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Impact of Removal of GST on Insurance Products in India- A Multi-Perspective Analysis

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Abstract

The removal of Goods and Services Tax (GST) on all individual life insurance and individual health insurance policies in India with effect from 22 September 2025, marks a significant shift in the taxation of essential financial protection products. Prior to this reform, insurance services were subject to 18 per cent GST. High premiums inclusive of 18% GST potentially constrained the insurance uptake in our country which is characterised by low insurance penetration. This article tries to examine the implications of the reform from multiple perspectives, including consumers, insurers, intermediaries, government revenue, public welfare, financial inclusion, and macroeconomic development. The study is descriptive and analytical in nature and is based on secondary data drawn from government notifications, regulatory reports, websites and industry analyses. The findings suggest that the exemption improves the affordability for retail insurance products, encourages first-time adoption and policy renewals, and supports broader social protection objectives. However, the extent of benefit to the consumers depends on the degree of pass-through of advantage. With the exemption of GST on outward supplies, the insurers were restricted to claim Input Tax Credit. The increased operational costs due to loss of ITC may prompt the insurers to reconsider the base premium rates i.e., to raise and this action will offset the tax relief meant for the consumers. The study concludes that the GST exemption should be viewed not merely as a tax concession but as a welfare-oriented policy decision aligned with India's long-term objective of expanding insurance coverage and strengthening of household financial resilience.

Keywords: GST, life insurance, health insurance, insurance penetration, financial inclusion, Insurers.

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Introduction

Insurance is a critical pillar of economic security and social protection. It protects households against the financial doldrums caused by illness, death, disability, and other unforeseen contingencies. In India, life and health insurance assume particular importance due to rising healthcare expenditure, income uncertainty, and the limited reach of comprehensive social security systems.

Under the Goods and Services Tax (GST) regime, insurance services were historically treated as taxable supplies. Consequently, policyholders were required to pay GST in addition to the base premium charged by insurers, thereby increasing the effective cost of insurance. This raised an important policy concern: whether essential risk-protection products should be taxed in the same manner as ordinary commercial services. The issue was especially relevant in India, where insurance penetration remains relatively low despite Insurance industry's growth.

A major policy change occurred when the Government of India exempted all individual life insurance and health insurance policies, including reinsurance of the same, from the purview of GST with effect from 22 September 2025. The applicable GST rate on these products was reduced from 18 per cent to zero, while group insurance policies continue to attract 18 per cent GST.

The significance of the reform becomes clearer when viewed against India's insurance indicators. According to IRDAI Annual report, overall insurance penetration declined to 3.7 per cent of GDP in FY 2023–24, compared with 4.0 per cent in FY 2022–23. This decline was due to dip in life insurance penetration rate from 3 percent to 2.8 percent. In FY 2024-25, While the overall insurance penetration remained unchanged at 3.7 per cent, the Life insurance penetration declined further to 2.7 per cent from 2.8 percent. These trends indicate that insurance expansion remains a structural challenge.

Against this backdrop, the GST exemption represents a significant intervention in fiscal policy, welfare economics, and financial inclusion. This article analyses the impact of the reform from multiple perspectives and evaluates its broader implications for India's insurance sector and household financial resilience.

Objectives of the Study

The study is conducted with the following objectives:

1. To examine the rationale behind the removal of GST on individual life and health insurance products in India.
2. To analyse the impact of GST exemption on consumers with respect to affordability and demand.
3. To evaluate the implications of the exemption for insurers and insurance intermediaries.

4. To assess the fiscal and welfare consequences of the reform from the perspective of the government revenue.
5. To examine the broader implications of the reform on insurance penetration, financial inclusion, and macroeconomic resilience.

Research Methodology

The present study is descriptive and analytical in nature and is based entirely on secondary data. The sources include government notifications, official FAQs, regulatory reports, policy statements, and various websites. The methodology is primarily qualitative and tries to evaluate the likely and emerging implications of the GST exemption on insurance products in India.

Conceptual Framework

Insurance-sector development is commonly assessed through two internationally accepted indicators: insurance penetration and insurance density. Insurance penetration refers to the ratio of total insurance premiums to Gross Domestic Product (GDP), while insurance density refers to per capita premium expenditure, usually expressed in U.S. dollars. These indicators are useful because they capture both the macroeconomic importance of the insurance sector and the degree of household participation in insurance markets.

Recent evidence confirms that India remains underinsured. In FY 2024–25, insurance penetration stood at 3.7 per cent, significantly below the reported global average of 7.3 per cent. Insurance density was US$97, compared with the global average of US$943. Life insurance density stood at US$72, while non-life density stood at US$25. In FY 2024–25, overall penetration remained at 3.7 per cent, while density improved marginally by two dollars from US$95 to US$97.

Before the exemption, individual life and health insurance premiums were subject to Eighteen per cent GST, directly increasing the final amount payable by consumers. For price- sensitive individuals, especially lower and middle-income households, first-time buyers, and senior citizens—this additional burden could materially affect the purchase and renewal decisions.

