# FOCAL POINT

Newsletter from Raju and Prasad Chartered Accountants

January 2018 Volume 4, Issue 11

## Insurance Sector Review (Inside)

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*Dear Reader,*

*Our editorial comments for this month are on Indian Economy and Union Budget 2018-19 with a title "Budget- The Growth"*

*This month we have covered "Insurance Sector" in our Industry Review.*

*Please give your views and also send this newsletter to your friends.*

*Regards*

*For Raju & Prasad*

*Chartered Accountants*

*M Siva Ram Prasad*

*Partner*

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# Editorial


## *Budget the growth*

2017 had been a year of challenges for the trade and industry due to the after effects of the sudden withdrawal of 86% of currency that is in circulation and GST which required clarity in many angles and effected the tax collections for Government. Overall growth reduced from 7.93% in 2015-2016 to 7.11% in 2016-2017 in terms of GDP at 2011-12 prices.

Positive aspects of the economy are:

- Stock Markets continued to raise from 26,711.15 (01/01/2017) points of Sensex to 34,056.83 (31/12/2017)
- Foreign Exchange Balances (if not reserves) stood at US $ 40,492.18 Crores as on December 2017.

The GDP growth according to World Bank would be at 7.3% in the coming year.

Government of India is also confident to achieve the growth and is taking measures to prop up the growth by way of recapitalisation of banks, further relaxing FDI norms, streamlining the GST procedures, reducing GST on certain products, entering into bilateral agreements with number of countries latest being Israel.

*The growth in Agriculture and Agro-Industries should be given thrust, then only rural economy will flourish.*

As per NASSCOM Report, India is the third largest start up base with 4750+ Start Ups which will reduce the unemployment index.

India's Corporates which have raised about US $ 25 Billion through Primary Markets in 2017 coupled with Foreign Direct Investment flows of 4340 Crores US $ (Upto Dec 2017), will expand trade and industry in the coming years. These positive factors should make "Make In India" a reality.

The growth drivers for the economy are Agriculture, Industry and Services. Unless the growth in Agriculture and Agro-Industries is given thrust, the rural economy does not flourish. A major work force is still dependent on this sector. If we carefully analyse the contribution of Agriculture, in absolute terms, is not growing over years. The share of agriculture to GDP is reducing over years from 51.81% in 1950-51 to 17.32% in 2016-17 at current prices.

The main reason is irrigated land by canals is only 24% which ensure definite water supply. Rest of the sources like wells, tube wells, tanks etc., are only rain dependent. Budget should aim to spend on irrigation including micro, small, medium and large projects.

The contribution of Industry Sector to GDP is 29.02% in 2016-17 at current prices which has increased in absolute terms but decreased as a % of GDP. Industry with export orientation needs focus to solve the problem of trade deficit. Identifying new lines of industry and giving encouragement to industries in MSME sector can achieve the growth and also provide employment.

Infrastructure, specially the renewable sources of power like solar power, which will reduce our import bill of crude needs attention.

The road transport sector and railways will be successful through goods transport. This is only possible with growth in productive sectors.

Service sector has grown over years. Total contribution of service sector is 53.66% which consists of mainly trade,

transportation, real estate, hotels and storage. These are resultant from Agriculture and Industry.

*Budget should budget the growth in each sector and accordingly plan capital expenditure*

**Gross Value Added over years at current prices (Rs in Lakh Crores)**

| Sector | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | % of share |
|---|---|---|---|---|---|---|---|
| **Agriculture Sector** | **15.02** | **16.81** | **19.33** | **20.68** | **21.73** | **23.82** | **17.32** |
| Agriculture,forestry & fishing | 15.02 | 16.81 | 19.33 | 20.68 | 21.73 | 23.82 | 17.32 |
| **Industry Sector** | **26.35** | **29.21** | **31.88** | **34.55** | **36.83** | **39.90** | **29.02** |
| Mining & quarrying | 2.61 | 2.86 | 2.96 | 3.14 | 2.96 | 3.09 | 2.25 |
| Manufacturing | 14.10 | 15.73 | 17.13 | 18.84 | 20.65 | 22.78 | 16.57 |
| Electricity, gas, water supply & other utility services | 1.87 | 2.15 | 2.60 | 2.79 | 3.22 | 3.38 | 2.46 |
| Construction | 7.77 | 8.47 | 9.19 | 9.78 | 10.00 | 10.64 | 7.74 |
| **Services Sector** | **39.70** | **46.03** | **52.45** | **59.47** | **65.96** | **73.79** | **53.66** |
| Trade, hotels, transport, communication and broadcasting | 14.13 | 16.64 | 18.74 | 20.95 | 22.94 | 25.38 | 18.46 |
| Financial, real estate & prof servs | 15.31 | 17.76 | 20.69 | 23.63 | 26.32 | 28.96 | 21.06 |
| Public Administration, defence and other services | 10.26 | 11.63 | 13.01 | 14.89 | 16.69 | 19.44 | 14.14 |
| **GVA at basic prices** | **81.07** | **92.05** | **103.66** | **114.70** | **124.52** | **137.51** | **100.00** |

*Source: Ministry of Statistics and programme implementation*

A rethinking is required on the classification of activities under each sector and trade, real estate, hotels and defence are to be separated from services.

The budget should give a new dimension not in the same old mode of Income and Expenditure. It should budget the growth in each sector and accordingly plan the capital expenditure. In the Union Budget 2017-18, spending is more on the revenue expenditure (78.53%) while capital expenditure is low (21.47%). The total capital expenditure of Rs 247024 (2016-17) is only 1.79% of total GVA at current prices which can't assure growth.

