

Press Briefing: Insurance Day, 5th April 2018

Insurance Day is observed in Pakistan each year to raise awareness about Insurance and various product options available. The Insurance Day celebrations mark how the industry has been serving millions of people in securing things that matter them the most. By celebrating Insurance Day the industry aims to spread the message of insurance and specially to address the students thereby taking the message to grass root level.

This year, IAP is celebrating sixth “Insurance Day” on the 5th April 2018. The Day will commence with the publication of special supplements on insurance in the newspapers of the country followed by several events throughout the week. A number of discussions have been organized in educational institutions of Karachi, Lahore and Islamabad. A first ever table tennis tournament has been organized while the two qualifying cricket teams have played the Super Final Cricket match in Karachi to mark this Day. An Essay Competition and Elocution Contest to encourage young professionals within the industry have also been arranged. Family Carnivals in Karachi and Lahore have been organized to provide healthy entertainment for families.

Industry's contribution: The industry dates back to British rule in the subcontinent and has been playing an active role in supporting national economic development since 1947. The industry has steadily journeyed with the nation through the toughest times of wars, international sanctions, terrorism, political instability, natural disasters and economic challenges.

The table below shares some key contributions made by the insurance industry of Pakistan in recent years. Figures for revenue generation, claim payments to policyholders, exchequer contribution and employment for the last five years appear below:

	2017	2016	2015	2014	2013	Total
Premium written (PKR billion) including window Takaful	285	253	238	194	158	1,128
Claims paid (PKR billion)	103	91	80	74	63	411
Tax contributions to government exchequer (PKR billion)	16.14	15.64	13.61	12.14	9.72	67.25
Number of employees in insurance companies	17,917	17,288	16,606	15,536	10,200	-

There are several factors impeding the Pakistani insurance industry’s growth, IAP’s Executive Committee recommends the Government of Pakistan following changes to help accelerate this sector. Bringing this sector’s economic contribution at par with regional economies.

- Withdrawal of Sales Tax on Reinsurance

The Government of Sindh has levied Sindh Sales Tax on reinsurance activity, without

acknowledging that reinsurance is neither a service nor a separate activity from the original insurance contract. Further, levy of Sindh Sales Tax on reinsurance activity is also against the fundamental principle governing value addition tax regime across the globe.

The reinsurance and insurance companies (being retrocessionaires) are effectively partners in sharing risk of policy holders as per the requirements of section 42 of the Insurance Ordinance, 2000 (INO) and share income arising therefrom.

The levying sales tax on reinsurance service is tantamount to double taxation, since sales tax was already paid by insurance companies on whole of premium received from policy holders including in respect of insurance premium ceded to the re-insurance company.

- Withdrawal of Sales Tax on Corporate Health

Health insurance serves as an alternate to a government's welfare program, especially in under developed countries where availing of policies relieves pressure on the social welfare system. Several countries acknowledge this by granting tax reliefs to policyholders. Therefore, health insurers in Pakistan play a significant role in sharing the burden of government schemes introduced for the social wellbeing of the people.

The imposition of Sindh Sales Tax on group insurance has increased the medical cost of the person availing health insurance through an insurance policy as compared to a person availing health facilities directly without an insurance policy. Therefore, there will remain no justification for persons to obtain health insurance, as it penalizes them by adding a huge cost of 13% in addition to the administrative cost of insurance companies.

- Life Insurance should be permanently exempted from the levy of sales tax

The said levy is likely to discourage prospective policyholders in Sindh from buying life insurance policy as the entire sales tax burden would be passed on to them. This levy may lead policyholders to surrender their policies.

- Compulsory Health Insurance Scheme

If Health Insurance is made mandatory by the Government it would not only increase insurance penetration but would also be a step forward providing basic health facility to all sections of society.

- Compulsory Workmen Compensation/Employers Liability Insurance

It goes without saying that the Workmen's Compensation Act is hardly adhered to thereby, exposing the vulnerable section of population to industrial injuries/fatalities. Compulsory workmen compensation insurance has the potential to alleviate the difficulties of the industrial and commercial workers.

