is covered under Ayushman Bharat PMJAY and the top 20 percent or the high-income population can afford the cost of health care or have some of health coverage, but there is a need to provide some form of support for the middle income groups. According to the official, the funds would not be a concern for the government as it is keen to widen health coverage. "However, identifying the beneficiaries and retaining them in the system as the majority of them are unorganized workers will be a key implementation level challenge before the government," the official added.

(The writer is Yogima Seth Sharma.)

TOP

What are the tax benefits of health insurance policies? – Live Mint – 27th March 2023

Health insurance is a form of insurance that covers medical expenditures incurred by an individual for long-term well-being. Ultimately, health insurance allows individuals and families to cover the high expenses of medical treatment. There are tax advantages to purchasing and having health insurance coverage. The premium amount paid for health insurance is tax deductible. Section 80D of the Income Tax Act allows you to claim tax benefits on your health insurance premiums. As a result, based on an interview with various industry experts, here's how you can get tax breaks on your health insurance premiums.

Dr. Santosh Puri, Senior Vice President – Health Product & Process, Tata AIG General Insurance Co. Ltd.
One of the advantages of having a health insurance policy, apart from financial protection of the family, is also prudent tax planning. Premium paid towards a family's health insurance policy is eligible for exemptions under Section 80D of Income Tax benefit though there is an upper ceiling to it. The premium for health insurance policy depends upon the sum insured, members, getting covered, and their age.

Typically, family floater policies offer coverage to entire family ~ self, spouse, dependent children, and dependent parents in a single policy. Tata AIG's MediCare Premier family floater policy offers coverage up to INR 3 Crore sum insured and premium paid qualifies for income tax exemption under applicable provisions. One can avail tax deductions under Section 80D up to ₹1lakh for Self and Family if Eldest is above 60 years + Senior Citizen Parents.

Also, customers looking for maximum tax advantage can also opt for a higher tenure policy like 2 years or 3 years, while tax deductions can be claimed for each year up to the defined limit. We are Tata AIG are offering long-term discounts on our various retail health product offerings like Tata AIG Medicare, Tata AIG Medicare Premier, and Tata AIG Medicare Plus".

Amar Ranu, Head - investment products & Advisory, Anand Rathi Shares & Stock Brokers
A health insurance policy is a product that protects you from the financial consequences of a wide range of health-related expenses, from minor illnesses and injuries to critical diseases.

As per Section 80D of the Income Tax Act, the premium paid for a health insurance policy is deductible from the taxable income. The upper limit for the deductible amount is Rs. 25,000 and can be extended to up to Rs. 50,000 for senior citizens (with effect from 1 April, 2018). This implies that the policyholder is now eligible to enjoy a deduction of up to Rs. 75,000 from the taxable income. In rare cases, when the age of both the proposer and his parents is more than 60 years, the deductible amount can extend up to Rs. 1,00,000 (Rs. 50,000+Rs. 50,000).

CA Arpit Jain, Joint MD, Arihant Capital
In many countries, including India, health insurance premiums are tax-deductible, which means that individuals can claim them as a deduction on their income tax returns. This tax benefit can help to reduce the overall cost of health insurance and make it more affordable for individuals and families.

In general, taxpayers must meet certain requirements to claim a tax deduction for health insurance premiums, such as
- The insurance must be purchased for the taxpayer, their spouse, or their dependents.
- The insurance must provide coverage for medical expenses, including doctor visits, hospitalization, and prescription drugs.

TABLE A	Self, Family, Dependent Children	Dependent Parents	Total Tax Deduction u/s 80D
Individuals & Parents below age 60yrs	25000	25000	50000
Individuals & Family below age 60; but parents above 60yrs	25000	50000	75000
Individuals, Family & Parents above 60yrs	50000	50000	100000
Members of HUF	25000	25000	25000

TABLE B: Tax Benefit	Premium	% of Rebate	Tax Rebate
Slab Rs. 2.50 Lacs to Rs. 5.00 Lacs	25000	5.20%	1300
Slab Rs. 5.00 Lacs to Rs. 10.00 Lacs	25000	20.80%	5200
Slab above Rs. 10 Lacs	25000	31.20%	7800

The tables below provide an overview of how much insurance premium towards your health policy qualifies for exemption under Section 80D of the Income Tax Act and the total cash benefit for individuals falling in different income brackets.

For example, if you are only paying for insurance premiums for yourself and your spouse, the total deduction you can claim is ₹25,000. Now if you fall under the income slab of ₹10 lacs and above, you will save a total of ₹7,800 in taxes by claiming this deduction under Section 80D of ITA.

To claim this deduction, you will need to provide your premium payment receipt and your insurance policy copy which shows the name of the family members and their relation and age. It is important to note, to take the benefit of this deduction, the premium should be paid in any mode other than cash. Premium paid in cash will not be considered. However, the payment for Preventive Health check-ups can be done in cash.

Siddharth Singhal, Business Head - Health Insurance, Policybazaar.com
Buying a health insurance policy not just ensures a sound financial safety during medical exigency but also serves as an actual tax-saving tool. The insured person can save tax under Section 80D. Any policyholder is entitled to this tax rebate for health insurance premium paid either for self, partner, dependent children, and even for parents.

For self, partner, dependent children the maximum tax exemption is Rs. 25,000, while for parents (aged less than 60 years), an additional exemption of ₹25,000 is available. However, if the parents are aged 60 years or above, the deduction is ₹50,000 while, if both the taxpayer and parents are above 60 years, the tax exemption amount goes up to Rs.1 lakh.

Moreover, policyholders are entitled for claim deduction of Rs. 5,000 against preventative medical check-ups under Section 80D of the IT Act. This exemption is within the standard limit under Section 80D (Rs. 25,000 for self, partner and children, and ₹50,000 for senior citizen parents). Whether an individual is paying health premium for critical illness insurance or indemnity based insurance i.e. family floater plan or a senior citizen health plan or individual mediclaim policy, they are eligible to get tax rebate through Section 80D.

Sujit Bangar, Founder, Taxbuddy.com
We all are aware about health insurance benefit for tax deductions. Where we get confused are two things.

Firstly, deduction for health insurance is different from deduction under 80C bracket. This health insurance deduction is over and above 150k limit of 80C.

Secondly, we all do regular health check up. Especially, everybody amongst us has done RTPCR test once or twice. This expenditure can be claimed as deduction u/s 80 D upto ₹5,000/- . We should not mis out on this.

