# KARNATAKA NOTIFIES THE KARNATAKA COMPULSORY GRATUITY INSURANCE RULES, 2024

## 1. INTRODUCTION

On January 10, 2024, the Government of Karnataka notified the Karnataka Compulsory Gratuity Insurance Rules, 2024 ("**Insurance Rules**") under Section 4A of the Payment of Gratuity Act, 1972[1] ("**PGA**"). The PGA applies to establishments where 10 or more persons are employed or were employed in the last 12 months in the preceding year.

As per Section 4A of the PGA, once the provision has been notified by the 'appropriate government', an employer is required to obtain an insurance cover for their monetary liability under the legislation, unless specifically exempted by the appropriate government. As per the PGA, the term 'appropriate government' has been defined to mean the Central Government for establishments: (a) belonging to or under the control of the Central Government, (b) having branches in more than 1 state; (c) that are factories belonging to or under the control of the Central Government; and (d) that are a major port, mine, oilfield or railway company. In all other cases, the 'appropriate government' would be the State Government.[2] Given that, it could be stated that establishments that are only based in Karnataka are required to comply with the Insurance Rules. Establishments in Karnataka that also have offices/branches in other states are currently not required to comply with the requirements under the Insurance Rules.

Similarly, the Andhra Pradesh Compulsory Gratuity Insurance Rules, 2011 and the Code on Social Security, 2020[3] (*yet to be brought into effect*) read with the corresponding draft rules also provide for compulsory insurance cover to be obtained by employers concerning their liability for gratuity to eligible employees.

## 2. KEY PROVISIONS

2.1. ***Gratuity insurance policy***: Employers are required to obtain a gratuity insurance policy to cover their liability under the PGA from the Life Insurance Corporation or other insurance companies specified under the PGA.[4] For existing employers, the insurance policy should be obtained within 60 days from the effective date of the Insurance Rules and for new employers, the insurance policy should be obtained within 30 days from the date the Insurance Rules become applicable to such establishment.[5]

[1] Section 4A of the PGA pertains to the obligation of an employer to obtain insurance for their liability to pay gratuity to eligible employees.
[2] Section 2(a) of the PGA.
[3] Section 50 of the Code on Social Security, 2020.
[4] Rule 3 of the Insurance Rules.
[5] Rule 3 of the Insurance Rules.

2.2. ***Registration of establishment***: Employers are required to register their establishment with the Controlling Authority within 30 days from the date of obtaining the insurance policy.[6] To register their establishments, employers are required to submit **Form-I** (*as provided under the Insurance Rules*) to the Controlling Authority.[7] Further, employers are also required to submit the list of insured employees to the Controlling Authority in **Form-III** (*as provided under the Insurance Rules*).[8] Thereafter, if there is any change in the information submitted to the Controlling Authority, the employer has to promptly notify the Controlling Authority.[9]

2.3. ***Continuation of approved gratuity fund***:

(a) Employers of establishments with existing approved gratuity fund, and for establishments employing 500 or more persons and have now set up a gratuity fund for their employees, may opt to continue with such gratuity fund or adopt such arrangement by submitting an application in **Form-II** (*as provided under the Insurance Rules*), provided such existing approved gratuity fund covers the entire liability of all the employees of the establishment under the provisions of the PGA.[10]

(b) Employers are also required to register the gratuity trust with 5 but not equal number of representatives of the employer and employees under the Indian Trust Act, 1882.[11] The gratuity trust shall be managed privately or by the insurance company or jointly by paying the calculated amount to the approved gratuity trust fund periodically by the employer.[12]

## 3. CONCLUSION

The Insurance Rules are significant for establishments operating only in Karnataka. While the Insurance Rules are definitely a step in the right direction in terms of securing employees' entitlements under the PGA, it is also an additional obligation on the employers. Given the strict timeline to comply, employers should take prompt measures to comply with the requirements.

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**Date:** January 31, 2024
**Practice Areas:** Labour and Employment



[6] Rule 5 of the Insurance Rules.
[7] Rule 5 of the Insurance Rules.
[8] Rule 5 of the Insurance Rules.
[9] Rule 5 of the Insurance Rules.
[10] Rule 6 of the Insurance Rules.
[11] Rule 7 of the Insurance Rules.
[12] Rule 7 of the Insurance Rules.

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