Prevent NRIs' PAN from being declared inactive

TRUTH BE TOLD

HARSH ROONGTA

Kripa, an overseas client, recently forwarded an email from her mutual fund registrar. It warned her to link her permanent account number (PAN) to her Aadhaar card by March 31, 2022, failing which there would be higher TDS (tax deduction at source), restrictions on further transactions, and a possible income-tax (I-T) penalty.

Kripa holds an Overseas Citizen of India (OCI) card. According to the Aadhaar Act, she is not entitled to apply for Aadhaar unless she spends 182 days in India. The notification (*https://bit.ly/34xzJoh*) that allowed non-resident Indians (NRIs, who are Indian citizens) to apply for Aadhaar on arrival in India doesn't apply to OCIs. Kripa was worried as the MF registrar informed her it doesn't have any option to exempt NRIs' PANs from linking with Aadhaar.

The I-T Department hasn't made provision for allowing those ineligible for Aadhaar to mark their PANs, so the latter can be kept active after March 31

The I-T Act does not require NRIs or OCIs not eligible to apply for Aadhaar to link their PANs with Aadhaar. The tax department hasn't made any provision for allowing those not eligible for Aadhaar to mark their PANs as such, so that their PANs can be kept active after March 31, 2022. There is a fear that the tax department will automatically mark such PANs as inactive.

NRI investors face several other travails. The adverse TDS provisions have given rise to many *jugaad* solutions. The most common example is in renting and sale of property by an NRI taxpayer. If the property owner is a resident, tax is deducted by the lessee once a year at 5 per cent if the rent exceeds ₹50,000 per month. This can be paid through a simple challan cum return. But if the owner is a non-resident, the lessee must apply and get a tax deduction account number (TAN), deduct tax at 30 per cent from each monthly rental, pay it every month, and file separate TDS returns with the TDS section.

In case of sale, if the seller is a resident, the buyer deducts tax at 1 per cent if the sale value exceeds ₹50 lakh and pays it through a simple challan cum return. But if the seller is an NRI, the buyer must deduct tax at 20 per cent on the entire sales consideration (not just capital gain) since the buyer can't calculate the capital gain. Again, the buyer must register for TAN and file periodic TDS returns for a one-time purchase. While getting a certificate for tax deduction at a lower rate is possible, it takes time, effort and "money". The hassles of getting a TAN number and filing periodic TDS returns remain.

The *jugaad* solution is for property owners to omit letting the lessees/buyers know they are NRIs. The lessees/buyers have no way of knowing this, especially if the owner has an Indian address. The buyer/lessee proceeds on the basis that the owner is a resident.

These onerous TDS provisions for NRIs were put in place in an era when it was assumed that if the lessee or buyer didn't deduct maximum tax at source, it wouldn't be possible for the department to recover the tax amount.

Meanwhile, NRIs can remit proceeds based on tax-payer self-certification backed by a chartered accountant's certificate that is uploaded on the tax department's website. It demonstrates trust in the taxpayer but through a verifiable process. One wonders why the same process can't be followed for TDS.

The tax department should proactively provide a solution to NRIs' impending problem of PANs being made inactive from April 1, 2022. It should also use the occasion to overhaul the complex TDS provisions relating to them.

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Allowing life policy to lapse carries a high cost

Pick insurance cover carefully, so that you are able to stick to it for the long haul

SANJAY KUMAR SINGH

Persistency ratio continues to be low in the life insurance industry, according to data published in the Handbook on Indian Insurance Statistics for financial year 2020-21 (FY21). The industry's median 61-month persistency ratio for FY21 was 39.4 per cent. It means that in case of half the insurers, 39.4 per cent or less of their policies were alive after five years. While the persistency figures are improving (*see table*), the pace is slow.

Persistency ratios also indicate customers' level of satisfaction with an insurer, since satisfied customers tend to keep their policies alive for a longer period.

Hurried purchases, mis-selling

Several factors are responsible for the life insurance industry's low persistency numbers. One is that insurance is a fairly complex product. "A large part of the persistency challenge comes in because people buy a product without clarifying their expectations from it. Do they want a pure term cover or an insurance-cum-investment plan?" says Manu Lavanya, director and chief operations officer, Max Life Insurance.

When customers buy a product without clarity on the financial need it is supposed to fulfil, there is disappointment later. For instance, they often buy policies at the last-minute for tax saving without paying heed to its features. Later, when they find the policy unsuitable, they allow it to lapse.

Mis-selling is another reason for high lapse rates. "Sometimes policies are sold forcibly by friends or relatives, or an institution the customer approached for a loan," says Kapil Mehta, co-founder and managing director, Secure Now Insurance Broker.

Often the customer's payment obligations are not explained properly. "The customer may think he has purchased a single-premium policy. When he realises he has to pay a premium every year, he abandons it," adds Mehta.

Sometimes, customers have incorrect return expectations. They compare the returns from an insurance-cum-investment product with a pure investment product, not accounting for the fact that a part of the premium goes towards meeting the mortality charge (note that high product costs can also produce low returns).

In case of unit-linked insurance plans (Ulips), customers at times take short-term calls: When the markets are up, they cash out.

During the pandemic, many people suffered loss of income and stopped paying their premiums.