Pankaj Vashishtha, CEO & Co-Fouder, Policy Ensure
Health insurance policies in India offer individuals several tax benefits under Section 80D of the Income Tax Act. Taxpayers can claim a deduction on the premiums paid towards their health insurance policies for themselves, spouse, dependent children, and parents. The deduction amount varies based on the age of the insured and the type of policy. Individuals can claim a deduction of up to Rs. 25,000 for the premium paid for themselves, their spouse, and dependent children, and an additional deduction of up to Rs. 25,000 for the premium paid for their parents who are below 60 years of age. For individuals above the age of 60, the deduction limit is increased to Rs. 50,000.

Moreover, individuals can claim a deduction of up to Rs. 5,000 for preventive health check-ups for themselves, their spouse, and dependent children. In case of any claim made under the health insurance policy, the amount received by the insured or his/her nominee is tax-free. However, the total deduction under Section 80D cannot exceed Rs. 1,00,000 for individuals and Rs. 1,50,000 for senior citizens. To claim these deductions, individuals need to pay the premium through a mode other than cash. Barring the tax benefits of Health Insurance the primary need for Health insurance is for the purpose of security and safety of the individual's family and his loved ones.

Shilpa Arora, Co-Founder and COO, Insurance Samadhan
Health is wealth, and so is a well-planned tax strategy. By investing in a health insurance policy, not only do you secure your future health but also enjoy significant tax benefits. Under Section 80D of the Income Tax Act, 1961, you can claim tax deductions for the premium paid towards your health insurance policy. For individuals below 60 years of age, the deduction limit is up to Rs. 25,000, while for senior citizens, it goes up to Rs. 50,000.

Additionally, if you purchase health insurance for your parents who are senior citizens, you can claim an additional deduction of Rs. 50,000. That's not all, if you or your parents are super senior citizens (above 80 years), the deduction limit goes up to Rs. 1 lakh. So, investing in a health insurance policy not only offers financial protection during medical emergencies but also helps you save taxes. It's a win-win situation for you and your loved ones.

Babita Rani, Tax consultant
Health insurance can prove to be a practical and profitable investment choice when you begin to plan your investments for the upcoming fiscal year and hunt for tax savings in the process. It is a win-win situation since it not only offers you financial security in the event of a medical emergency but also offers tax advantages.

Benefits of using a health insurance coverage to save on taxes
1. Maintain financial security and safeguard your money amid medical crises.
2. Because the amount you pay for premiums is taken from your taxable income, you should reduce your tax deductions from your wage.

Plans for health insurance offer two benefits for the price of one. They give you the much-needed financial security you require through a variety of coverage benefits as well as income tax advantages on the premiums you pay in accordance with the 1961 Income Tax Act (Section 80D). If you purchase the coverage for yourself, your parents, your dependent children, and your spouse, you are eligible for these tax benefits. Please read on to find out more about it in depth and detail. the 1961 Income Tax Act's income tax exemption (Section 80D)

According to the 1961 Income Tax Act, the premium for a medical insurance coverage is subtracted from taxable income (Section 80D). The maximum deductible is ₹25,000, however for seniors it can be increased to ₹50,000. (from 1 April 2018).

Ajay Shah, Director & Head - Retail, Care Health Insurance.
A Comprehensive Health Insurance plan secures an individual's health by giving access to quality healthcare. It also safeguards their wealth, by helping them save tax on premium paid of upto ₹75,000. As per Section 80D of the Income Tax Act, policyholders can claim a tax deduction on the premium paid towards health insurance policies for themselves, spouse, dependent children, and parents. The maximum limit on premium for individuals below the age of 60 years is up to Rs. 25,000 per financial year, while if senior citizens purchase the Health Insurance, premium amount on which tax can be saved can go upto Rs. 50,000.

This benefit can also be claimed by an individual who buys a health insurance policy for his or her senior citizen parents. Besides, it is also important to note that the tax benefits are applicable only if the premium is paid through a non-cash mode and the policy is in name of the person claiming the deduction.

Vikas Mahajan, Director & Head-Finance & Compliance, GramCover
In India, health insurance policies offer various tax benefits to the policyholders. Under Section 80D of the Income Tax Act, individuals and Hindu Undivided Family (HUF) can claim a tax deduction for the premium paid towards their health insurance policies for themselves, their spouse, dependent children, and parents or any payment made on account of preventive health check-up of the parent or parents of the individuals.

The maximum tax deduction limit is INR 25,000 for individuals below 60 years of age and INR 50,000 for senior citizens aged 60 years and above. This tax benefit not only helps individuals save money but also encourages them to invest in health insurance, ensuring financial security during medical emergencies.

Kamal Narayan Omer, CEO, IHW Council
Out -of -Pocket-Expenses are a major concern when it comes to accessible and affordable healthcare to a vast majority of population in our country. The government has been doing phenomenal work when it comes to health insurance of the most vulnerable section of the population. Health Insurance can be a major game changer for large part of the population as apart from safeguarding the patient's pocket from catastrophic medical expenses, it also helps in availing tax benefits on Section 80D of the Income Tax Act.

This makes health insurance policies a win-win situation and a wise investment for the good health and wellbeing of our families. However now that the healthcare discourse is moving from curative to preventive, the gamut of services covered under the insurance schemes should also shift from treatment to diagnosis including important and expensive tests. Also, the whole process needs to become more patient-centric sans the hassles of the paperwork and formalities involved, which are an added stress on the patient's family.1

(The writer is Vipul Das.)

TOP

MOTOR INSURANCE

Motor insurance claims higher for EVs due to parts – The Times of India – 28th March 2023

Insurance claims from damage to electric vehicles two-wheelers are turning out to be up to 20 percent higher in value than conventional vehicles, while they are 50 percent higher for four-wheelers. Also, the frequency of claims is higher in electric vehicles compared to internal combustion engines. The higher value of claims is because of the need to replace an entire assembly rather than repair it due to the non-availability of child parts. Also, there is a higher usage of plastic and fibre to keep the vehicle weight low which increases the damage.

The frequency of claims largely because many first-time users are not familiar with the high acceleration which leads to minor accidents," said T A Ramalingam, Chief Technical Officer, Bajaj Allianz General Insurance Company (BAGIC). According to Ramalingam, the share of EV has quadrupled from less than one per cent of total vehicles insured before the pandemic to around 4% now. In both two-wheelers and four-wheelers, 98% of claims are due to loss claims caused due to accidents. However, fire loss, improper charging leading to fire, damages to charging unit, and flood losses were other common causes for claims as well.

Ramalingam said that insurers are in talks with top EV manufacturers to introduce child parts and reduce the cost of replacements. They are also speaking to the manufacturers to educate customers on the proper use of the vehicle to bring down the damages. Bajaj Allianz is in talks with its foreign parent Allianz group companies to get the experience from underwriting EVs in Hong Kong and China. This will help the company to come out will new innovations including a cover for the battery and a cover for cyber risks faced by EVs. If insurers are not able to control the claim costs in EVs the premium of these vehicles might need to be revised up wards. Insurance claims for electric vehicles are high because of costly spares.

