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REVIEW OF PROPOSED GST EXEMPTION ON HEALTH AND LIFE INSURANCE PRODUCTS

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The GST GoM's proposal to exempt health and life insurance from GST aims at boosting insurance penetration in the country which remains stubbornly low (Insurance premium is 3.7% of GDP – 2.8% in life insurance and the balance 0.8% in non-life insurance including health). This is far below the global average of ~7%. The penetration is even lower for segments of the society who require protection the most: Senior citizens, tier 2/3 households, informal sector / gig workers, low-income families. Their coverage is dependent on government schemes like Ayushman Bharat or their respective employer insurance programs.

Currently, the 18% GST on insurance products is globally one of the steepest levies. Infact, life and health insurance is recognized as essentials and are tax-exempt in several nations (UK, EU, Australia, China, Singapore, etc.). Several critics have argued that 0% GST removes ITC (income tax credit) and erodes margins for insurers, but this is the push the industry needs. Most of the marketing expenditures are skewed towards urban cities and affluent class, while the underserved population remains neglected. By becoming leaner - trimming wasteful advertising, leveraging digital initiatives (digital underwriting, e-KYC, telemedicine), innovating with microinsurance, exploring partnerships (e-commerce, cooperatives, MFIs, etc.) – insurance companies can expand distribution reach into these underserved markets.

Overall, the GST exemption in insurance products is the need of the hour. It will drive structural changes in the industry, drive operational efficiency, intensify competition and accelerate digital innovation.