TAXING INSURANCE IN INDIA

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Insurance Market in India covers both the public and private sector organizations. Insurance in this current form has its history dating back to 1818, when *Oriental Life Insurance Company* was started. The Government of India issued an Ordinance on 19 January 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. In 1972 with the General Insurance Business (Nationalization) Act was passed by the Indian Parliament, and consequently, General Insurance business was nationalized with effect from 1 January 1973.

On 16th September 2013, the Insurance Regulatory and Development Authority (IRDA) launched the Insurance Repository in India. An Insurance Repository (IR) is a company licensed by IRDA for maintaining data of insurance policies in electronic form on behalf of Insurers. Policyholders can hold all their insurance policies in an electronic format in a single account called electronic insurance account (eIA).

The primary regulator for insurance in India is the Insurance Regulatory and Development Authority of India (IRDAI) which was established in 1999 under the government legislation called the Insurance Regulatory and Development Authority Act, 1999. India allowed private companies in insurance sector in 2000, setting a limit on FDI to 26%, which was increased to 49% in 2014. On 16th September 2013, the Insurance Regulatory and Development Authority (IRDA) launched the Insurance Repository in India. The Insurance Business in India is governed by a number of acts.

TDS ON INSURANCE COMMISSION

As per **Section 194D of Income Tax Act,** Person responsible for paying to a resident commission or otherwise for soliciting or procuring insurance business including continuance, renewal or revival of policies is required to deduct TDS.

NO TDS

- Insurance commission paid or credited, not exceeding ₹ **15,000.**
- A person other than a company or firm may furnish a declaration in writing in **Form No. 15G/15H** to the payer stating that there is no tax payable on his/her total income, subject to conditions

- ✓ The rate of TDS is **5%**.
- ✓ Moreover, if PAN is not quoted, the rate of TDS will be **20%** in all cases.
- ✓ The Individual having Commission income, required to submit Income tax return in **ITR – 3.**

TDS on Life Insurance Maturity Value

Under section 194DA, the tax shall be deducted at source (TDS) on payments of maturity value if:

- ➢ such amount is not exempt under **section 10(10D),** or
- ➢ such amount is not more than ₹ **1 lakh** in a financial year.
- ➢ The rate of TDS is **1 %.**

At the time of receipt of maturity value, the recipient is required to provide PAN details to the insurer. In case of failure to provided PAN details, TDS will be deducted **@ 20%.**

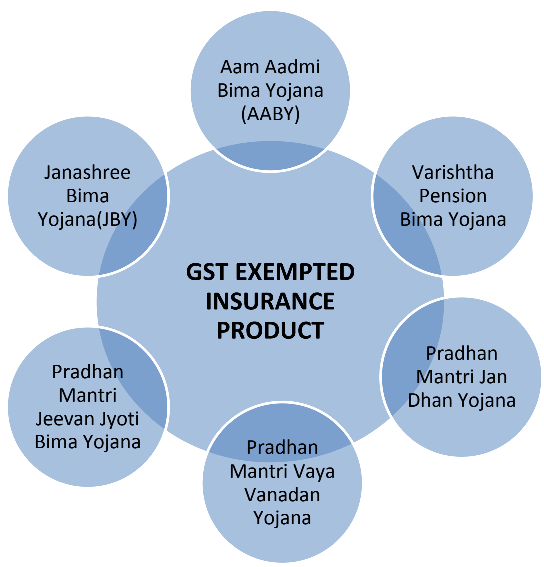
INFLATED INSURANCE PREMIUM: Blame it on GST

After the GST is implemented, insurance plans, including life, motor, and health would become more expensive, as taxes would be hiked. Although, the premium deciding factor of an insurance plan is subject to the insurance plan type you want to purchase but the 3 percent increase in GST is going to impact the insurance premium adversely.

Type of policy	GST	Service Tax
Pure risk insurance/term insurance	18%	15%
ULIPs	18%	15%
Annuity: single premium	1.8%	1.5%
Motor insurance	18%	15%
Endowment policies (1st year)	4.5%	3.75%
Endowment policies (2nd year onwards)	2.25%	1.88%

TAX BENEFIT ON INSURANCE INVESTMENT

Payment of premium on life insurance policy and health insurance policy not only gives insurance cover to a taxpayer but also offers certain tax benefits. The following are the Benefits you can avail when you make the following payments:



Deduction in respect of Life Insurance Premium, PPF, NSC, etc. [Section 80C]

Taxpayer, being an individual or a Hindu Undivided Family (HUF), can claim deduction under section 80C in respect of premium on life insurance policy paid by him/it during the year. Overall deduction u/s 80C (along with deduction u/s 80CCC & 80CCD) allowed is up to **₹ 1, 50,000**.

Deduction in respect of medical insurance premium [Section 80D]

As per section 80D, an individual or a HUF can claim deduction in respect of the

Following payments:

- Medical insurance premium paid by assessee, being individual/HUF by any mode other than cash.
- Any contribution made by assessee, being individual to Central Government Health Scheme or such other Scheme as may be notified by the Central Government.
- Sum paid by assessee, being individual on account of preventive health check-up.
- Medical expenditure incurred by assessee, being individual/HUF on the health of a senior citizen person provided that no amount has been paid to effect or to keep in force an insurance on the health of such person
- Payment made via credit card/internet banking shall also be eligible for deduction.
- Deduction is allowed only if the payment is made from your own income during the previous year.

