Expectations of insurance industry

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Link tax relief to policy term instead of sum assured: The life insurance industry recommends that the tax relief be linked to the term of the policy instead of sum assured. In fact, it is further recommended that tax relief be given to a proposal where the term of the policy is more than 10 years. Now, the Government in the Finance Act, 2012 mentions that all insurance policies, except pension plans, need to offer a cover of at least 10 times the annual premium to be eligible for tax benefits under Section 80C and 10(10D). This recommendation would promote long-term savings and benefit the persistency ratio of the life insurance companies. This is in the best interest of both, the customers as well the industry.

Tax exemption for long-term saving instruments: A separate limit of Rs 1 lakh of tax exemption is recommended for long-term saving instruments such as life insurance and pension products. Currently, only investments in saving instruments, including risk cover, PPF, pension products, etc., are eligible for aggregate deduction of Rs llakh.

Tax exemption for life insurance, pension and annuity plans: We recommend a new section for exemption for life insurance pension plans. Currently, pension/annuity plans are taxable while in the hands of the policy holders.lt is important to give incentive to the practice of creation of old age pension by self-funding and one should keep in mind that there are limited public social security options available. Also, it is worthwhile to note that annuitants are generally senior citizens who lack an active source of income.

Increase in limit for deduction of premium under section 80D of health insurance: We recommend that the limit for deduction under section 80D in respect of health insurance premium be increased to Rs 30,000 (Rs 45,000 for senior citizens). Currently, Section 80D provides for a deduction of Rs 15, 000 for payment of medical insurance premium (Rs 20,000 for senior citizens) and additional deduction of Rs 15,000 for insuring parents (Rs 20,000 for senior citizens). This suggestion is made against the backdrop of ever increasing health expenditure in the country, compounded by inflation of medical costs and incidence of life style diseases. This change will go a long way in alleviating the burden of health expenditures from individuals. Moreover, 70 per cent of health expenses are private in nature (not covered under any health insurance schemes), which implies a heavy financial burden on individuals in a developing country such as India. Currently, private sector insurance covers only 1 per cent of the country's population and only 14 per cent of population comes under the net of any health schemes/micro insurance.

Government may come up with some more procedural changes to alleviate administrative burden on life insurance Companies such as the ones mentioned below:

Increase threshold limit for deducting TDS on insurance commission from Rs 20,000 now to Rs 50,000. The issuance of TDS certificate under section 194D may be dispensed with. Alternatively, it may be allowed to be issued yearly according Section 192.

(The author is Managing Director and CEO, Birla Sun Life Insurance.)