31st January, 2022 / 15134

To,
Smt. Nirmala Sitharaman
Hon'ble Finance Minister
A-wing, Shastri Bhawan,
Rajendra Prasad Road
New Delhi-110001

Sub: Pre-Budget Suggestions of the Insurance sector for the upcoming Union Budget 2022

Respected Madam,

Greetings from Gujarat Chamber of Commerce and Industry (GCCI).

The COVID-19 pandemic has impacted every walk of life and business, and has brought in an unprecedented level of uncertainty. Insurance, by its sheer nature, has provided relief and certainty in many critical aspects, such as health and death risk. A well-insured society creates lesser financial support strain on government finances, thereby keeping its unplanned expenditure and budget planning process more stable. However, the overall insurance penetration in India is low at 4.2 percent of the Gross Domestic Product (GDP), compared to a global average of 7 percent. The non-life insurance penetration stood at barely 1 percent as of March, according to the IRDAI Annual Report for 2020-21. Given this, it is expected that the government take concrete steps to support higher insurance penetration in the upcoming Union Budget.

Affordable Insurance

Based on data collated from various sources, since the beginning of the pandemic general insurers and standalone health insurance companies have settled over 2.4 million claims for COVID-19-related treatments, amounting to over Rs 22,150 crore, till December 2021.

Following this unprecedented claim pay-out, and changes in risk perception, insurance premiums have gone up significantly for health and term life policies. In addition to this, a higher incidence of tax, coupled with high a medical inflation of 7-7.5 percent is questioning the affordability of insurance products, particularly on the health side.

To further boost insurance penetration, and make it affordable, the government should consider addressing some long-standing tax anomalies on health and term life insurance products in the upcoming Budget.

GST on insurance: A majority of the medical, hospital, and consulting services are exempt from GST, whereas an 18 percent GST is applicable for health insurance. There is a strong rationale for the government to encourage the use of insurance as a medium to protect the citizens, and remove or lower GST to say 5 percent on health insurance premiums.

Stamp duty: In the case of term life insurance, in addition to the 18 percent GST, stamp duty is also levied, which is a double whammy on policyholders. The stamp duty is charged on the total sum insured, and not on the total premium. Stamp duty needs to be exempted on term life insurance policies which are pure risk products and not investment products.

Input credit: Currently, employers who have been providing group health insurance programmes cannot claim the input credit for the GST paid. A GST-registered business should be allowed to claim an input tax credit for the GST paid on group health insurance policies.

Higher income tax relief: When it comes to health insurances, the government should consider enhancing the current limit under Section 80D (Medical) of Income Tax relief to a meaningful Rs 100,000 and Rs. 2,00,000 to senior citizens to improve the product penetration, and support the policyholders.

Separate carve-out for life insurance: A separate section for life insurance should be provided, instead of clubbing it under Section 80C of the Income Tax Act as the qualifying amount is exhausted in most cases due to provident fund and investments in other financial instruments. This will help in overall market development, and better risk management for individuals, thereby providing a financial safety net for families.

Double taxation in reinsurance broking: Another anomaly in the tax system is double taxation of reinsurance brokerage, where the GST is paid on reinsurance premium, and again paid by the insurance broker on the reinsurance brokerage. This should be removed and tax treatment be made fair.

Roadmap

The government must provide a roadmap on the capital infusion where needed, and ownership structure for the four public sector general insurance companies: The New India Assurance Co Ltd, the National Insurance Co Ltd, The Oriental Insurance Co Ltd, and the United India Insurance Co Ltd.

NAT CAT protection

India is susceptible to multiple natural disasters of varying degrees. When a natural calamity strikes, it results in huge economic losses. With the majority of the assets damaged being uninsured, the burden of reconstruction, support, and relief largely fall on the government. Many countries such as Mexico, the Philippines, Myanmar, etc. have created government-sponsored pools and Cat Bond/sovereign schemes as insurance financing solutions for catastrophic risk, which keeps the budget expense and allocations less volatile.

In India, a beginning has to be made to plug these gaps. The government should consider insurance-based financing options for such incidents for vulnerable groups. Instruments such as catastrophic bonds or natural catastrophe pools will help the government save on unplanned relief expenses, which can be diverted to education, governance, health, welfare schemes, etc.

Creating a natural catastrophe/pandemic pool will also reduce the volatility and uncertainty for the government in dealing with these big risks. This is the budget to make a beginning.

With warm regards,

Hemant Shah
President.