In the case of some insurers and products, only the annual premium mode is available. "When half-yearly, quarterly and monthly options are not available, insurers witness low persistency due to the unavailability of funds in the policyholder's account," says Sanjay Radhakrishnan, chief executive officer (CEO) and principal officer, Hero Insurance Broking.

One operational cause is that customers change the bank account from which they paid their premiums. "But they don't change the NACH forms. This results in non-approval of renewal premiums," says Radhakrishnan.

Insurers' initiatives

Insurers take several steps nowadays to ensure customers don't abandon their policies prematurely. One is to select the right customers. "Insurers use data analytics to select people with the right financial profile who can meet this long-term financial commitment," says Lavanya.

They also try to ensure the customer understands the policy terms and conditions. They offer simplified benefit illustrations with easy-to-understand graphics. They also conduct a pre-issuance verification call to ensure the customer has understood key aspects like the premium amount, the period for which it has to be paid, and the benefits. "Only if the customer has fully understood what he has purchased will he be able to answer the questions asked in this call," says Lavanya.

Insurers also send reminders asking customers to ensure that the bank account from which the payment will happen is funded. In the past two years, when customers failed to pay the premium due to financial distress, many insurers waived the late payment fee.

To ease customers' burden, insurers also allow them to convert annual premiums into quarterly or monthly payments.

High cost of policy lapse

The key fallout of discontinuing a policy is that you are no longer covered. This had serious consequences during the pandemic, when in many cases the breadwinner passed away shortly after allowing his policy to lapse. Says Ashish Rao, chief-customer experience and operations, ICICI Prudential Life Insurance, "Allowing a policy to lapse adversely impacts the purpose and goals for which it was purchased, like income replacement."

Surrendering a policy carries a considerable cost. "If you surrender a traditional policy before paying three premiums, you get nothing back. After three premiums, the policy acquires a surrender value and you get some amount back, but the penalty is high. If, for instance, you surrender your policy after paying three premiums, you won't get back more than 25-30 per cent of total premiums paid," says Mehta.

If you tell the insurer that you would like to keep the policy alive but will not pay any further premiums (these should be deducted from the value accumulated in the policy), the sum assured could be reduced to 1/10th or 1/20th.

"Customers also lose out on benefits like bonus pay-outs," says Lavanya.

In Ulips, if you stop paying the premium before five years, the fund value (after deducting surrender charges) goes into a discontinuance fund where it earns 4.5 per cent interest.

When the customer goes to buy a new term policy, he typically has to pay a higher premium (since he would be older now).

Make the right purchase

The key prerequisite to not allowing a policy to lapse is to buy one suited to your needs so that you are motivated to pay the premiums and stick to it.

Do research and compare policies on the websites of insurers or aggregators. "Our digital platform facilitates matching products with the needs of customers," says Rao.

Make sure you buy a term policy that scores high on key parameters. "Evaluate the insurer's claim settlement ratio and the average time taken to settle claims," says Rao.

Go through the policy document, especially the benefits illustration: What benefits will you get and at what intervals? How much will you get if you surrender at different stages? Also understand your obligations — the premium amount and the period for which it has to be paid.

Before deciding to discontinue, consider alternatives like getting paid-up additions or bonus adjusted against the premium.

PERSISTENCY RATIO: SLOW IMPROVEMENT

Year	Median persistency ratio (%) 13-mth	25-mth	37-mth	49-mth	61-mth
2014-15	57.3	46.0	42.5	38.0	19.0
2015-16	61.2	47.4	41.8	38.1	28.0
2016-17	64.9	53.1	43.9	38.3	31.9
2017-18	69.0	58.2	49.5	41.8	33.8
2018-19	71.8	61.4	52.6	45.0	37.8
2019-20	70.5	62.3	53.3	46.4	37.6
2020-21	72.4	62.9	55.8	51.0	39.4

Persistency figures are for life insurance policies based on number of policies. Mth stands for month. Data as on March 31, 2021 Source: Handbook on Indian Insurance Statistics

Notice is hereby given that a Joint Petition under sections 230 to 232 of the Companies Act, 2013 with respect to the Scheme of Arrangement between M/s. Access Matrix Technologies Private Limited [Demerged Company] and M/s. Wolters Kluwer ELM Solutions Private Limited [Resulting Company] and their Respective Shareholders and Creditors was filed by the Petitioner Companies with the Hon'ble National Company Law Tribunal, Chennai Bench ('NCLT') on 8th December 2021 and the said petition was admitted on 6th January, 2022. The Hon'ble NCLT, Chennai Bench, vide its order dated 3rd February, 2022, has fixed the date of hearing of the said Joint Petition on the 10th day of March, 2022.
Any person desirous of opposing the proposed Scheme of Arrangement should send to the Petitioners' Authorized Representative, notice of his intention, signed by him or his Advocate, with his name and address, so as to reach the Petitioners' Authorized Representative not later than thirty days from the date of the publication of this Notice. Where he seeks to oppose the Petition, the grounds of opposition or a copy of his affidavit shall be furnished with such notice. A copy of the Petition will be furnished to any person requiring the same on payment of the prescribed charges for the same.
CS I B HARIKRISHNA
Authorized Representative
1st Floor, No.44/38, Veerabadran Street, Nungambakkam, Chennai – 600 034
Place: Chennai
Date: 18-02-2022