(The writer is Mayur Shetty.)

TOP

MoRTH likely to delay third-party premium rates for motor insurance – The Indian Express – 27th March 2023

The Ministry of Road Transport and Highways (MoRTH), for the second time, will delay the announcement of motor insurance third party premium for FY 2023-24 till June amid proposals from several quarters that the TP premium should be reduced as insurers are making huge profits from delayed claim pay-outs. Since FY 2022-23, MoRTH has taken over the task of fixing the revised motor TP premium from the insurance regulator IRDAI which used to unveil the draft for revised premium by March second week to be followed by the final rate to be made effective from April 1. However, last year, MoRTH had issued the draft proposal by mid-May and the final rate by June 1. According to industry sources, MoRTH will follow the same time line for the new fiscal year which effectively means the new rates will not be effective before June 1. MoRTH had revised the motor TP rates by 5-10 percent for the current year (FY2022-23) and industry sources point out that for the new fiscal also the quantum of hikes will remain the same. However, general insurers demand larger hikes.

Experts argue that there is no scope for hiking the motor TP rates as the insurers earn a substantial investment income from motor premium as the claims after becoming court cases take time to be settled. As more than half of the vehicles plying on the roads are uninsured, a reduction in premium will increase insurance penetration. Motor TP premium is a profitable cash cow for insurance companies. Last year, TP fetched a premium income of Rs 43,000 crore out of the total motor premium income (including TP and OD, or own damage) of Rs 70,000 crore. "Since April 2023 is around the corner, the insurance industry's furious lobbying for an increase in TP premium seems to be on. Don't know if MoRTH will yield to the lobby or protect the hapless policy holders (consumers)," said KK Srinivasan, former Member, IRDAI.

He said the reality is that insurance companies carry humongous reserves for outstanding TP claims which are unlikely to result in ultimate pay-outs of that magnitude. These are huge reserves that produce sizeable investment income for insurance companies. "There is a widespread perception that insurance companies are squandering away income from policyholders' funds by pay-outs on exorbitant management and administrative expenses and huge payments to intermediaries," Srinivasan said. As a matter of fact, motor TP premium rates may warrant a reduction to make it affordable and increase the penetration, he said. “The government will be careful not to go larger hikes in the days of high inflation which hit the people hard. The hike will be very moderate,’’ said the CEO of a private sector general insurance firm.

General insurers claim that motor TP business is a loss-making business where against a premium of Rs 100, average claim pay-out in the portfolio is more than Rs 140. Motor TP policy has a provision for unlimited liability and compensation for most accident cases. They are invariably decided by the courts which are liberal in fixing the claim pay-outs. About 16.54 crore, or nearly 54 percent, of the vehicles plying on Indian roads are uninsured, Minister of Finance Bhagwat Karad said in Lok Sabha recently. IRDAI recently asked general insurers to talk to transport authorities of 28 states and eight union territories to provide mandatory covers for the uninsured vehicles. As per the Amended Motor Vehicles Act (MVA) of 2019, the fine for driving without insurance is Rs 2,000 for the first offence and Rs 4,000 for the subsequent offence. It could also lead to imprisonment for 3 months within the law’s discretion. The fine is applicable as per Section 196 for the offence “Driving without insurance”.

(The writer is George Mathew.)

TOP

CROP INSURANCE

For every Rs 100 of premium paid for crop insurance under PMFBY; farmers received Rs 514 as claims: Govt - The Economic Times – 24th March 2023

Agriculture minister Narendra Singh Tomar on Friday informed Parliament that for every Rs 100 of premium paid by farmers under the flagship scheme Pradhan Mantri Fasal Bima Yojana (PMFBY), they have received about Rs 514 as claims. Since implementation of PMFBY in 2016, around 38 crore farmer applicants have been enrolled and over 12.37 crore (provisional) have received claims, he said in his written reply to the Rajya Sabha.

"During this period, nearly Rs 25,252 crore were paid by farmers as their share of premium against which claims of over Rs 1,30,015 crore (provisional) have been paid to them. Thus, for every 100 rupees of premium paid by farmers, they have received about Rs 514 as claims," the minister said. PMFBY was launched with an aim to address problems of high premium rates for farmers and reduction in the sum-insured due to capping.

In a separate reply, the minister said the PMFBY is available for all states/UTs and is voluntary for them. It is also voluntary for the farmers to enrol themselves as per their risk perception. The scheme is implemented through empanelled general insurance companies. The specific company for specific state/cluster (comprising few districts) is selected by the concerned state government through bidding process. Clusters/districts and crops under the scheme are also notified by the concerned state governments.

Based on the experience gained and views/demands of the stakeholders, the scheme has been reviewed/modified/revised/revamped from time to time considering the prevailing policy regime and requirement of policy intervention in crop insurance in the country in the best interest of the farming community and is implemented as a continuing scheme.

The revamped scheme effective from Kharif 2020 season has many features which include voluntary participation for all farmers, selection of insurance companies by the states for three years in a go, two-step process of crop yield estimation, use of smart sampling technique through satellite data for crop cutting experiments, etc. The features have been included keeping in view the benefit of farmers and flexibility in implementation to the states.

TOP

REINSURANCE

Insurers plan digital payments platform for reinsurance business – The Economic Times – 31st March 2023

Insurers are looking to set up a digital payments platform (exchange) for effective management of their reinsurance business, which will facilitate reinsurance premiums, commissions, claims, and any other transactions between the insurer, insurance intermediary and reinsurance companies. The initiative, led by the General Insurance Council, will also see participation from foreign reinsurers and broker associations. "The platform will enable transparency and improve the efficiency of financial transactions between reinsurers. It will help streamline the process of reinsurance contract validations, balance confirmations, settlements, and receipts between insurers and reinsurers, which will also reduce administrative burdens," said Tapan Singhel, chief executive officer, Bajaj Allianz General Insurance. According to another executive aware of the developments, a new company will be set up towards this end, where general insurance companies through the GI Council will hold up to 46 percent stake. "No insurance firm will hold more than 6 percent stake while the developer company may be offered around 24 percent stake in the new firm," he said, adding that the process is on to identify all key stakeholders.

Singhel said that the digital platform will reduce the turnaround time for effecting remittances and confirming receipt of funds thereby improving the efficiency of reconciliation between insurers and reinsurers. "The Reinsurance Digital Payment Platform is a platform that will provide a holistic and unified solution for handling all reinsurance-related financial transactions," he noted. Last year, the insurance sector regulator, Insurance Regulatory and Development Authority of India (Irdai), had proposed that the maximum overall cession limits allowed per cross-border reinsurer (CBR) by an Indian insurer transacting other than life insurance business shall be 30 percent (or amount may be specified by the regulator from time to time) of its total reinsurance premium ceded outside India to all CBRs. "Every Indian reinsurer including foreign reinsurance branches (FRBs) shall maintain a minimum retention within India of 50 percent of Indian reinsurance business underwritten. Any retrocession to an IIO (IFSC Insurance Office) up to 20 percent of Indian reinsurance business underwritten shall be reckoned towards the required minimum retention of 50 percent," the regulator said in the exposure draft. The amended regulations will be applicable as of April 1, 2023.