The budget should fix the targets for growth in various sectors on yearly basis and estimate the required capital expenditure to achieve the targets.

**M Siva Ram Prasad**

# Industry Review


## Insurance Sector

**Evolution:**

Insurance is covering the risk or sharing the risk. In India this concept was practiced by the society to pool the resources and share them especially in times of famines and other natural calamities. This concept was also referred in "Manusmriti", "Arthasastra" of Kautilya and "Dharmasastra" of Yajnavalkya. The modern insurance in the country emerged during the British Rule with Oriental Life Insurance Company in 1818, in Calcutta. The life insurance was mainly meant for the

*`"Ananyas Cintayanto Mam Ye Janah Paryupasate*
*Tesam Nityabhiyuktanam Yoga Kshemam Vahamyaham"*
*- Bhagavadgita (9.22)*

british persons living in India and Indians were not insured by this company. With Indian efforts, they were also later included but were charged higher premiums and were treated as sub standard lives. With nationalistic fervor, first Indian Insurance Company was started in 1870, in the name and style of "Bombay Mutual Life Assurance Society", followed by "Bharat Insurance Company" (1896). Between 1905 and 1907, other major insurance companies like United India in Madras, National India and National Insurance in Calcutta, Co-operative Assurance in Lahore, Hindustan Co-operative Insurance in Calcutta, The Indian Mercantile and General Assurance Swadeshi Life were established. General Insurance was mainly for trade and shipping business. Gradually the life and general insurance business have grown and spread to other lines of activity.

**Life and Non-Life Business:**

Insurance can be divided into Life and Non-Life (General). Life Insurance covers the risk during the life of a person. Non-life or General Insurance covers Motors/Vehicles, Fire Insurance, Health Insurance, and Marine Insurance.

There were 154 Indian, 16 Non-Indian Companies and 75 Provident societies doing life insurance business in India prior to nationalization. In the year 1956, Government of India nationalised the life insurance business and formed Life Insurance Corporation of India (LIC) by passing Life Insurance Corporation Act, 1956.

General Insurance had its beginning with Triton Insurance Co. Limited established in 1850 in Calcutta by British. In 1907 Indians started

*Prior to Nationalisation, there were 245 companies /societies in life business and 107 in Non-life Insurance business.*


Indian Mercantile Insurance Company Limited in Bombay.

There were 107 companies and societies in General Insurance Business before Nationalisation. Government of India nationalised this business in 1972 and formed General Insurance Corporation of India (GIC).

GIC was operated in the name of 4 subsidiary companies which are wholly owned by Government of India.

i) National Insurance Company
ii) New India Assurance Company
iii) Oriental Insurance Company
iv) United India Insurance Company.

Later these companies are delinked from GIC and it is declared as a Reinsurer.

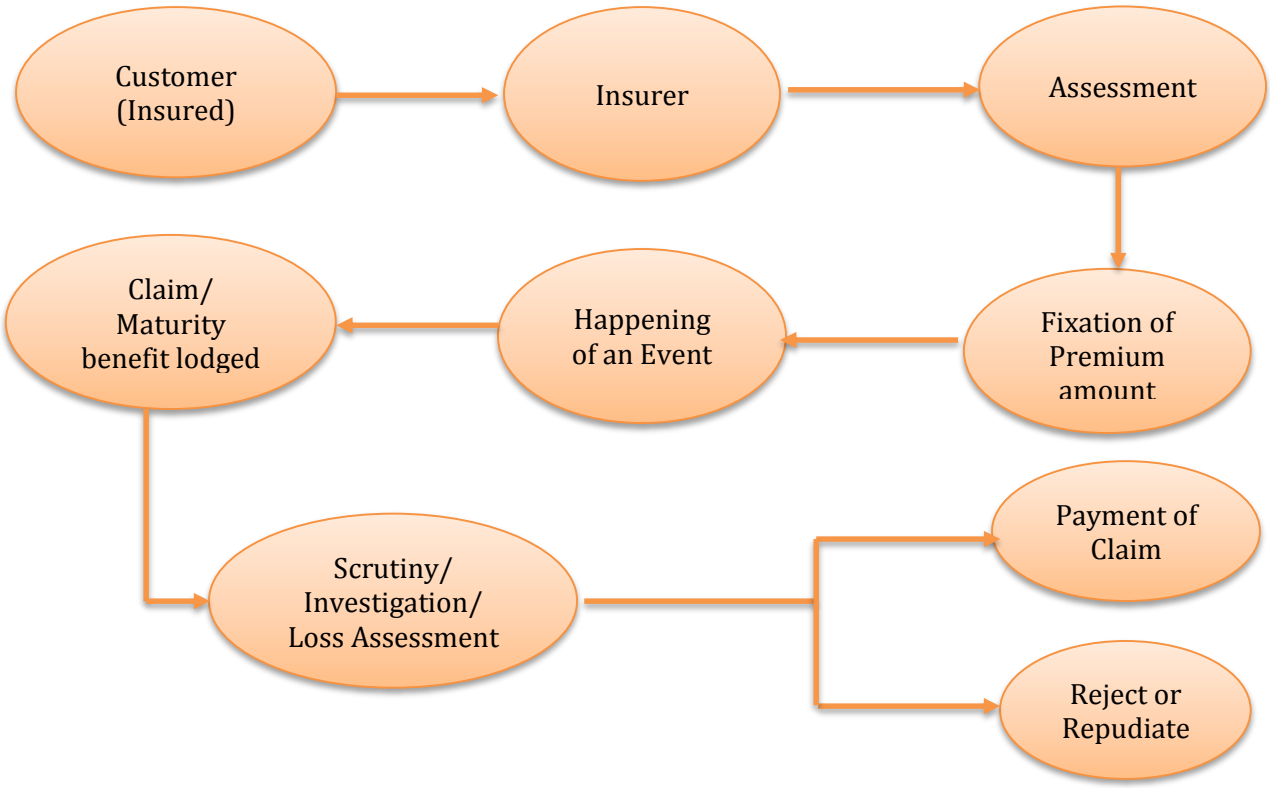
After the Economic reforms were introduced in 1992, the industry is again opened up for private sector both in life and general Insurance Sectors. Foreign Direct Investment is allowed in both the sectors. These Developments are on the basis of the recommendations of "*R.N. Malhotra Committee*" for reforms in Insurance sector.