- Under this section, an amount of **₹25,000** is allowed to those individuals who have paid the amount towards a health insurance plan provided by the government for self or family on account of the health checkup of the policyholder or his family.
- An additional amount of **₹25,000** is allowed if the premium is paid towards the health checkup of parents whether dependent or not.
- For members above the age of **60 years**, an amount of **₹30,000** maybe claimed as a deduction.
- For **HUFs**, the deduction is limited to **₹25,000** only if the amount has been paid for availing of the health insurance for one of the members of the HUF.
- In case the health checkup made is **preventive** in nature, then the deduction will go up by **₹5,000.** However payment made by an assessee on account of preventive health check-up during the previous year as eligible for deduction within the overall limits prescribed in the section.

CASE	DEDUCTION
You & Your Parents < 60 Years	₹25,000 + ₹25,000 = ₹50,000
You < 60 Years & Your Parents > 60 Years	₹25,000 + ₹30,000 = ₹55,000
You & Your Parents > 60 Years	₹30,000 + ₹30,000 = ₹60,000

Section 10 (10D):

- Any amount received under a life insurance policy qualifies for this deduction.
- A sum received could be Sum allocated by way of bonus, Survival benefit, Maturity benefit, Surrender value or Death benefit.
- There is no cap on maximum deduction allowed under Section 10 (10D).
- Neither any Income tax nor any TDS is deductible on such amount received.

Role of Cost & Management Accountants

A Cost & Management (CMA) is well equipped to play different roles in General Insurance Industry. Apart from traditional sector, there is a vast scope for CMAs in providing professional services in the insurance sector.

CMAs are equipped with world class financial competencies, analytical ability & excellent technical skills which make them world class professionals. The Cost & Management Accountants can play the following roles in the Insurance Sector:

- **Claims Administrator**

  The administration of insurance claims is of considerable importance, since the response time to these claims can be lengthy, and there is a high risk of claim rejection if the paperwork is not filled out properly. CMAs can provide their services by understanding the overall system of claim administration and assisting the concerned parties in documentation process.

- **Marketing and Distribution Channels**

  The financial services industry is an expanding, highly regulated field with many Cost & Management Accountants working in business and in practice.

  CMAs can help the public to appreciate the need for investment & financial planning. CMAs can render valuable advice to their clients in selecting among various alternative investment plans. Creating marketing strategies, conducting market research, developing brand positioning and promotional materials to develop and deliver products and services to meet customer needs.

- **Actuary**

  Data is the essence of the job of an actuary. CMAs with their expertise can assist in gathering, assembling and analyzing information to estimate the probability and likely costs of events such as death, sickness, injury, disability, or loss of property. CMAs can guide pension funds and various private companies to detect risks and help in designing procedures that can help mitigate risk. In other words, CMAs with expert knowledge on actuarial science can carry out actuarial services in a highly professional way.

- **Surveyor or Loss Assessor**

  Surveyors or Loss Assessors are professionals hired by insurance companies to assess the actual loss arising on the occurrence of fortuitous events such as fire, burglary and so on for settlement of claims. They act as intermediaries between the insurer and the insured in settling the claims. CMAs can be of immense help in estimation, measurement and determining the quantum and description of the loss and verify the cause and circumstances of the loss including extent of loss, nature of ownership and insurable interest.

- **Arbitration**

  Arbritation is a Procedure in which an insurance company and the insured or a vendor agree to settle a claim dispute by accepting a decision made by a third party. A CMA can assist the parties to a dispute either as a counselor he may decide on the dispute of the parties as an Arbitrator.

- **Insurance Investigator**

  Methods of defrauding insurance companies are manifold, as are the means of investigating them. An insurance investigator examines insurance claims that are suspicious or otherwise in doubt e.g. in case of a false claim the professional can investigate on the amount of loss actually suffered by the insured and the compensation claimed by the insured from the Insurance Company.

- **Risk Manager**

  Insurance companies operate under the increased scrutiny of an ever-changing regulatory environment. Risk managers are expected to fully understand how changes at the federal and state level impact their organizations. Cost Accountants can definitely help the board understand the top risks for the organization. Recommend and implement preventative measures to minimize costs and damage should a loss occur (such as disaster recovery plans, emergency evacuations and purchasing insurance).

- **Third Party Administrator**

  TPAs function as intermediaries between the insurance provider and the policyholder and facilitate processing of claims and settlement. Due to heavy amount of accounting data, the function of TPAs can be best performed by CMAs.

CONCLUSION

We have seen the impressive growth in the insurance sector so far, but there needs to be a sustained effort to retain the growth momentum. Cost Accountants have been already providing valuable services in the various departments of life and non-life insurers and other intermediary services such as internal audit, management consultancy services, strategic consultancy services, investigation etc.

Insurance companies in India have strived hard to create financial awareness and increase insurance penetration in the country. As the country strides into a new economic phase, we hope that the industry gets the attention and support that it rightfully deserves.