(The writer is Dheeraj Tiwari.)

TOP

SURVEY & REPORTS

65% of women with health insurance 0pt for women-specific plans: Report – The Economic Times – 28th March 2023

ICICI Lombard General Insurance has published the findings of its 'Insurance Awareness Among Women in India' report that aims to understand not just the awareness and purchasing habits of women towards general insurance, but also understands their beliefs, confidence in, and decision-making process when it comes to buying insurance for themselves.

The survey quantifies the current state of general insurance literacy among women on aspects like overall awareness, health insurance providers, relevance towards women-centric health insurance plans, decision-making ability and involvement during purchasing health and motor insurance. The latest study was carried out with 779 respondents – women aged 21 – 55 years – both insurance owners (Health & Motor Insurance) and intenders (Health Insurance) from all over India across metros and Tier 1 cities. According to the findings, a lot of women believe prompt financial help in times of need & protection against increasing incidences of lifestyle illnesses are the top 2 reasons for investing in health insurance. The rising cost of healthcare is also a key reason for purchase of health insurance.

The report highlights that 93% of the women participating in the survey believed that women-specific health insurance plans are highly relevant. It added that 65% of Women who hold a HI policy own a women specific health insurance plan. A higher proportion of General Insurance use was found among 'Those married with Children' vs those Single or 'Married without Children'. More than half of the women (54%) aged 41-55 years, believe age is a key reason for purchase. On the other hand, 61% of the respondents, believe that 25-34 yrs. is the right age to invest in a health insurance policy.

The report presents a perspective on insurance by including both female general insurance policyholders and intenders in its analysis. Through this approach, the report highlights the misconceptions surrounding insurance that may hinder women from getting insured in India, Lombard said.

Financially Independence- According to the survey, women who have their own source of Income are more likely to own insurance. 60% of Women who had their own source of income were found to be users of GI and have higher levels of overall awareness about GI, Women Centric plans, Features etc., than those dependent on other sources. It added that these women also display more independent decision-making in purchase process.

Challenges- Among women intenders of Health insurance, purchase process/paperwork is the #1 hindrance for purchase, followed by affordability.

Source of Information- The decision making for purchase is not a completely independent process; only 58% of the women who own HI policy made the decision completely on their own without any help from friends/ family /spouse, while 53% respondents believe that Websites are the #1 source of Information / Advice.

"As data shows only a small percentage of women in India consider general insurance a priority. This highlights the need for more awareness and education on general insurance among women in India. The survey conducted by ICICI Lombard highlights the need for more gender-sensitive insurance policies that cater to the unique needs of women," said Sanjeev Mantri, Executive Director, ICICI Lombard General Insurance. The top 5 health insurance features respondents are aware of are the cashless facility under the insurance network, limit on coverage for different diseases, specialized coverage for critical illness, complimentary annual medical check-ups, list of diseases classified as 'exclusions'.

The Lombard survey also added the top 4 things valued most in a vehicle insurance- easy claims process, fair pricing and cost effective, simple & easy to understand and benefits such emergency assistance for women.

TOP

INSURANCE CASES

No insurance claim is admissible if a private car is given for commercial use. Here's why – Live Mint – 30th March 2023

A man's claim for compensation following the theft of his car was rejected by the Thane Additional District Consumer Disputes Redressal Commission over insurance norm violations as he had used a private car for commercial purposes, an official said on Sunday. The commission upheld the contention of the insurance firm that the man had filed his claim after 42 days of the incident.

Under a contract of insurance, it is extremely important for the policy holder to abide by the terms and conditions laid out in the underlying policy document.

If there is any breach of the terms of the policy, it is well within the right of the insurance company to repudiate the contract and/or reject the claim. It is equally important to note that a policy holder cannot claim anything more than what is covered by the insurance policy. Therefore, it is advised that at the time of entering into an insurance agreement, the intending policy holder must thoroughly go through the proposal form and the policy document.

Whenever a dispute arises between the policy holder and the insurance company, rights and obligations are strictly determined on the basis of the wording of the policy of insurance.

“In the instant case, the policyholder had availed the car insurance policy for his personal use. However, going against the terms laid down while the car was being insured, the policy holder had subsequent hired it out for commercial purpose. The District Commission rejected the claim of insurance as the underlying insurance did not extend to cover risk associated with commercial use. In many cases, situations like this arise. Therefore, as suggested above, the policy holders must be careful of the extent of risk cover and the risks excluded in the policy document to avoid rejection of claims at a later stage," said Simranjeet Singh, Partner, Athena Legal.

The Navi Mumbai businessman had also hired out his vehicle, which was against the norms laid down while it was being insured, the firm told the commission. The car was stolen on September 29, 2021 after which the man had sought ₹4.90 lakh, including interest and legal fees, and compensation for mental harassment, the official added.

(The writer is Tamal Nandi.)

TOP

Insurance firm in Haridwar told to reimburse cost of slip disc surgery – The Times of India – 27th March 2023

Upholding the decision of Haridwar district commission, the state consumer disputes redressal commission on Friday ordered the National Insurance Company to reimburse the cost of slip disc treatment to its customer.

The company was asked to pay Rs 2,11,088 with an interest of 6% from the date of filing the case in 2015, along with Rs 5,000 litigation fees. The insurance company had denied the claim citing the policy clause of a two-year waiting period for surgery for prolapsed intervertebral disc.

The commission observed that the client Sandeep Kumar had specifically stated that he had accidentally injured his back. "There was a clear deficiency in service on the part of the insurance company in denying the genuine claim made by the complainant Kumar," the commission said. Kumar bought a health policy for his family in May 2015 for a year. During the subsistence of the insurance policy, Kumar accidentally suffered a back injury.

He found that he had a slip disc and was advised immediate operation at Indraprastha Apollo Hospital in New Delhi. Kumar got treated in January 2016 and approached the insurance company for a cashless facility, but it was denied. Later, he paid for the surgery and applied for reimbursement of medical expenses, but to no avail. Thereafter, he approached the district commission.

(The writer is Pankul Sharma.)