Insurance Regulatory and Development Authority of India (IRDA) was formed in 1999 under a specific statute to regulate this sector.

## Insurance and Assurance:

Both the insurance and assurance in effect are same and the words are interchangeable. Insurance covers a contingent event which may or may not happen like natural calamities. Insurance indemnifies an uncertain event while assurance is meant to cover uncertain event like death. In assurance, the insured will be paid on completion of the term. Once the life is insured for a term, payment will be made even when the insured continues to live. In insurance like general insurance, the policy is to be renewed every year or for every voyage etc.

## Functioning of the Business:




## Functionaries and Intermediaries:

Between the insurer and the insured, there are other functionaries to make the entire cycle work.

Important among them are:

***Insurance Agents:***

Agent is an intermediary licensed for the purpose of promoting business and should possess the requisite qualification prescribed by IRDA. Agent can be individual (advisors) or corporate entities and commissions will be paid as remuneration for the business done.

***Micro-Insurance Agents:***

These agents are meant for Micro-Insurance and are governed by Micro-Insurance Regulations 2015. Micro Insurance is introduced to promote the insurance coverage on economically vulnerable sections of the society.

***Insurance Surveyors/Loss Assessors:***

Surveyors investigate the loss that arises when a claim is being made. They also assess the genuineness of the claim and the circumstances. They are required to have the qualification prescribed by IRDA.

***Third Party Administrators (TPA):***

TPAs are licensed by IRDA. They render services for a fee. TPAs are normally found in Health Services. Foreign Companies can also participate upto 26% of equity of TPA.

***Rural Authorised Persons (RAP) / Village Level Entrepreneurs (VLE):***

IRDA grants license to certain persons having requisite qualifications to market the insurance products in Rural Areas.

***Referral Companies:***

These Companies do not directly deal with customers, but refer business to insurance companies. These companies will capture the business through their marketing departments.

***Web Aggregators:***

These agencies provide information about various products of each companies and give a comparison and promote online business directly for insurers. They are licensed by IRDA.

***Insurance Repositories:***

These organisations maintain the insurance policies electronically.

***Underwriters:***

They decide on underwriting risk in the insurance policy which is a main function of the insurance business.

***Actuaries:***

Actuaries assess the present value of future events covered under insurance and finance modelling. The analysis made by actuaries on the risk will help insurers in pricing the products including annuities, pensions, bonus payable on insurance policies, reinsurance etc.

## Types of Policies and Insurance:

Life Insurance policies are many and each company offers different policies with certain benefits. Broadly they can be classified as

- Whole life Plans
- Money back plans

- Term assurance plans
- Endowment plans
- Critical illness plans
- Savings plans
- Pension plans
- Unit plans (these are investment plans)
- Micro insurance plans and special plans
- Health plans
- Group insurance schemes
- Group insurance schemes for gratuity and leave encashment for employees

Critical illness plan covers a critical illness like cancer, kidney failure, paralysis, coma, heart valve surgery etc., In endowment plans, the insured will get a lump sum amount after a specific term (on its maturity) or on death. Under pension plans the insured will get the benefit on retirement.

In addition to above, Aam Aadmi Bima Yojana is meant for Head of the Below Poverty Line families or one earning member.

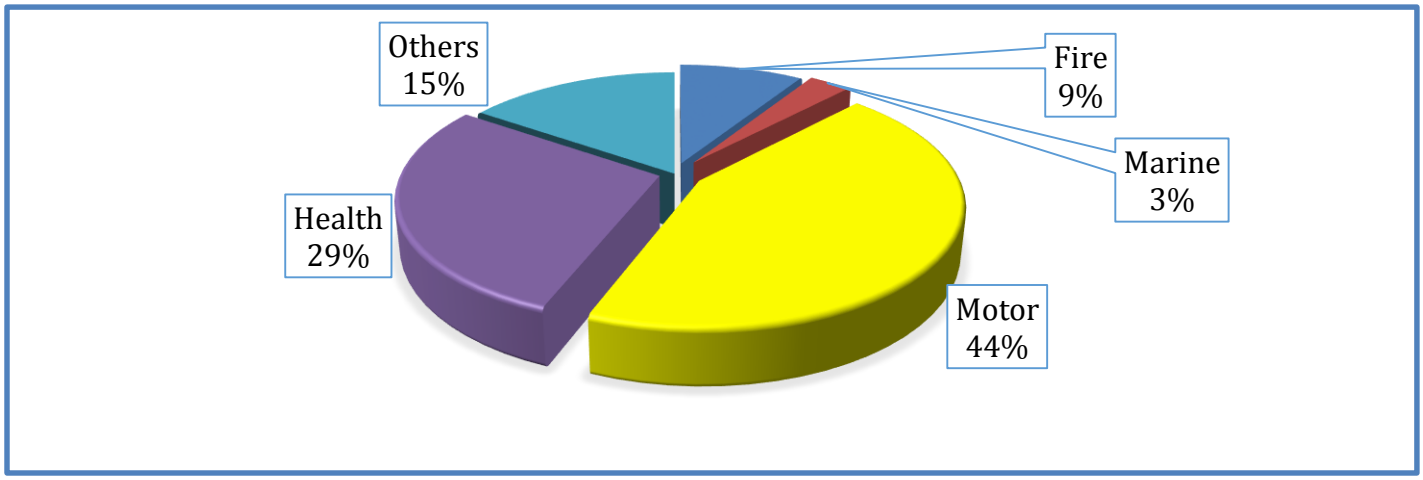
General Insurance Policies cover the risk on Non-Life Insurance. They cover the risk and loss for accidents in fire, vehicle, marine, transit, travel, health care, burglary, strike, riot etc.