However, the reform is analytically more complex than a simple tax cut. While consumers no longer pay GST on the final premium, insurers may face restrictions in claiming input tax credit (ITC) on various business inputs such as commissions, technology services, office rent, and outsourced administration. As a result, part of the tax burden may remain embedded in the premium structure. Thus, the exemption of GST on Insurance services causes **(**i) reduction in the visible premium burden for consumers, and (ii) possible increase in embedded costs for insurers due to ITC constraints.

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Review of Literature

The literature on insurance taxation always highlights a trade off between revenue mobilisation and social welfare promotion. Life and health insurance are widely regarded as merit-oriented financial services because they generate both private and public benefits. They
reduce household vulnerability, support long-term financial planning, and mitigate the economic consequences of illness and mortality.

Insurance Industry experts opine that the benefits of GST exemption may not be fully transmitted to consumers if insurers are unable to offset GST paid on inputs such as commissions, software services, office rent, and outsourced servicing. Therefore, the literature supports the proposition that GST exemption is welfare-enhancing in principle, but the actual magnitude of benefit to consumers is subject to interplay of different factors such as competition among the insurers, cost structure of the insurers and regulatory oversight of the government.

In the article, 'Tax Reform and Consumer Relief: A Study on the affordability of Health Insurance Under GST 2.0'(2025), the author Prof. Raksha Hv. opined that GST 2.0 has increased the affordability of health insurance by decreasing the effective tax rate and the article concludes that, continuous policy surveillance, insurer accountability, and regulation of inflation are necessary to keep the insurance products affordable and increase the coverage.

In the article, 'The Structural and Economic Impact of India's GST exemption on Individual Life and Health Insurance (GST 2.0 Reform) 2026, authored by Smt. Soni Singh Agnihotri, Dr. Shweta Tiwari and Dr. Tapesh Chandra Gupta, authors opined that the long- term success of the reform hinges on whether the resultant growth in policy volumes and associated economic activity can offset the sacrifice of revenue by the government. And the proactive regulatory monitoring by the IRDAI is required to secure the intended social benefits.

Analysis and Findings

From Consumer Perspective:

The most immediate effect of GST removal is improved affordability. The exemption of GST on insurance products lowers the visible premium burden borne by policyholders and thus improves the affordability of existing as well as the prospective policy holders. This reduction of burden is particularly significant and impactful in case of (1) young professionals, as the lower entry costs encourages the young earners to start financial planning early and (2) senior citizens, whose premium rates are high in general,

can gain immediate relief through reduced renewal costs. With no tax added to the premium**,** people have the chance to go for higher coverage with the Same earlier budget.

Lower effective premiums may improve first-time adoption, policy renewal, and persistency. In health insurance, persistency is particularly important because continuity affects coverage of pre-existing diseases, cumulative bonuses, and long-term claim eligibility. In life insurance, reduced premium burden definitely lowers the risk of policy Lapse and leads to improved household financial security.

However, the reduction to the consumer may not be directly proportional to the exempted GST percentage of Eighteen percent. If insurers adjust base premiums upward to compensate for embedded costs arising from ITC restrictions, the effective reduction may be smaller. Some of the recent surveys indicated that some insurers have not fully passed on the benefit to policyholders.

From Insurer Perspective:

For insurers, the GST exemption presents both opportunities and challenges. On the positive side, visible decline in the premium amounts can increase the demand for insurance products, thereby pushing up the customer acquisition, and the policy persistency. In an underpenetrated market like ours, even a modest improvement in affordability can generate meaningful business volume expansion. The removal of GST is expected to drive greater insurance penetration nationwide, making coverage more accessible to a broader segment of the population. Long-Term Opportunities for the insurers are:

1. **Expansion of Market:** with improved affordability, more individuals enter the insurance net. Analysts expect a 15–20% surge in new policy purchases within the first year of implementation.
2. **Higher Retention Rates:** Lower renewal premiums reduce the chances of policy lapses and thus creating more predictable cash flows for insurers.
3. **Sector Growth and Capital Flow** Life insurance companies are major contributors to long-term capital markets. Increased insurance penetration boosts their revenues, investible funds and helps for the economic development of the country.

On the other side, insurers have the risk of escalation in costs, as the exempted output supplies limit their ability to claim ITC on business inputs such as agent and broker commissions, office rentals, technology and software services, advertising expenditure, outsourced policy servicing etc,. If such input costs without ITC facility become embedded in cost structures, insurers may resort to repricing the base premiums, reducing the distribution costs, shifting toward digital and direct channels, or redesigning products for greater cost efficiency etc,. Due to the GST exemption on insurance services, the

insurers particularly the small sized insurers may suffer from strained margins, which can affect their profitability too. Re-aligning the tax structures and accounting processes is one of the major challenges that the insurers should take care of immediately. The reform therefore creates a volume-versus-margin trade-off. Its long-term outcome for insurers depends on whether increased policy volumes compensate for possible margin compression.