TOP

Man's insurance claim for car theft rejected for using pvt vehicle for commercial purposes – Devdiscourse – 26th March 2023

Aman's claim for compensation following the theft of his car was rejected by the Thane Additional District Consumer Disputes Redressal Commission over insurance norm violations as he had used a private car for commercial purposes, an official said on Sunday. The commission upheld the contention of the insurance firm that the man had filed his claim after 42 days of the incident.

The commission upheld the contention of the insurance firm that the man had filed his claim after 42 days of the incident. The Navi Mumbai businessman had also hired out his vehicle, which was against the norms laid down while it was being insured, the firm told the commission. The car was stolen on September 29, 2021 after which the man had sought Rs 4.90 lakh, including interest and legal fees, and compensation for mental harassment, the official added.

TOP

Forum asks firm to pay accident victim's family in Nashik – The Times of India – 26th March 2023

The Nashik district consumer forum has asked an insurance company to settle a claim in which a person died after being hit by another vehicle. The Nashik district consumer redressal commission in its order observed that the insurance company had erred in rejecting the claim without giving any strong reason.

It also ordered that the claim of Rs 7.5 lakh should be settled with 10 percent simple interest since September 2020. The month when the company had rejected the claim. The commission has also asked the company to compensate for the physical and mental harassment by paying Rs 15,000 and another Rs 7,000 as compensation for cost incurred.

A member of Nashik district secondary teachers and employees credit society died when his motorcycle was hit by another coming from the opposite direction in January 20200. Since he was insured for Rs 7.5 lakh, the widow filed a claim with the insurance company. The insurance company rejected the claim saying the deceased did not have a valid driving licence with him at the time of incident. After the rejection, the woman sought justice from the Commission.

The commission went through the papers and issued notices to the insurance company. After hearing both sides, the commission observed that the claim was rejected on the grounds that the deceased did not have valid licence. He died because his motorcycle was hit by another motorcycle, it noted.

'When the police panchanama and papers clearly said that the other vehicle had hit him, the question of deceased having licence did not arise. If the deceased was responsible for his own death then the driving licence would have played the role. Also, the driving licence had expired and it was not renewed is the case,' observed the three-member bench of the Commission.

TOP

PENSION

NPS rule change from April 1, 2023: You will have to mandatorily upload these documents for withdrawal from NPS – The Economic Times – 30th March 2023

The Pension Fund Regulatory and Development Authority (PFRDA) has mandated that certain documents be uploaded by subscribers as of April 1, 2023 in order to speed up and simplify annuity payments after exiting the National Pension System (NPS).

The process of purchasing an annuity has been streamlined by the Pension Fund Regulatory Development Authority (PFRDA) in regulatory cooperation with IRDAI. Annuity Service Providers (ASPs) will use the NPS withdrawal form provided at the time of exit by the Subscribers at nodal officers / POPs for issuing an annuity.

"In the interest of Subscribers and to benefit them with the timely payment of annuity income, the upload of the documents shall be mandatory with effect from 1st April 2023," the pension body said in a circular dated February 22, 2023.

In order to service NPS Subscribers and provide them with a steady stream of periodic income in their old age, ASPs are life insurance companies governed by IRDAI and appointed by PFRDA.

The common proposal for exiting NPS and purchasing annuities from an ASP enables parallel processing of the lump sum component and annuities, which considerably reduces the time required by ASPs to issue annuity policies and allows for quicker subscriber servicing and prompt annuity issuance.

The pension organisation stated in a circular dated February 22, 2023, the upload of the documents shall be mandatory with effect from 1st April 2023 in the interest of Subscribers and to benefit them with the prompt distribution of annuity income.

A. NPS Exit/ Withdrawal Form
B. Proof of Identity and Address as specified in the Withdrawal form
C. Bank account Proof
D. Copy of PRAN card

According to the PFRDA circular, the following are the stages for processing an exit request by an NPS subscriber (government or non-government).

Steps for processing of exit request by subscriber online
Step 1: Subscriber will initiate online exit request by logging into CRA system.
Step 2: The subscriber is presented with the pertinent notifications regarding e-Sign/OTP authentication, Nodal Office/POP authorization, etc. at the moment the request is initiated.
Step 3: Details like address, bank information, nominee information, etc. are automatically filled out during request initiation from the NPS account.
Step 4: Subscriber will select fund allocation percentage for lump sum/annuity, annuity details, etc.
Step 5: Bank Account will be verified through online Bank Account Verification (Penny drop facility).
Step 6: Subscriber needs to mandatorily upload KYC Documents (Identity & Address Proof), copy of PRAN card/ePRAN and Bank Proof at the time of submitting exit request.
Step 7: Scanned documents should be appropriate i.e. scanned images should be legible.
Step 8: Subscriber authorizes the request by using any one of the two following options to make the process paperless:

OTP Authentication – Distinct OTPs will be sent on Mobile Number and email ID of the Subscribers. e-Sign – Subscribers will e-Sign the request using Aadhaar.

NPS exit rule
At the time of maturity, an NPS subscriber must currently use at least 40% of the entire accrued corpus to buy an annuity plan. A lump sum withdrawal of the remaining 60% of the NPS corpus is allowed. The subscriber would have the option of a full lump sum withdrawal at maturity if the entire corpus is less than or equal to Rs 5 lakh. In order to purchase a pension plan (annuity) from a life insurance firm for an early retirement before the age of 60, an NPS subscriber must use 80% of the total NPS corpus.

(The writer is Sneha Kulkarni.)

TOP

Experts give thumbs up to new EPF rate of 8.15%. Here's why – Live Mint – 29th March 2023

In major good news for salaried individuals, the Central Board Trustees (CBT) of the Employees' Provident Fund Organisation (EPFO) has recommended a 0.05% hike in employees' provident fund account (EPF) to 8.15% for the fiscal year FY23. Although the EPF rate at 8.15% is still at a four-decade low, however, the new rate is likely to drive the formal sector. Also, the latest hike makes EPF a stable investment option for risk-averse individuals.

The 8.15% interest rate will be credited to EPF accumulations in members' accounts for the financial year 2022-23. This new rate after receiving Finance Ministry's approval will be implemented officially accordingly. EPFO would credit the rate of interest into its subscribers' accounts.

As per the data released by NSO, 6,27,08,006 new subscribers joined the EPF Scheme from September 2017 to January 2023.

In January this year, EPFO added 14.86 lakh net members to the provident fund account. Of the total, around 7.77 lakh new members have come under the ambit of EPFO for the first time. While only 3.54 lakh members exited the fold of EPFO this month --- which is the lowest exit in the last four months.

Even though EPF accounts witnessed a fractional hike, the latest interest rate couldn't have come at a better time when debt mutual funds are undergoing new tax rules in line with Finance Bill 2023.