Broadly these policies can be classified as

- Personal accident plans
- Third party insurance in accidents
- Fire insurance for commercial and industrial undertakings
- Loss of profit insurance
- Marine insurance from port to port for cargo.
- Hull insurance for the ships including fixtures.
- Transit insurance from port to the inland destination
- Health care insurance
- Hospitalisation cash insurance
- Travel insurance (domestic and foreign)
- Agriculture crop insurance
- Strike and riot insurance
- Comprehensive insurance

The segment wise gross premium received in the year 2015-16 in Non-Life Business are shown below.

**Segment wise the gross premium received in the year 2015-16 in Non-Life Business**




*Source: Handbook of Statistics by IRDA*

The risk coverage is not only for the insured, it is there even for the insurer. In Major Risks, the insurance risk is insured by more than one insurer called ***Co-Insurer. Reinsurance*** is the risk of the insurer being reinsured with by another reinsurance agency.

## Credit Guarantee Insurance:

Providing guarantee for credit is another type of assurance.The Lending Institution can register and pay premium to cover the risks of lending to certain sectors. In case of defaults, the lending institution can make claims with the credit guarantors. The latest in this group of insurance is giving guarantee to "Stand up India" a Company in the name of ***National Credit Guarantee Trustee Company Limited (NCGTC).***

Already existing corporations for guarantying credit are ***Export Credit Guarantee Corporation of India (ECGC)*** meant to cover the risk in export business. This is a fully owned government corporation.

***Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)*** is covering the lending risk of MSME Sector. This is set up by Government of India and SIDBI (Small Industries Development Bank of India).

***Deposit Insurance and Credit Guarantee Corporation (DICGC),*** a subsidiary of RBI is covering the risk of deposits upto Rs 1 lakh by the depositor in Banks. The scheme may undergo changes if FRDI bill takes shape into law or it may be made defunct.

A new corporation to help startup companies and provide the guarantee for credit given to startup companies will be set up with a fund of Rs 2000 Crores. Another corporation in line to guarantee the credit burden in infrastructure sector is being set up by IIFCL (India Infrastructure Finance Company Limited) and LIC with a fund of Rs 500 Crores.

### Bank Assurance:

A Joint effort to promote insurance through bankers is Bank Assurance. Since many people borrow from banks, banks would like to ensure that the underlying asset or benefit is insured. For this many banks have tie ups with Insurance companies and there are joint ventures between banks and insurance companies.

### Employee State Insurance (ESI):

This is a social security meant for the government employees. The scheme covers certain benefits including health services. The State Governments design these schemes.

### Postal Life Insurance:

This is another insurance administered by the postal department, which was originally started for the benefit of postal employees. It now covers employees of central and state governments, PSUs, universities, nationalised banks, local bodies etc.,

### Legislative Support:

Insurance business in India did not have specific legislation till 1912. Indian Life Assurance Companies Act was the legislative beginning and only in 1938 General Insurance was brought under this Act with necessary amendments. The following legislations were made from time to time.

| Year | Name of Legislature |
|---|---|
| **1912** | Indian Life Assurance Companies Act |
| **1928** | Indian Insurance Companies Act |
| **1938** | Insurance Companies Act was amended |
| **1956** | Life Insurance Corporation Act |
| **1957** | General Insurance Council was set up |
| **1968** | Tariff Advisory Committee was set up |
| **1968** | Insurance Act was amended to regulate the investments |
| **1972** | General Insurance Business (Nationalisation) Act |
| **1996** | Insurance Regulatory Authority (IRA) was set up |
| **1998** | FDI is allowed Upto 26% by Foreign Companies, 14% by NRIs and FIIs (total 40%) |
| **1999** | IRDA Act was passed |
| **2000** | New Companies were Invited to start Insurance Business |
| **2000** | GIC was made National Reinsurer |
| **2002** | Subsidiaries were delinked from GIC |
| **2014** | FDI is allowed upto 49% under Automatic Route |


**Regulatory Mechanism:**

In Insurance sector, legislative measures were initiated in 1912 and after amendments in 1938 and constitution of Tariff Committee, certain regulations were made to monitor areas like Tariffs, Investments, Cost of Services etc.,

After liberalization and allowing new players in the field and to match with global environment, the regulatory mechanism started with passing of IRDA Act, 1999 and setting up of the Autonomous Authority. The Authority has powers to license the new companies and closure of existing companies and renew the existing licenses, approves joint ventures with foreign companies, regulates the rates and terms offered by insurers, supervise the Tariff Advisory Committee (TAC), promoting professional organisations connected with the insurance business.

