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GST Reform and the Future of Insurance Services in India

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Abstract

The Good and Service Tax (GST) plays a major role in India's financial and service sectors. With the introduction of the Next Gen GST reforms in 22nd September 2025 the government aimed to modernize tax structure. This study explores the impact of Next-Generation GST reforms on the insurance sector in India. The reforms aim to simplify tax processes and improve digital transparency and promote economic inclusivity. This research use secondary data from industrial report and government report to analyze how these reforms influence tax credit availability, premium pricing, and compliance cost and policyholder affordability. The Finding suggests that digital reforms increase short-term cost but they are promoting long-term efficiency and accountability. The reduction or exemption of GST on life, health and crop insurance has made these policies more affordable and encouraging wider participation and financial protection. Overall the Next-Gen GST reforms are expected to make the Indian insurance sector more transparent, technology-driven and customer-centric, thereby supporting national goals of financial inclusion and social security. These reforms not only strengthen India's insurance framework but also contribute to sustainability economic growth and inclusive financial development.

Key words: Next-Generation GST, insurance sector

Introduction:

The next-generation GST reforms represent a significant step towards simplifying India's indirect tax system. Now people can avail the benefit of GST reforms, which already came into effect from the 22nd September 2025.Under the new structure, the GST council has simplified the earlier four-tier structure of 5,12,18,28 percent into a two-tier structure of 5 and 18 percent. By reducing the tax rates on a wide range of goods and services, the reforms are bringing substantial relief to citizens.

A report: The government has made significant tax reduction in the healthcare sector to provide relief to the common man. The GST rates on health and life insurance premium, which earlier attracted 18%, have now been made completely tax-free. This move is expected to encourage wider adoption of health insurance, reducing out-of-pocket medical expenses for middle-class families. The government has also waived off taxes on 33 life-saving drugs used for the treatment of cancer and severe chronic diseases to provide affordable and long-term chronic illnesses. Along with that, the GST on various medicines and medical equipment such as gauze, bandages, diagnostic kits, glucometers and thermometers have also been slashed to 5% from previously taxed 12%.Talking to the Akashvani News, Suyogya Shukla a resident of Lucknow Uttar Pradesh, said that the reduced GST on medicines and insurance are going to benefit people and ease the financial burden. Overall the decision to lower cost of medical services has directly eased the financial burden on the people.

The study analyzes the impact of next-generation GST reforms on India's insurance sector, focusing on taxation, compliance and growth. The findings of study give clear road map to policymaker and policy taker.

Key words: Next-Generation GST, Four-tier structure, Two-tier structure, Health insurance, Tax reduction, Tax-free premium, Economic growth, Financial burden.

Literature Review:

Roojen (2018) the author studied that the Government only financed 23% of the total healthcare expenses. The poor and in danger groups used tax based funds to improve their healthcare capacity. But the chances of success are limited because of very low availability of government incomes. The community member lake of money in a common healthcare fund under a community based health insurance and it look like more suitable for the people of the rural areas.

Dani (2016) as insurance sector is growing sector in India. The tax slab has left many people worried about the rise in insurance premium. After analyzing various papers and our own primany data we found that. Though the premium price have become costlier in has impacted vary minimal.

Pudari (2017) a policyholder pays service tax only the risk factor of the premium component, whereas the investment factor of the insurance plans usually is not included in the service tax umbrellas. After the GST is implemented, insurance plans, including life, motor and health would become more costly as taxes would be hiked.

Sankaran (2017) Company policy in which they feel since the price rise of tax from 15% to 18% the company are not in ownership in baring the increase the hike price as the improvement of insurance in India is in promising stage and company cannot bear whole burden so they should bear some burden like the total rise 2.6%.The company should bear 1% at least. This will help the customer to ease on initially and then increase it to full 2.6%.

Agrwal (2017) the government also should funding the companies as they have directly increase 18% GST rather than taking it slowly. They have exempted all the government yojana out of GST which is biased to other insurance plans. As the government is planning to increase the sale of government implemented insurance products.

Banik (2017) the insurance sector is rising and it is contributing 3.7% to our GDP. So the growth cannot be stopped as more people are being aware of the significance of assurance. No matter of insurance premium rates people will purchase if he or she feels the importance of natural life.

Objectives:

- To analyze the effect of Next-Gen GST reforms on various segments of the Indian insurance sector.
- To examine changes in premium pricing and tax liability before and after GST reforms.
- To evaluate how GST reforms make insurance more affordable and help more people get insurance coverage.
- To find how GST reforms affect the cost of insurance and how many people can get it.

Research Methodology:

- **Hypothesis:**

H01: Next-Gen GST Reforms have no significant impact on the insurance sector in India.

H10: Next-Gen GST Reforms have significant impact on the insurance sector in India.