Aditya Damani, Founder, and CEO, of Credit Fair, said, "The marginal increase in the EPFO interest rate is driven by rising interest rates, volatility, and inflation. At a time when withdrawal of indexation benefit from the debt mutual funds has been proposed in the Finance Bill 2023, the EPF interest rate, in a way, offers a stable investment option for risk-averse individuals."

Recently, in Finance Bill 2023, the Centre proposed to tax investments in debt mutual funds as short-term capital gains. This could strike off long-term tax benefits that made debt MF investments popular. Notably, mutual funds with less than 35% invested in domestic equities are proposed to be treated as short-term and the indexation benefits that help significantly reduce tax liability available to such funds may be removed prospectively. Furthermore, it is believed that the new rate will motivate more individuals to participate in the EPF scheme, and thereby contribute to the formal sector's growth ahead.

As per Lohit Bhatia, President- Workforce Management, Quess Corp, the recent announcement on the hike in EPFO interest rates from 8.10% to 8.15% for the financial year 2022-2023 is a positive indicator of the state of the Indian economy. This assures increased income, especially for members who solely rely on EPFO as a source of retirement income. In January 2023, EPFO added over 14 lakh new subscribers to payroll with notably the lowest exit numbers, indicating a surge in job creation. This is reflective of the sentiment shift of workers in India to move from the informal to the formal economy, which holds great potential for the country's economic growth.

Bhatia added, "Our joint report with FICCI titled 'Karnataka Jobs Report 2022-23' reveals that as of January 2023, 6.83 crore members have been making monthly contributions to the EPFO, indicating the number of people who are currently on payroll and in the formal sector. With the recent hike in EPFO interest rates, it is expected that more individuals will be motivated to participate in the scheme, thereby contributing to the growth of the formal sector."

According to Labour Ministry on Tuesday, EPFO over the years has been able to distribute higher income to its members, through various economic cycles with minimal credit risk. Considering the credit profile of the EPFO investment, the interest rate of EPFO is higher than other comparable investments avenues available for subscribers.

EPFO has consistently followed a prudent and balanced approach towards investment, putting highest emphasis on the safety and preservation of principal with an approach of caution and growth.

(The writer is Pooja Sitaram Jaiswar.)

TOP

EPFO may raise equity exposure to 15% cap – Financial Express – 29th March 2023

In a move aimed at improving the returns for its over 65 million subscribers, the Employees' Provident Fund Organisation (EPFO) may increase its exposure to equities via exchange traded funds (ETFs) up to the maximum permitted level of 15% of annual investible funds in the next fiscal.

The 15% ceiling was never fully used by the EPFO; in FY23, only a little over 10% of incremental deposits by the subscribers got invested in ETFs.

The move is prompted by the attractive returns from ETF investments after the pandemic and a trend of declining income from a chunk of its debt investments, forcing it to sell ETF investments to find resources for interest payouts to the subscribers.

According to sources, the Central Board of Trustees (CBT), which met here on Monday and Tuesday, gave "an in-principle approval" to the retirement funds body to invest up to 15% of its annual incremental deposits in ETFs that replicate the portfolio of either BSE Sensex Index or NSE Nifty 50 Index.

"At present, the EPFO invests about 10.03% of the proceeds in ETFs. There is scope to increase it to the 15% cap," said a source familiar with the development. Another source said that the in-principle approval will have to be analysed further and a final proposal may have to be brought to the CBT. The move, if it goes through, would also bring some cheer to the stock market, which has been seeing volatility amid the global economic uncertainty.

Under current investment norms, the EPFO can invest anywhere between 5% and 15% of the annual incremental deposits received in ETFs, while the balance is invested in debt securities. It began investing in equities through ETFs in 2015-16 with a 5% exposure; the cap was raised to 10% in 2016-17 and 15% in 2017-18. A proposal to further hike it to 20% has been hanging fire (the EPFO's Financial Investment and Audit Committee recommended the step in December 2021).

As on January 31, 2023, EPFO had investment holdings at face value of about Rs 12.53 trillion, of which about a cumulative `1.25 trillion was in equities and related investments. EPFO's investment in ETFs is made based on Nifty 50, Sensex as well as CPSE and Bharat 22 Indices. Its ETF investments so far have exceeded Rs 2 trillion, including over Rs 40,000 crore in FY23.

ETF investments have clearly outperformed the debt portfolio in the last three years. The notional return from equity investments were 14.67% and 16.27%, respectively, in FY21 and FY22 against the 10-year G-sec rates of 6.42% and 6.96%, respectively. The corresponding figures for FY23 are not immediately available, but the EPFO's income from ETF investments in the year is pegged at `10,933 crore, including `5,649 crore as capital gains from the sale of units in the funds.

Major share of its income continues to come from interest earned from investments in debt, including government bonds and corporate paper.

Meanwhile, the EPFO continues to hold on to about `4,500 crore of investments in downgraded securities of companies, including the erstwhile Dewan Housing Finance Corporation (DHFL), IL&FS and Reliance Capital. The retirement fund manager has now taken a call on what to do with these at the moment and whether to "shave off" the amount from its corpus. "These are parked as risky investments at the moment and we are waiting to see if some of the amount can still be realised. But it does not make much of a dent to the EPFO's corpus and the rest of the investments continue to remain safe," said a source.

(The writer is Surabhi.)

TOP

PF rate raised marginally to 8.15% for FY23 – Financial Express – 29th March 2023

Subscribers of the Employees' Provident Fund Organisation will get interest of 8.15% on their retirement savings in 2022-23, marginally higher than 8.1% for 2021-22, which was a four-decade low. The decision was taken on Tuesday at a meeting of the Central Board of Trustees of the EPFO chaired by Union labour and employment minister Bhupender Yadav. "We have been making investments conservatively as we believe the EPFO is the money of the workers. The labour ministry follows the guidelines of the finance ministry. We have a two-fold objective to increase the corpus and to invest it correctly," Yadav said.

This is the first increase in the interest rate for the EPF since 2018-19 when it was raised to 8.65% from 8.5% previously. However, in terms of the quantum, it is the smallest rate hike since 2015-16 when the rate was increased by a similar five basis points to 8.8% from 8.75% previously. The EPFO will now send the proposed rate of interest to the finance ministry, which will approve it. Then, it will be notified in the government gazette, following which the EPFO would credit the rate of interest into its 67.8 million subscribers' accounts. The finance ministry approval typically comes by June.

"The CBT recommended the amount balancing both the growth and surplus fund to have safeguards," said an official statement, adding that the recommended rate of interest of 8.15% safeguards the surplus as well as guarantees increase income to members. The interest rate would leave the EPFO with a small surplus of Rs 663.91 crore in this fiscal as against a projected deficit of Rs 197.72 crore for last fiscal. Internal calculations indicate that the EPFO would have been left with a surplus of just Rs 113 crore with an 8.2% interest rate. It was veering on the side of caution as a projected surplus of nearly Rs 370 crore last fiscal turned into a deficit of Rs 197.72 crore.

