

Home » Specials » Current Account

Life insurance. How to secure India financially

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Industry's wish-list on the road to achieving 'insurance for all by 2047'

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Life insurance remains a push product despite the unique financial protection it offers

A new year is about new beginnings, new resolutions, and new goals. For the Indian life insurance industry, 2025 promises to be a year of new efforts towards achieving the collective goal of securing India financially.

The year also marks an important milestone for the private life insurance sector, which completes 25 years of operations in India. The journey, I am sure most would agree, has been interesting and full of achievements — the evolution of multi-channel distribution, introduction of unit-linked plans (ULIPs), and open architecture, among others. Alongside the recent discussions on issues such as the need for composite licences for life insurers, allowing 100 per cent foreign direct investment (FDI), and relaxation in capital requirements, the industry has been a dynamic space, evolving with the changing needs of consumers and the regulatory landscape.

Consumer focus

HDFC Life's 'Life Freedom Index' study assesses the levels of financial freedom experienced by Indian consumers. Since its launch in 2011, the index has displayed a steady upward trend, reflecting an improving focus on financial planning among Indian consumers, leading to a greater degree of financial freedom.

The 2024 study — conducted by NielsenIQ across 15 cities and 2,076 respondents — shows the index at 70.8, up by 9 points as compared to 2021. This rise indicates a bounce-back in consumer sentiment after the pandemic, and an overall improvement in consumers' financial outlook.

The growing level of financial literacy, access to digital financial platforms, ease of transactions, and the availability of digital public infrastructure (the trinity of Jan Dhan, Aadhaar and mobile phone) have contributed to the uptake of life insurance as a product category.

However, life insurance continues to be a push product, despite the unique financial protection this product offers.

New initiatives

Mass initiatives such as the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) have helped take life insurance to hitherto underserved segments. However, there is need for more initiatives that can utilise the existing digital public infrastructure and available databases (of course, with requisite permissions). A centralised medical repository like the Ayushman Bharat Health Account (ABHA) could streamline data access for insurers, improve risk assessment, and expedite claims processing.

Permitting insurers to establish insur-tech subsidiaries would foster innovation and efficiency, enabling a focused approach to digital transformation while complementing the core insurance business.

Goods and Services Tax (GST) exemption or reduction (while retaining the existing mechanism of full input tax credit) for all age groups, with a focus on 'term' and 'health' products, would lower the cost of insurance and promote broader adoption and financial inclusion.

Moreover, currently the entire annuity amount received by the customer is taxable. Clearly the principal amount embedded in the annuity is already taxed and this leads to double taxation. This is not the case with any other financial product, where only the interest or return gets taxed on withdrawal. A reform in this area will aid the objective of achieving 'insurance for all by 2047' and a pensionable society.

Currently, India is in an advantageous position in many ways — with average age at 29, India will remain the youngest economy until 2070. In FY24, India surpassed growth expectations at 8.2 per cent and is expected to be the third largest economy by 2030. The rising affluence is marked by an increase in the number of middle-income households, even as India's per capita income is expected to grow by nearly 70 per cent by 2030. All of these factors bode well for the economy and present a long runway for growth for the financial services industry.

Securing a nation financially is a humongous task and each stakeholder has an important role to play. A customer-focused, tech-based approach, and regulatory and policy-level support would be key to achieving this collective goal.

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