It also monitors the Required Solvency Margin (RSM). There are certain obligations in doing business in rural areas and social sectors. IRDA also stipulates the norms for investments both in quantum and the type of investments both for life and non-life business.

Apart from the conduct of business, IRDA regulates the matters relating to insurance agents, ombudsman and protects the interests of policy holders.

In addition to IRDA there are other Autonomous bodies with

specific objectives and functions in this sector which are as follows:

- Life and General Insurance Council
- Indian Institute of Insurance Surveyors and Loss Assessors (IIISLA)
- Institute of Actuaries of India (IAI)
- Insurance Brokers Association of India (IBAI) and
- Insurance Information Bureau (IIB)

## Present Status:

The Insurance Sector which has grown over two centuries and spread its operations from life and non-life and various schemes including savings, pension funds, investments, etc., is today a mammoth network with 24 companies in life business including LIC and 30 Companies in Non-Life Business with a branch network of 11,017 in life and 10,803 in Non-life Sector (2015-16).

The total amount of money moped up as premium in life is Rs 3,66,943/- crores with an annual growth rate of 12%. And in case of Non-life, the total premium within and outside India is Rs 99,333 Crores.

Key Indicators of the sector are shown in the table below.

This sector has a great economic significance because of its fund position, which is invested into various public sector and private sector organisations. The total investments held by this sector was Rs 26.90 lakh crores as on 31st March 2016.

As per Reserve Bank of India, among the household savings the life insurance funds

Key Indicators

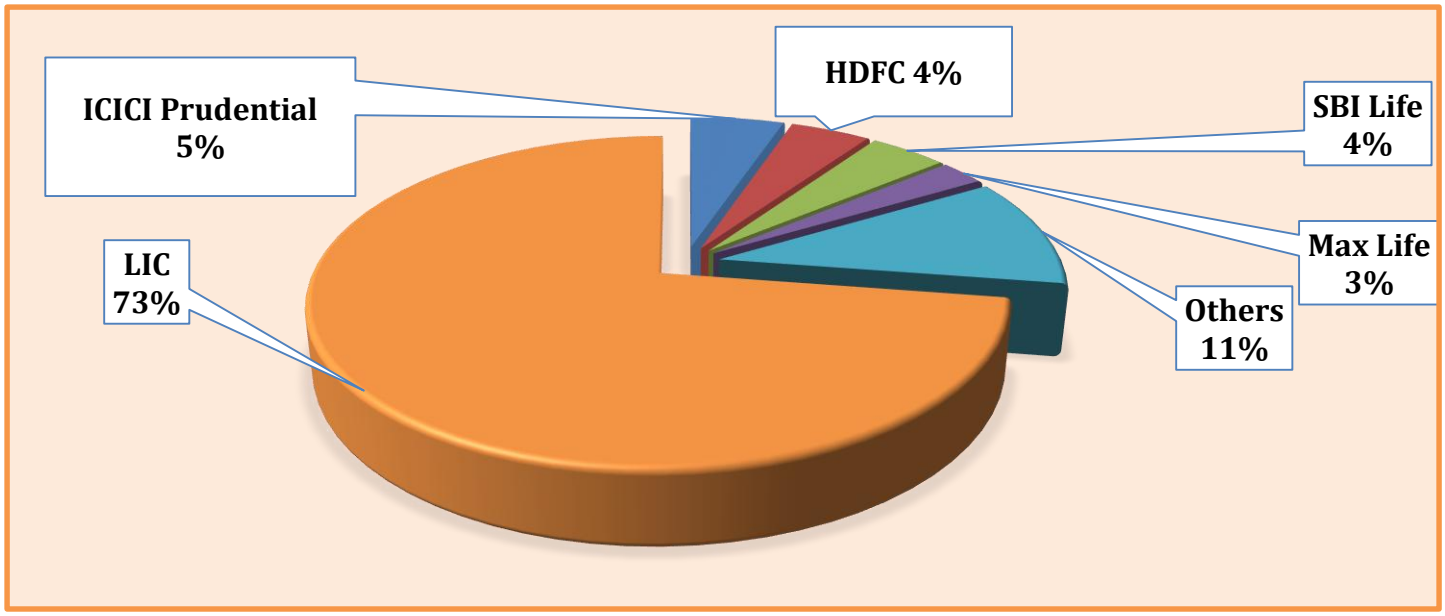
| | | 2013-14 | | 2014-15 | | 2015-16 | |
|---|---|---|---|---|---|---|---|
| S.No | Particulars | Life Insurance | General Insurance | Life Insurance | General Insurance | Life Insurance | General Insurance |
| 1 | Insurance Penetration (in % of Premium to GDP) | 3.10% | 0.80% | 2.60% | 0.70% | 2.72% | 0.72% |
| 2 | Insurance Density (in ratio of Premium to population in USD) | 41 | 11 | 44 | 11 | 43.2 | 11.5 |
| 3 | Total Premium (In INR Crores) | 314301 | 79934 | 328102 | 87151 | 366943 | 99333 |
| 4 | Benefits/Claims Paid (In Rs Crs) | 216312 | 70047 | 210915 | 75853 | 201766 | 84544 |