For 2022-23, the EPFO is projected to have an income of Rs 90,497.57 crore and a principal amount of Rs 11.02 trillion. This is significantly higher than the income of Rs 77,424.84 crore and principal of Rs 9.56 trillion last fiscal. "The total income recommended for being distributed is highest till date. The growth in income and the principal amount is respectively more than 16% and 15% as compared to last financial year 2021-22," the statement further said. The return is higher compared to similar products such as the public provident fund, which offers an interest rate of 7.1% for the current quarter. Other small saving schemes like the Sukanya Samriddhi Yojana has an interest rate of 7.6%. Trade union leaders welcomed the partial increase in the rate of return. "It is slightly better than what was announced for 2021-22," noted AK Padmanabhan, member of the CBT and a leader of the Centre of Indian Trade Unions.

Harbhajan Singh Sidhu, General Secretary, Hind Mazdoor Sabha and member, CBT said the EPF could have announced an interest rate of 8.2% for the fiscal but it would have impacted the surplus. "An interest rate of 8.15% would cover the risk element and we wanted to be on the safer side," said KE Raghunathan, member, CBT representing the employers.

The CBT, which is the apex decision making body of the EPFO, also discussed the issue of higher pension following the Supreme Court ruling. "CBT took up the higher pension issue at length. Paragraph 44 directions of the Supreme Court will be fully followed and we have issued the requisite notifications. We are committed to it to ensure that all eligible subscribers will get the benefit," the minister said. CBT members stressed that the process must be made simpler and faster so that all eligible members can avail the benefit. According to a status report by the EPFO shared with the CBT, it has received nearly 94,000 applications from members who retired before September 1, 2014 and another about 30,000 applications under the joint option.

As much as 99% of the interest crediting for PF deposits for the fiscal 2021-22 has also been completed. The remaining 1% is pending due to issues with the subscriber's account, said a source. EPFO has also set up a five-year plan for upgrading its infrastructure and the board has approved Rs 2,200 crore for it, the minister said. An MoU has also been signed with the National Testing Agency for faster recruitments, which was also approved by the CBT.

(The writer is Surabhi.)

TOP

Employees Provident Fund (EPF) Interest Rate 2022-23: PF rate increased! – Financial Express – 28th March 2023

EPF Interest Rate 2022-23 declaration: The Employees Provident Fund Organisation (EPFO) has fixed 8.15 per cent rate of interest on EPF contributions by subscribers for 2022-23. The revised rate for Employees Provident Fund (EPF) deposits was expected to be declared today (Tuesday, March 28).

The official notification on the revised EPF interest rate will be issued after the conclusion of the two-day meeting of EPFO's Central Board of Trustees (CBT), which started on Monday (March 27). The EPFO meeting is chaired by Union Minister for Labour and Employment Bhupendra Yadav. (Read Latest Updates)

There are about 5 crore EPF subscribers in the country who will benefit if the CBT decides to increase the EPFO interest rate for 2022-23.

What is the EPFO interest rate now?
The EPFO had decreased the EPF interest rate for deposits made in 2021-22 to 8.1%, which is the lowest-ever PF interest rate. For 2021-22, the EPFO interest rate was 8.5%. EPFO rates have fallen consistently in the last few years. The EPFO interest rate declared in March 2020 for FY 2019-2- was 8.5%. For FY 2018-19, the EPF rate was 8.65%. In 2013-14, EPFO had given an interest rate of 8.75%.

What EPF subscribers can expect now?
It is expected that the EPF Interest Rate for 2022-23 may be around 8%. The Financial Express earlier reported that EPF subscribers may have to wait another year for an increased Provident Fund interest rate.

When will the new interest rate be credited to EPF accounts?
As per procedures, the interest rate finalised by the CBT is sent to the Ministry of Finance. The interest rate will be credited to accountholders once the CBT's proposal is ratified by the government through the Finance Ministry.

Discussion on Higher Pension
Along with the EPF interest rate for FY 2022-23, the CBT will also discuss the status of implementation of the higher pension rollout as directed by the Supreme Court and the annual accounts of the EPFO for 2022-23.

During the meeting, the EPFO is expected to provide a status report on the implementation of the higher pension option.

The EPFO has received nearly 94,000 applications from members who retired before September 1, 2014, and another about 30,000 applications under the joint option.

TOP

PF, Sukanya Samriddhi Account interest rate hike may remain elusive - The Hindu – 27th March 2023

Investors in the popular small saving schemes Public Provident Fund (PPF) and Sukanya Samriddhi Account (SSA), whose rates have not been hiked since January 2019, are unlikely to get higher returns anytime soon, a top government official has indicated. This is because the government is no longer in complete agreement with the Shyamala Gopinath Committee formula that was adopted in April 2016 to reset small savings rates every quarter in line with the prevailing yields on government bonds of comparable tenures.

The last time the PPF and SSA rates were tweaked was when they were slashed sharply in April 2020 along with the returns on other small savings schemes. At the time, the PPF rate was brought down to 7.1% from 7.9%, while the SSA's returns were pared to 7.6%.

The returns of these two schemes have remained static even as rates on some other small savings instruments were hiked for the third and fourth quarters of 2022-23. “We disagree with the Shyamala Gopinath Committee’s formula in respect of those items where tax advantage is the main consideration,” a senior Finance Ministry official told The Hindu, stressing that incomes from both the PPF and the SSA are tax-free.

The Gopinath panel’s formula, he stressed, ignored the fact that the comparable government securities to whose yields small savings rates are linked, are taxable.

“People need to take a call on whether they want tax breaks or higher returns. If it’s the latter, they can opt for the other small savings schemes that are taxable,” a top government official told The Hindu.

A 10 to 30 basis points (bps) hike was granted for five of 12 small savings schemes for the October to December 2022 quarter, while eight schemes’ returns were raised by 20 bps to 110 bps for the current quarter. One basis point equals 0.01%.

As per the formula prescribed by a panel led by former Reserve Bank of India (RBI) Deputy Governor Shyamala Gopinath, the PPF rate should have been hiked to 7.72% and the Sukanya Samriddhi Account’s returns ought to have been raised to 8.22% during the October to December quarter. Yields on government bonds have not changed significantly over recent months and a similar hike may be deduced from the formula for the coming April to June 2023 quarter, whose rates will be announced this week. But except for political economy considerations that may come into play, hikes are unlikely for these two schemes.

“Almost all the investors in these two schemes are taxpayers and the tax-adjusted yield is much higher than the 7.1% paid out on PPF. For those in the highest income tax bracket of around 39%, the return is roughly 11.6%,” the official pointed out.

