

LIC's Traditional Plans to Get Dearer

From Oct, insurer to charge an additional 3% from policyholders towards service tax

SHILPY SINHA
MUMBAI

LIC's traditional policies will get dearer by 3% from October as the insurance behemoth plans to charge from customers the service tax levied on non-unit linked products. At present, LIC absorbs the service tax on behalf of the policyholders. From October, poli-

cyholders will have to pay an additional ₹3,000 towards service tax on a premium of ₹1 lakh. LIC agents are pushing sales by telling customers they can escape the tax by buying traditional policies before October.

"Come October, LIC is going to levy service tax on traditional insurance products — endowment and money-back, which was so far paid by the corporation," said an LIC agent. "The corporation included it in the contract but will charge it upfront from policyholders."

The budget has proposed a service tax of 3.09% on traditional life insurance policies, up from 1.55%. All private sector insurance companies charge service tax from policyholders upfront. Traditional policies are

debt-oriented products, where bulk of the investment is made in government and corporate bonds and up to 15% in equity. "Agents are using service tax as a selling point," said Bharat Parekh, an agent with LIC.

In the last fiscal year, LIC had reported a 6.3% drop in new business income. Total income growth was flat at Rs 2.03 lakh crore, including income from selling of new policies and renewal income. The corporation is confident of achieving 13% growth in premium income this financial year. With service tax getting separated from the policyholder fund, it is expected that bonuses and loyalty on traditional products would go up.

shilpy.sinha@timesgroup.com

Costlier Cover

₹3,000
extra a policyholder will have to pay on a premium of ₹1 lakh



Co has been absorbing the service tax on behalf of the policyholders



Agents using service tax as a selling point to push policies now



Bonuses on traditional plans to go up as service tax will be separated from policyholder fund