- **Research Question:** What are the impact of Next-Gen GST on insurance premiums and tax liabilities in India?
- **Research Design:** This study should be using **analytical** and **descriptive** research design and comparing data from the pre-reform and post-reform periods.
- **Sources of data:** Government websites(GST council, PIB, Ministry of Finance, IRDAI annual reports)
- **Tool for analysis :** Mean, Median, Standard Deviation

Analysis & Interpretation:

Table 1: Comparison between premium before and after Next-Gen GST

Insurance Sector/ Category	**GST Before reform (2020-2024)**	**GST After reform (22nd sep.2025)**	**Premium before reform (2020-2024)**	**Premium after reform (22nd sep.2025)**	**Impact & Interpretation**
Individual life insurance(term, ULIP endowment, Individual policy)	18%	0%	10,000 (18%)1800 = 11,800	10,000 0 =10,000	A) Complete GST ex emption significantly lower cost B) Major tax removal increase affordable cost. Support national healthcare security.

Individual healtl insurance(individual, family senior citizen)	18%	0%	10,000 (18%)1800 = 11,800	10,000 0 =10,000	A) Complete GST exemptio significantly lower cost. B) Major tax remova increase affordable cost. Support national healthcar security.
Group life& group healtl insurance(employer/corporate policies)	18%	18%	10,000 (18%)1800 = 11,800	10,000 (18%)1800 = 11,800	A) No change B) Group insurance remain same structure.
Crop insurance unde PMFBY (governmen sponsored schemes)	12%	0%	10,000 (12%)1200 = 11,200	10,000 0 =10,000	Enhance financial protectio for farmer and rural area.
Motor insurance(privat vehicle-third party& comprehensive)	12%	18%	10,000 (12%)1200 = 11,200	10,000 (12%)1800 = 11,800	High mobility relate protection expenses fo citizen.
General insurance fo business(fire, property liabilities, marine, motor for busines assets)	18%	18%	10,000 (18%)1800 = 11,800	10,000 (18%)1800 = 11,800	A) No change. B) General insurance remain same structure.
Travel insurance(domestic/internatio nal)	18%	12%	10,000 (18%)1800 = 11,800	10,000 (12%)1200 = 11,200	Reduction on travel insuranc & makes travel cost effective
Marine insurance	18%	16%	10,000 (18%)1800 = 11,800	10,000 (16%)1600 = 11,600	A) Minor reduction B) Benefit for logistics sector C) Support t exporters/importers.
Personal accident insurance	18%	12%	10,000 (18%)1800 = 11,800	10,000 (12%)1200 = 11,200	Reduction on acciden insurance & give strengthen to personal security

NOTE: GST values for travel insurance (domestic – 12% & international – 18%)

The Next-Gen GST reforms implemented from 22nd September 2025 have influenced multiple insurance sector. The following subsections analyzed sector-wise impacts in terms of GST rate change, premium cost and overall affordability.

❖ HEALTH INSURANCE COVERAGE AND GST IMPACT:

✓ According to government data, the total population of India in 2025 is 1,463.9 million but Approximately 514 million people across India were covered under health insurance schemes in 2021, which merely covers 37% of people in country.

✓ Nearly 400 million individuals in India have zero access to health insurance.

✓ Around 70% of the population is covered under public health insurance or voluntary private health insurance. The remaining 30% of population-over 40 crore individuals, devoid of health insurance.

✓ This complete GST exemption has significantly lower the cost of life insurance policies, making them more affordable and encouraging wider financial inclusion.

✓ It also supports national financial security and benefit to middle-class policyholder by promoting long-term saving and protection plans.

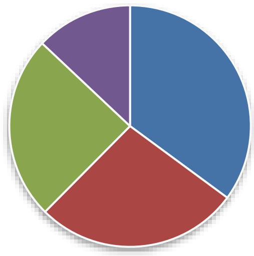

Figure1: Population coverage under the Health Insurance in India

❖ CROP INSURANCE UNDER PMFBY COVERAGE AND GST IMPACT:

✓ The PMFBY was launched during the kharif 2016 season as a demand driven and voluntary crop-insurance scheme for all states and Union Territories.

✓ PMFBY has insured about **78.41 crore** farmer applications and disbursed over **1.83 lakh crore** in claims as of August 2025.

✓ Farmers enrolment under PMFBY increased by nearly **32%** in FY 2024-25-from **3.17 crore** in FY 2022-23 to **4.19 crore.**

✓ According to the official PMFBY dashboard, the total area insured under the scheme reached approx.**27.83Billion hectares** across India in recent season.

✓ A major part of the "Next gen-GST" reform is the complete removal of the 18% GST previously charged. This make insurance affordable for farmers who opt for personal coverage outside of the specific crop insurance scheme.

✓ The "Next gen-GST" reform provide substantial indirect benefits to farmers by reducing GST on essential agriculture inputs and machinery from 12-18%dowm to 5%

- **Tractor & Parts :** GST reduce from 12-18% to 5%
- **Farm equipment**(harvesters, threshers, etc.):GST reduce from 12-18% to 5%
- **Irrigation system(**drip& sprinklers**):**GST reduce from 12-18% to 5%

✓ This reform provides major relief to farmer by lowering insurance cost and increasing accessibility in rural areas.

✓ It strength agriculture risk management and supports the government's financial protection for farmers.