“Even if you’re in the 20% income tax slab, the returns on PPF and SSA are much higher than any comparable investment. So we are giving more than that margin through the tax benefit, that’s why we are neither raising these schemes’ rates, nor are we inclined to do so,” the official stressed.

Apart from the tax considerations, the government is also concerned about the ability of banks to raise adequate deposits to meet an uptick in credit demand and bolster their balance sheets amid troubles in banks in the developed world. The RBI, in its February bulletin, had noted that term deposit rates offered by banks are generally lower than small savings like post office term deposits for a tenure of up to three years.

Moreover, the Budget has announced a new Mahila Samman Savings Certificate, where investments up to ₹2 lakh will fetch 7.5% returns for two years. The scheme, however, is taxable, unlike the SSA, that was launched by Prime Minister Narendra Modi in January 2015 to encourage families to invest in the education of girl children and save for their marriage expenses under the Beti Bachao Beti Padhao campaign.

(The writer is Vikas Dhoot.)

TOP

IRDAI CIRCULARS

Topic	*Reference*
Committee on Regulatory Sandbox	https://irdai.gov.in/web/guest/document-detail?documentId=3226792
Guidance note - Board policy of the insurer on the commission structure	https://irdai.gov.in/web/guest/document-detail?documentId=3230549
Guidelines on Operational Issues pertaining to the Regulatory Sandbox	https://irdai.gov.in/web/guest/document-detail?documentId=3226826
Insurance Regulatory and Development Authority of India (Payment of Commission) Regulations, 2023	https://irdai.gov.in/web/guest/document-detail?documentId=3230806
IRDAI (Expenses of Management of Insurers transacting life insurance business) Regulations, 2023	https://irdai.gov.in/web/guest/document-detail?documentId=3231362
IRDAI releases 2022-23 – List of Domestic Systemically Important Insurers (D-SIIs)	https://irdai.gov.in/web/guest/document-detail?documentId=3226997
IRDAI(Expenses of Management of Insurers transacting General or Health Insurance business) Regulations, 2023	https://irdai.gov.in/web/guest/document-detail?documentId=3231401
Payment of Distribution Fees to Motor Insurance Service Provider	https://irdai.gov.in/web/guest/document-detail?documentId=3230181
Regulatory Sandbox – Inviting Applications	https://irdai.gov.in/web/guest/document-detail?documentId=3226597
Use and File Procedure for Products	https://irdai.gov.in/web/guest/document-detail?documentId=3228992

TOP

GLOBAL NEWS

Indonesia: New unit-linked life insurance rules seen to increase customer confidence – Asia Insurance Review

New regulation on unit-linked life insurance products in Indonesia will help to restore consumer trust, supporting the development of the industry, says Fitch Ratings.

The new regulation, implemented on 14 March 2023, requires sales illustrations and adequate product explanation to enhance transparency in the unit-linked life insurance sales process. This will improve the protection of policyholders from possible asymmetrical information.

The Financial Services Authority's (OJK) Circular Letter Number 5 of 2022 on 14 March outlined the new regulation on the unit-linked business, replacing the previous regulation on the product issued by the Capital Market Supervisory Agency in 2006, following numerous customer complaints and disputes over unit-linked policies, particularly due to market fluctuation in 2020-2021.

The new regulation emphasises improvement in the unit-linked product's marketing process and information transparency. Agents are mandated to document their marketing communication through an audio or video recording and conduct welcoming calls to confirm whether the prospective policyholders have been offered the product by the agent and have received adequate explanation of the product. Sales illustrations must also be provided, including limits on the investment returns and all amounts and timings of fees charged to the policyholders.

Investments

Investment rules based on the new regulation require sub-fund mutual fund investments to consist entirely of assets in government bonds, while existing sub-fund mutual fund investments do not need to be adjusted. There are also new requirements for a higher minimum sum assured, the removal of a waiting period unless the customers opt to not undergo a medical check-up during the underwriting process, active premium holidays, sustainable premiums, and minimum premium allocations.

Transition period

The regulation allows a 12-month transition period for implementation in insurers' new business from the effective date. During the transition period, Indonesian life insurers have two options: adjust their previous unit-linked products through re-registration, or discontinue the earlier products and propose new products.

All life insurers have re-registered their unit-linked products with OJK and the registration of 163 products has been completed, leaving eight products under review as of 16 March 2023.

Shift

Fitch believes bond and equity market fluctuations are reshaping the life insurance industry's business diversification, which has led to consumer appetite shifting towards traditional products, which focus only on protection. The unit-linked business' premiums fell by 13% to IDR111tn ($7.4bn) in 2022, from IDR126tn in 2021, reducing its share to 58% of total premiums, from 63%, not only because of changes in consumer preferences but also the transition to adhering to the new regulation. In addition, consumer shifts in product and premium payments to regular premiums instead of single premiums caused the Indonesian life insurance market's premiums to drop by 5% to IDR192tn in 2022, from IDR203tn in 2021.

TOP

Bangladesh: Work underway to amend the law to make motor insurance compulsory - Asia Insurance Review

The Bangladeshi government is likely to make insurance mandatory for all types of vehicles, including motorcycles, cars and buses.

The Insurance Development and Regulatory Authority (IRDA) has sent a proposal recently to the Finance Ministry to take the Road Transport Act 2018 to effect the move, reported The Daily Star.

Insiders said the Financial Institutions Division has prepared a summary in this regard for the Prime Ministers' Office for consideration.

Insurance was once mandatory for all types of vehicles, including motorcycles, cars, buses and trucks. However, this was repealed in 2018.

TOP

Vietnam: Insurance market sees bright prospects this year - Asia Insurance Review

Demand for insurance in Vietnam is expected to continue to grow in 2023 because of higher awareness and the growth momentum in the economy. The GDP is expected to grow by 6.5%.

The Ministry of Finance forecasts that the market will expand at about 15% this year compared to 2022.

In 2023, the new Law on Insurance Business took effect, and the business community hopes that new policies of the State on insurance, amendments to guidelines and legal regulations will be a positive factor for the development of the insurance market, according to a report in vneconomy.vn.

2022 industry performance

Total insurance premium revenue in Vietnam in 2022 is estimated at VND245.9tn ($10.5bn), an increase of about 15% compared to 2021.

Of the total, non-life insurance premium revenue is estimated at VND67.6tn, 8% compared to 2021, while that of the life insurance sector is estimated at VND178.3tn, an increase of 11.8% compared to 2021. The total assets of the insurance sector are estimated at VND811.3tn at the end of 2022, 14.51% compared to the end of 2021.

In 2022, insurance companies paid claims and benefits of over VND64tn, rising by 23.29% over 2021. Non-life insurance businesses settled around VND23.4tn while life insurers paid out VND40.6tn.

TOP