From Intermediaries Perspective:

Insurance intermediaries such as agents, brokers, bancassurance partners, and digital platforms are also affected by this reform. Sale of insurance products becomes somewhat easier due to exemption of GST and resultant lowered premium burden.

However, if insurers face ITC-related cost pressures, they may seek to control acquisition and servicing costs. This could lead to pressure on intermediary commissions, greater reliance on direct and digital distribution network, increased competition among agents and brokers, and a gradual shift toward lower-cost advisory and servicing models, posing a threat to existence of traditional agency system. Thus, on one side the reform may improve sales opportunities and on the other side it may cause acceleration of structural changes in the insurance distribution ecosystem.

From Government Revenue Perspective:

From the government's perspective, the exemption implies an immediate reduction in indirect tax revenue from a large and recurring premium base. Nevertheless, the reform may be justified on broader normative and economic grounds. Governments frequently exempt or subsidise goods and services that generate positive externalities. In this case, the positive externalities include reduced household vulnerability, lower catastrophic health expenditure, increased financial participation and long-term savings mobilisation.

Accordingly, the reform may be viewed as a trade-off between static revenue loss and dynamic welfare gain, where immediate tax collections are sacrificed in favour of broader social and developmental returns.

From Public Welfare, Financial Inclusion, and Macroeconomic Perspective:

The public welfare implications of the reform are substantial. Health insurance reduces out-of-pocket medical expenditure and protects households against hospitalisation-related financial distress. In India, healthcare expenditure remains a major cause of indebtedness and economic vulnerability. Lower-cost health insurance can therefore reduce delayed treatment, distress borrowing, and medical impoverishment. The removal of GST on health insurance products gives boost and push for India's largest welfare strategy 'Ayushman Bharat & Health for All'. By making health insurance

affordable, this reform complements public health initiatives.

Life insurance performs an equally important social function by protecting dependants against the financial distress caused by the death of the primary earner. This is especially relevant for households with a single breadwinner, outstanding housing or education liabilities, or limited liquid savings. The reform is particularly beneficial for senior citizens, who typically face higher premiums due to age-related risk and conservative medical underwriting.

Exempting the Insurance from GST purview also promotes Indian government's mission of financial inclusion (which implies the access of banking facilities, credit and risk protection too, to all the sections of people in the society). The waiver of the tax burden broadened the scope of inclusive financial participation by improving the affordability of rural and semi-urban markets. With the increase in insurance penetration, the demand for services of insurance agents, advisors, underwriters, and support professionals grows and thereby improving the employment opportunities.

At the macroeconomic level, wider insurance coverage can improve economic resilience. Insurance protection enables the individuals and families to absorb shocks without resorting to distress borrowing, or liquidating productive assets. In addition, life insurance companies often invest the premium amounts collected by them in government securities, infrastructure & developmental long-term projects and plays key role in capital formation and long-term economic stability of the country.

The GST reforms, thus tying the individual well-being to the national growth, proved as a rare policy with a win-win situation to all the stakeholders.

1. Discussion

The removal of GST on individual life and health insurance products is best understood as a welfare-oriented fiscal reform with more developmental implications. From the standpoint of consumer welfare, the reform is clearly beneficial because it removes the Eighteen per cent visible tax burden from essential financial protection products.

From the perspective of insurance economics, however, the impact is more nuanced. The elimination of output tax does not necessarily eliminate the economic burden of taxation on consumers, if insurers are unable to absorb the impact of non-availability of input tax credit. In such cases, part of the tax burden may shift from the invoice to the cost structure. Consequently, the success of the reform cannot be judged by mere announced rate of tax exemption but on how effectively the benefit is passed on to the policyholders.

Overall, the reform should not be interpreted narrowly as a tax concession. Rather, it should be viewed as a strategic policy instrument, that promotes insurance

inclusion, insurance penetration and accomplishes the vision of "Insurance for All by 2047."

Conclusion and Policy Suggestions

The 2025 GST reforms have fundamentally reshaped the landscape of financial protection in India. The removal of GST on all individual life and health insurance policies in India, represents a landmark reform at the intersection of taxation policy, financial protection, and social welfare. By reducing GST from Eighteen per cent to zero, the government has materially lowered the visible cost of essential retail insurance products and signalled a clear shift in perception that insurance is not mere a taxable service, but a social necessity.

The analysis concludes that the reform improves the affordability and thereby increase in the first-time adoption and policy renewals. All this, leads to higher insurance penetration and stronger financial inclusion which enhances the household resilience against health and mortality shocks. At the same time, the reform is not free from implementational challenges. ITC restrictions may reduce the extent of actual consumer benefit if insurers pass embedded costs back through higher base premiums. Therefore, the ultimate success of the reform depends on transparent pricing, effective pass-through, competitive marketing strategies and vigilant regulatory supervision. To conclude, the GST exemption on individual insurance products should be viewed not merely as a change in tax system, but as a welfare-enhancing structural reform aligned with achieving India's long-term objective of 'Insurance for All by 2047'.

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