*Source: Handbook of Statistics by Insurance Regulatory and Development Authority (15-16)*

occupy second (4.40 lakh crores) while the first is by bank deposits (10.96 lakh crores)

LIC occupy the first position in market share of life insurance business while the 4 PSUs (New India, Oriental,United and National Insurance) occupy the first in market share of Non-Life Business in 2015-16 as per IRDA

**Market Share of Various Companies in case of Life Insurance Business in 2015-16**

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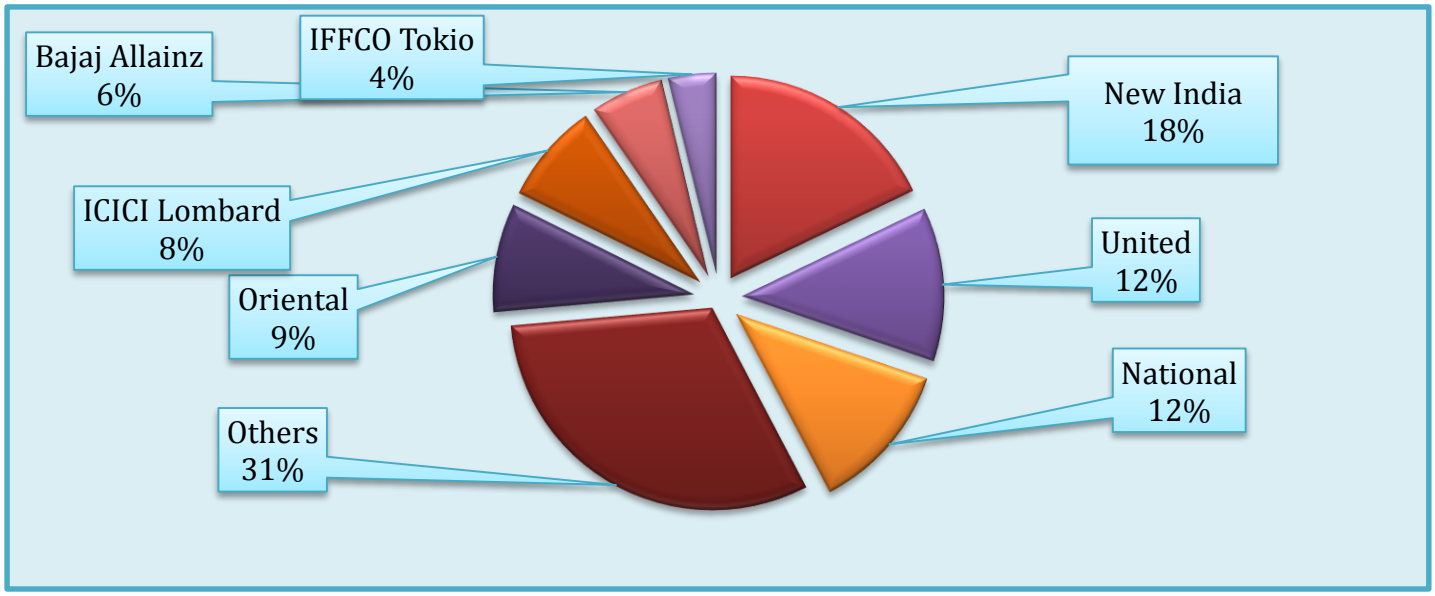


*Source: Handbook of Statistics by IRDA*

## Incentives:

Deduction under section 80C of the Income Tax Act, 1961 is allowed for the payment of premium made to the life insurer by an individual or HUF upto Rs 1,50,000. For the payment of health insurance premium, deduction under Section 80D of the Income Tax Act, 1961 is allowed upto Rs 30,000/-. Deduction will also be allowed for preventive health care upto Rs 5000/-. The proceeds received from life insurance policy, whether the maturity amount or the sum assured are exempt under Section 10 of the Income Tax Act, 1961. The Union Budget 2017-18 has allocated Rs 90000 crores for crop insurance under Pradhana Mantri Fasal Bima Yojana (PMFBY) and coverage under the this scheme will be increased from 30% of cropped area in 2016-17 to 40% in 2017-18 and 50% in 2018-19. Under Pradhan Mantri Vaya Vandhana Yojana, all senior citizens above 60 years of age can get guaranteed 8% annual return during the policy period of 10 years.

## Issues and Challenges:

In spite of two hundred years of Insurance history, Insurance has not become a habit for Indians largely due to rural population.

Even in urban population except where it is mandatory like Motor Insurance, it is not followed as risk coverage. Even in health insurance, the coverage is more in the employed class but not in other categories.

The following are the major challenges in this sector:

1. The density of Insurance coverage which is measured as a ratio of premium (in USD) to total population is only 55 compared to a world average of 621. It is higher even in small countries like Thailand (125), Malaysia (472), Taiwan (701), South Korea (1149), Hong Kong (575) etc.,
2. Insurance penetration as % of GDP (measured as a ratio of premium to GDP) is only 3.4% compared to a world average of 6.2%. Some of the smaller countries like Thailand (5.5%), Taiwan (19%), Japan (10.8%), South Korea (4.1%) had a better penetration than our country.

