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STATEMENT OF THE UNION FINANCE SHRI P. CHIDAMBARAM ON ISSUES CONCERNING THE LIFE INSURANCE INDUSTRY

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Following is the text of the Statement on issues concerning the life insurance industry made by the Union Finance Minister Shri P. Chidambaram while addressing the media persons here today:

" On September 4, 2012, I met the CMDs/CEOs of insurance companies who are engaged in the life insurance business, including Life Insurance Corporation of India. Chairman, IRDA was present at the meeting.

A number of issues were raised by the life insurance industry. After taking careful notes of the issues raised, I requested Chairman, IRDA to examine these issues and invited him to discuss them with me on a suitable date. Accordingly, discussions were held on September 26 and 27, 2012.

A number of steps that would be necessary and desirable to give a fillip to the life insurance industry and expand the spread and penetration of life insurance were identified and agreed upon during the discussions. I am happy to state that IRDA, as the Regulator, has agreed to examine the following steps and take appropriate action.

Among the steps that were agreed upon are:

(i) In a country with low spread and penetration of life insurance, the objective should be to sell simple and easily understood products. At present, IRDA approves all insurance products on 'File & Use' basis. "Use & File" system may be introduced. IRDA, in consultation with insurers, will identify/design certain standard products which can be used by the industry under "use and file' system, if the insurance company complies with the conditions attached to the standard product. Such products will automatically be deemed to have been approved after

15 days of its intimation to IRDA unless IRDA finds non-compliance within the period of 15 days. IRDA shall take necessary action against the company in case any violations are noticed. IRDA shall expand such list of standard products on a continual basis.

(ii) IRDA will lay down guidelines on the principles underlying the design of any insurance product. Based on the recommendations of the Working Group that has been set up, IRDA will issue draft guidelines and, after consultations, final guidelines will be issued by the end of November, 2012. Once the guidelines are in place, it would be possible to observe the 30-day norm mandated for clearance of products.

(iii) IRDA will evolve and notify guidelines in order to reduce the arbitrage between "units" and "traditional products".

(iv) IRDA will accept the KYC check done by the banks while a person opens an account. Only additional information that is required for the purpose of insurance policy will be asked from the intended policy-holder. This will bring down the 'onboarding cost'.

(v) At present, the policy on Bancassurance is "one bank one insurance company (one life and one non-life)". In this arrangement, the Bank acts as the agent of the insurance company. It is desirable that banks may act as "Brokers" where the fiduciary responsibility of the bank will be to the policy-holder. IRDA will consider notifying banks as "Brokers" under Regulation 2(j)(v) of the Insurance Regulatory and Development Authority (Insurance Brokers) Regulations, 2002. As insurance broker, the bank may sell the products of more than one insurance company. This will provide the intended policy-holder a bouquet of products from which he/she may chose the appropriate product based on his/her needs and will also prevent mis-selling.

(vi) All categories of Banking Correspondents may be allowed to sell micro insurance products. This facility will apply only to micro insurance products and IRDA will make regulations for this purpose. This will ensure availability of micro insurance products in all parts of the country.

(vii) At present, only the employer-employee groups are recognized for group business. It is desirable that non-employer-employee groups, which are homogenous and have a commonality of interest, are permitted by IRDA to offer group savings products. These could include Self Help Groups, professional groups such as teachers in a school or nurses in a hospital, auto drivers' associations, domestic workers' associations etc.

(viii) Under group business, the master policy-holder may be compensated for discharging the responsibilities cast upon him/her. IRDA will issue guidelines in this regard shortly.

(ix) Regarding management expenses, insurance companies are free to manage overall management expenses within the overall limits prescribed under sections 40B and 40C of the Insurance Act, without any granular stipulations, except the maximum commissions as prescribed by the Act.

(x) An Insurance company may appoint a Mentor for 'mentoring' agents. The functions performed by the Mentor will be distinct from the functions performed by the agents and the Mentor may be given a fixed fee (not commission) for mentoring agents.

(xi) At present, investments are permitted in an infrastructure SPV floated by a Public Sector Enterprise (PSE) subject to the condition that the parent company (PSE) meets the rating criteria. In order to encourage investments in infrastructure, IRDA will allow investments in an infrastructure SPV floated by any company where the SPV is a wholly-owned subsidiary (WOS) of the parent company and the debt instrument issued by the SPV is guaranteed by the parent company, having due regard to rating criteria.

(xii) At present, there is a stipulation that 75% of investments in debt, (excluding investments in Government Securities/Other Approved Securities) should be in AAA rated instruments. IRDA will consider relaxing the stipulation and provide that the minimum requirement of 75 per cent in AAA instruments would apply to debt investments including Government Securities and Other Investments as provided in Sr No. (iii) of the table under Regulation 3(i) of the Insurance Regulatory and Development Authority (Investment) Regulations, 2000. This is expected to release a space of about 12.5 per cent for investments in less than AAA rated debt instruments.

In addition to the above, discussions were held on matters relating to indirect taxes and direct taxes. It was agreed that the following issues will be taken up with the CBDT and CBEC, as the case may be, and appropriate decisions arrived at:

(a) Reduction in service tax on first year regular premium as well as single premium policies.

(b) Treating annuity policy on par with subscriptions to the National Pension Scheme (NPS) and to be exempted from Rule 6(7A) of the Service Tax Rules.

(c) To examine whether the first year premium and subsequent premiums of social security insurance schemes such as Janashri Bima Yojana (JBY) and Aam Aadmi Bima Yojana (AABY), which are intended to benefit the weaker and vulnerable sections of the society, may be exempted from service tax. A similar exemption to be examined in the case of Micro Insurance policies.

(d) At present, service tax is levied on premium on accrual basis. The CBEC will be requested to examine whether service tax may be assessed on realization basis.

(e) Department of Revenue will examine whether, in addition to NPS, some insurance pension products as approved by IRDA may be included in the separate limit over and above the limit of Rs.1,00,000 under section 80C of the Income tax Act for the purpose of income tax deduction on the premium paid.

(f) CBDT will examine whether existing policies can be grandfathered whenever changes are made to direct tax laws, so that changes will apply only to policies issued prospectively.

(g) CBDT will examine whether contribution made to post retirement medical scheme offered by insurance companies may be included in Section 36(1)(iv) of the Income tax Act and the sum paid allowed as a deduction.

(h) At present, TDS applies on every payment of commission to an agent above Rs 20,000. CBDT will examine whether the exemption can be shifted from every payment of commission to a cumulative commission payment exceeding, say, Rs.50,000 or any other suitable threshold in a year.

I have asked Department of Revenue and the CBDT/CBEC to complete the examination of the above suggestions by October 10, 2012 so that appropriate decisions may be announced shortly thereafter.

The proposed amendments to the insurance laws were also discussed with IRDA. Some of the issues raised by the insurance companies have already been addressed in the Insurance Laws (Amendment) Bill, 2008 that is pending before the Parliament. In respect of some other issues, further amendments, if necessary, will be introduced as official amendments to the pending Amendment Bill.

It is proposed to schedule, shortly, a similar meeting with the General Insurance sector to sort out issues in the non-life insurance sector. Chairman, IRDA will be invited to attend the meeting."

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