- Taxing of Capital Gains and Dividend Income @ 31% (Rule 6B of Fourth Schedule to the Income Tax Ordinance 2001)

In 2016, the tax measure of one basket income for Insurance companies whereby the Capital Gains and Dividend income is being taxed @ 31% as against reduced rate of tax for other sectors is discriminatory in nature and is seriously hampering the profitability of the insurance companies by raising tax liability substantially, as much as 80% in some cases. This is eroding investors' interest in this sector and directly affecting the capacity building of insurance sector, which in turn is resulting in buying more reinsurance support from international market and thus draining additional foreign exchange.

- Withdrawal of Tax on issue of bonus shares under section 236M.

The tax on issuance of bonus shares have impacted negatively on the activities of Stock Exchange in last three years as most of the Companies have stopped issuance of bonus shares. The implementation of section 236 M has also created legal complications for the Companies. Therefore, this tax on bonus issue should be removed.

- Rate of Minimum Tax u/s 113 should be reduced

Rate of Minimum Tax u/s 113 should be reduced and minimum tax paid in case of 'Nil' tax payable, should be allowed to be adjusted from tax liability of subsequent years. Minimum tax of one half percent is excessive and its reduction to half percent will benefit new / small insurance companies and the companies which are in losses in their initial years of operation.

To support industries, in case of business losses, where tax payable is zero, it is essential that the whole amount of minimum tax paid be allowed to be carried forward and adjusted against tax liability for five years immediately succeeding the tax year for which the amount was paid.

- Personal Lines / Micro insurance products of Insurance Companies should be exempted from Federal Excise Duty.

In order to encourage the spread of insurance among the low and middle income group, and development of micro insurance in Pakistan, Federal Excise Duty/Sales Tax on Services) on Personal lines / Micro insurance products (i.e. Personal Accident, Travel, Householders insurance etc.) be exempted.

- Tax credit should be allowed to individuals on Personal lines / Micro insurance products premium payments.

Tax credit incentive be allowed to individuals on all personal lines / Micro insurance products to help the growth of Micro insurance sector and to minimize the cost of protection for the citizens of Pakistan. Premiums or contribution paid on account of

- a. Health Insurance
- b. Private Motor Insurance,
- c. Personal Accident insurance,
- d. Personal Travel insurance,
- e. Home property / Household insurance

- Tax on Dividends under Section 5 & 8 of the Income Tax Ordinance 2001

Life insurance companies make investments on behalf of policyholders in stocks and full amount of dividend received is passed on the policyholders by the life insurance companies. However, deduction of tax under Final Tax Regime (FTR) deprives the policyholders of their earning.

- Exemption of individual policy holders who are not subject to tax from the applicability of advance tax under section 236U

Due to the applicability of additional advance tax on individuals who are not subject to tax, the cost of insurance policy for an individual has increased. Consequently individuals are reluctant to obtain insurance policies. As the penetration of insurance in Pakistan is very low and Micro insurance is under developed, therefore, this advance tax should not be applicable on individual policy holders in order to encourage them to get the benefits of various life and general insurance products.

Moreover, in various cases of life insurance, the policy holders are housewives, or minor children, whose policy premium is being paid by the husband/father/brother etc. In such cases however, as the policy holders' name is not appearing in the Active Tax Payers' List (ATL) of the FBR, they are subject to undue tax collection.

- Withdrawal of Federal Insurance Fee on Insurance premium

In 1989 through Finance Act, the Government of Pakistan imposed Federal Insurance Fee @ 1 % on the general insurance policies. The understanding given at that time was that the amount generated shall be utilized for the promotion and development of insurance in the country, but nothing has happened in this regard. It is suggested that this fee be withdrawn till such time that a road map for the development and promotion of the insurance sector is in place. Therefore, it should be abolished.

The Executive Committee commends the efforts made by Insurance Day Committee for organizing several activities to mark the occasion, successfully for the last six years.

The Executive Committee
The Insurance Association of Pakistan