**Insurance Density and Penetration**

*(Density in USD, Penetration in % )*

| | 2013 | | 2014 | | 2015 | |
|---|---|---|---|---|---|---|
| **Countries** | **Density** | **Penetration** | **Density** | **Penetration** | **Density** | **Penetration** |
| **Australia** | 3528 | 5.20 | 3736 | 6.0 | 2958 | 5.7 |
| **Brazil** | 443 | 4.00 | 422 | 3.9 | 332 | 3.9 |
| **France** | 3736 | 9.00 | 3902 | 9.1 | 3392 | 9.3 |
| **Germany** | 2977 | 6.70 | 3054 | 6.5 | 2563 | 6.2 |
| **Russia** | 199 | 1.30 | 181 | 1.4 | 117 | 1.4 |
| **South Africa** | 1025 | 15.40 | 925 | 14.0 | 843 | 14.7 |
| **Switzerland** | 7701 | 9.60 | 7934 | 9.2 | 7370 | 9.2 |
| **United Kingdom** | 4561 | 11.50 | 4823 | 10.6 | 4359 | 10.0 |
| **United States** | 3979 | 7.50 | 4017 | 7.3 | 4096 | 7.3 |
| **Hong Kong** | 5002 | 13.20 | 5647 | 14.2 | 6271 | 14.8 |
| **India#** | 52 | 3.90 | 55 | 3.3 | 55 | 3.4 |
| **Japan#** | 4207 | 11.10 | 3778 | 10.8 | 3554 | 10.8 |
| **Malaysia#** | 518 | 4.80 | 524 | 4.8 | 472 | 5.1 |
| **Pakistan** | 9 | 0.70 | 11 | 0.8 | 12 | 0.8 |
| **PR China** | 201 | 3.00 | 235 | 3.2 | 281 | 3.6 |
| **Singapore** | 3251 | 5.90 | 3759 | 6.7 | 3825 | 7.3 |
| **South Korea#** | 2895 | 11.90 | 3163 | 11.3 | 3034 | 11.4 |
| **Sri Lanka** | 36 | 1.10 | 40 | 1.1 | 43 | 1.2 |
| **Taiwan** | 3886 | 17.60 | 4072 | 18.9 | 4094 | 19.0 |
| **Thailand** | 310 | 5.50 | 323 | 5.8 | 319 | 5.5 |
| **World** | **652** | **6.30** | **662** | **6.2** | **621** | **6.2** |

*Source: Handbook on Indian Insurance Statistics (2015-16) by IRDA*
*# Denotes for a Financial Year*

3. Awareness about insurance is to be stepped up especially in rural population.
4. Crop Insurance should be popularised, where National Calamities are common like cyclones and droughts.
5. Agriculture credit guarantee should be introduced like Export Credit Guarantee.
6. Health Insurance must be made mandatory for all employers.

*In India, Insurance is used as tax planning instead of Risk coverage*

7. Property Insurance is done only when it is linked to a housing loan. There is a huge untapped market in this area.
8. The return on insurance in case of savings schemes and endowments schemes are not attractive and in inflationary economy, they do not match the dwindling purchasing power of rupee.
9. Like Bank Assurance other channels of distributions like Mutual Funds, Agricultural Marketing Societies should be explored.
10. For most of the agents, insurance agency is a part time hobby and they are not well equipped with the latest and comparable products of competitors and are unable to motivate the customer.


11. Fraudulent practices while insuring as well as making claims are prevalent.

> *Justice is the insurance which we have on our lives and property. Obedience is the premium which we pay for it.*
> *- William Penn*

12. In case of Health Insurance, pre-existing diseases are not covered. In case of persons beyond 50 years of age, existence of hypertension and diabeties are common and they should not be considered as pre-existing diseases. Such clauses in a policy discourage the persons to go for Insurance.
13. Insurance is used as a tax planning or investment but not as risk coverage in India.

*Competition in the market itself will explore opportunities for the future growth*

With all the challenges, this sector has huge potential because of increasing younger educated population who are aware of insurance. Competition in the market itself will explore more opportunities for future growth. Recent inclusion of rural oriented policies like Pradhana Mantri Jan Dhan Yojana, Pradhana Mantri Jeevana Jyothi Yojana, Pradhana Mantri Suraksha Bima Yojana and Rural Postal Life Insurance Schemes will improve the penetration into the market.

**-Team at Raju and Prasad**

# Policy Watch

# Indirect Taxes


## Effective Rate of tax under composition scheme

The Ministry of Finance (Department of Revenue) Vide Notification No 01/2018 – Central Tax dated 1st January 2018 had reduced the GST rate from 2% of the aggregate turnover to 1% of the aggregate turnover for the registered taxable person engaged in manufacturing business and opted for composition scheme. For the assesses engaged in trading business and opted for the composition scheme, the GST needed to be calculated as 1% of taxable turnover instead of 1% of aggregate turnover.

http://www.cbec.gov.in/resources//htdocs-cbec/gst/Notification-1-2018-central_tax-English.pdf

## Applicability of provisions of E-way Bill:

The Central Board of Excise and Customs Vide Notification No 74/2017 dated 29th December 2017 hereby appoints 1st day of February 2018 as the date from which the provisions of E-way Bill shall come into force. So, every registered taxable person who is causing interstate

movement of goods from 01/02/2018 shall subject to the provisions of the act, need to raise an E-way bill in Form GST EWB 01.

http://www.cbec.gov.in/resources//htdocs-cbec/gst/notfctn-74-central-tax-english.pdf

## Waiver of late fees payable in case of failure to furnish return in FORM GSTR - 4

The Central Board of Excise and Customs Vide Notification No 73/2017 dated 29th December 2017 waived the amount of late fee payable under Section 47 of the CGST Act, 2017 by any registered person for failure to furnish return in FORM GSTR-4 by the due date.

http://www.cbec.gov.in/resources//htdocs-cbec/gst/notfctn-73-central-tax-english.pdf;jsessionid=6148AFCFBEB393DBEC9BE683800841C0

## Extension of time limit for filing GST CMP 04:

The Central Board of Excise and Customs Vide Order No 11/2017 dated 21-12-2017 has extended the time limit for intimation

of details of stock held on the date preceding the date from which option for composition levy is exercised in FORM GST CMP-03 till 31st January 2018.

http://www.cbec.gov.in/resources//htdocs-cbec/gst/order11-cgst.pdf

### Extension of time limit for filing GSTR 5, GSTR 5A and ITC 01:

The Central Board of Excise and Customs Vide Notifications No 67/2017, 68/2017, 69/2017 extended the due date for filing various returns as follows:

| S. No | Return | Pertaining to | Revised Due date |
|---|---|---|---|
| 1 | GSTR 5 | July to December 2017 | 31st January 2017 |
| 2 | GSTR 5A | July to December 2017 | 31st January 2017 |
| 3 | GST ITC 01 | July to November 2017 | 31st January 2017 |

http://www.cbec.gov.in/resources//htdocs-cbec/gst/notfctn-67-central-tax-english.pdf
http://www.cbec.gov.in/resources//htdocs-cbec/gst/notfctn-68-central-tax-english.pdf
http://www.cbec.gov.in/resources//htdocs-cbec/gst/notfctn-69-central-tax-english.pdf

## Direct Tax

### Relaxation in levy of the provisions of the Minimum Alternative Tax (MAT) for specified assessees

The Central Board of Direct Taxes Vide Press Release dated 6th January 2018 decided, that, with effect from Assessment Year 2018-19 (i.e. Financial Year 2017-18), in case of a company, against whom an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under section 7 or section 9 or section 10 of the IBC, the amount of total loss brought forward (including unabsorbed depreciation) shall be allowed to be reduced from the book profit for the purposes of levy of MAT under section 115JB of the Act.

https://www.taxmann.com/filecontent.aspx?Page=CIRNO&id=104010000000054171&isxml=Y&search=&tophead=true&tophead=true

## RBI

### Refinancing of External Commercial Borrowings (ECBs):

Reserve Bank of India Vide RBI/2017-18/116 A.P (D.I.R Series) Circular No.15 dated 4th January 2018 has decided to permit the overseas branches/subsidiaries of Indian Banks to refinance ECBs of highly rated (AAA) corporates as well as Navaratna and Maharatna PSUs, provided the outstanding maturity of the original borrowing is not reduced and all-in-cost of fresh ECB is lower than the existing ECB.

https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11198&Mode=0

# Verdicts

## Direct Tax

Direct Tax

**Where object of respective subsidy schemes of State Governments was to encourage development of Multiple Theatre Complexes, incentives would be held to be capital in nature and not revenue receipts**

-*Vide Decision of Supreme Court of India Vide Commissioner of Income Tax-I, Kolhapur v. Chaphalkar Brothers Pune*

The Honorable Supreme Court of India Vide Commissioner of Income Tax-I, Kolhapur Vs. Chaphalkar Brothers Pune held that where a subsidy scheme of State Governments provided for an exemption of entertainment duty in Multiplex Theatre Complexes newly set up, for a period of three years, and thereafter payment of entertainment duty at rate of 25 per cent for subsequent two years, incentives would be held to be capital in nature and not revenue receipts since the object of incentive schemes was to encourage development of Multiple Theatre Complexes.

https://www.taxmann.com/filecontent.aspx?Page=CASELAWS&id=10101000000

**Date for linking of Aadhaar with all schemes of Ministries/Departments of Union Government, linking of bank accounts for existing bank accounts and for completion of Aadhaar based E-KYC process in respect of mobile phone subscribers to be extended until 31-3-2018**

-*Vide Decision of Supreme Court of India Vide K S Puttaswamy Vs. Union of India*

The Honorable Supreme Court of India Vide Decision of Supreme Court of India Vide K S Puttaswamy Vs. Union of India held that Date for linking of Aadhaar with all schemes of Ministries/Departments of Union Government, linking of bank accounts for existing bank accounts and for completion of Aadhaar based E-KYC process in respect of mobile phone subscribers to be extended until 31-3-2018

https://www.taxmann.com/filecontent.aspx?Page=CASELAWS&multipage=false

**Where Directorate of Investigation informed that assessee-company had received share application money from several entities which were only engaged in business of providing bogus accommodation entries to beneficiary concerns, reassessment on basis of said information was justified**

-Vide Decision of High Court of Rajasthan Vide Ankit Agrochem (P.) Ltd Vs Joint Commissioner of Income tax, Range – 1, Bikaner

The Honorable High Court of Rajasthan Vide Ankit Agrochem (P.) Ltd Vs Joint Commissioner of Income tax, Range – 1, Bikaner held that when Directorate of Investigation (DIT) informed Assessing Officer that assessee-company had received share application money from several entities, which were companies with no real business and were only engaged in business of providing bogus accommodation entries to beneficiary concerns and the information was further confirmed by directors/dummy directors/key persons of said entities in their respective statements, reassessment notice against assessee on basis of said information was justified.

https://www.taxmann.com//login.aspx?continue=https://www.taxmann.com/filecontent.aspx?Page=CASEL

►►► PHOTOGRAPH OF THE MONTH

**Jungle Babbler at Bharatpur Bird Sanctuary**

**- Clicked by M Siva Ram Prasad**

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