❖ MOTOR INSURANCE COVERAGE AND GST IMPACT:

✓ As of 2024, out of roughly **36.7 crore registered vehicles** but approx.**53%** vehicles **operate without the mandatory third-party motor insurance.**

✓ GST on **two-wheelers (≤350cc)** and **small cars** cut from **28% to 18%,** enhancing youth mobility. The reduction in GST makes small cars more affordable and encouraging first time buyers to invest in personal mobility solution.

✓ **GST on buses** (with seating capacity 10+ person) has been **reduced** from **28% to 18%.** Because it reduces upfront cost for fleet operators, schools, tour-operators and stat transport.

✓ **Motor insurance** continuous to attract **18% GST** except for a few commercial vehicle categories like goods carriage.

✓ The increase tax on motor insurance reflects **higher mobility-related risk coverage** and ensures **sustainability of vehicle protection schemes and supports road safety and gives financial protection** for vehicle owners.

❖ GENERAL INSURANCE FOR BUSINESS COVERAGE AND GST IMPACT:

✓ General insurance for business includes policies such as **fire insurance, property insurance, marine insurance, and liability insurance** this all type of insurance protecting firms from financial losses due to accident, disasters or legal liabilities.

✓ Under the **Next-Gen GST,** the GST rate on business insurance **remain same 18%,**

✓ The uniform GST rate has simplified **premium accounting and tax compliance** for corporates, reducing cascading effects the existed under the pre-GST tax structure.

✓ It supports **corporate risk management** without introducing additional financial burden.

❖ TRAVEL INSURANCE(DOMESTIC/INTERNATIONAL) COVERAGE AND GST IMPACT:

✓ In the consumer study on the international travel behavior of Indians about **92% people** intend to purchase travel insurance for international trip.

✓ The study found that awareness of travel insurance increased with progress of the family stage.

✓ According to sources **couples with kids (94%), couples with no kids (92%)** and **single (87%)** will take travel insurance.

✓ But after the GST reduction from **18%** to **12%** has made travel insurance affordable and makes travel insurance affordable.

✓ High awareness among couple with families and young travelers shows that affordability plays a vital role in purchase decision. Next-Gen GST reforms have positively influenced consumer intent, especially for international travelers.

✓ It also enhances **travel safety coverage** and **support Indian tourism.**

❖ MARINE INSURANCE COVERAGE AND GST IMPACT:

✓ Marine insurance provides protection for ship, cargo and marine transport.

✓ The Indian marine insurance market recorded premium **5091 crore** in **FY2023-24**

✓ Raising **war** and **policy risks** have increase cargo premiums by **15-30%** for routes in 2024.

✓ The next-Gen GST reform reduced the rate from **18%** to **16%,**offering **minor cost reduction** to exporters and importers

✓ This tax relief **support shipping and export industries,** though overall benefit remains moderate due to high global risk surcharges.

✓ Policy reforms enhance **financial protection** and **encourage domestic marine insurance capacity.**

❖ PERSONAL ACCIDENT INSURANCE COVERAGE AND GST IMPACT:

1. Under the scheme Pradhan Mantri Suraksha Bima Yojana (PMSBY), the government reports around **47.59 crore individuals** take personal accident insurance.

2. Accidental death cum disability covers of Rs.2 lakh (Rs.1 lakh in case of partial disability) for death or disability due to an accident against a premium of ₹ 20 per annum.
3. For the year 2022-23 the industry reported covering **119.01crore lives** under the personal accident insurance.
4. GST reduce from **18%** to **12%** lowering the total premium.
5. This change **reduces the cost of accident coverage,** encouraging individuals to opt for personal safety plans.
6. It gives social security and aligns with the government's vision of inclusive protection for all citizens.

Overall, the Next-Gen GST reforms have reduced tax rates on health, life and crop insurance while maintaining stability in business insurance. These measures have enhances affordability and improve government system of social protection.

Analysis:

Table 2: Percentage change in insurance premiums before and after Next-Gen GST

Insurance Sector/ Category	**Before (2020-2024)**	**After (22nd sep.2025)**	**% Change** $\frac{\text{After} - \text{Before}}{\text{Before}} x100$	**Change type**
Individual life insurance	11,800	10,000	$10{,}000 - 11{,}800/11{,}800$ X100 = **-15.25%**	Decrease
Individual health insurance	11,800	10,000	$10{,}000 - 11{,}800/11{,}800$ X100 = **-15.25%**	Decrease
Group life& group health insurance	11,800	11,800	$11{,}800 - 11{,}800/11{,}800$ X100 = **0%**	No Change
Crop insurance under PMFBY	11,200	10,000	$10{,}000 - 11{,}200/11{,}200$ X100 = **-10.71%**	Decrease
Motor insurance	11,200	11,800	$11{,}800 - 11{,}200/11{,}800$ X100 = **+5.36%**	Increase
General insurance for business	11,800	11,800	$11{,}800 - 11{,}800/11{,}800$ X100 = **0%**	No Change
Travel insurance	11,800	11,200	$11{,}200 - 11{,}800/11{,}800$ X100 = **-5.08%**	Decrease
Marine insurance	11,800	11,600	$11{,}600 - 11{,}800/11{,}800$ X100 = **-1.69%**	Slight Decrease
Personal accident insurance	11,800	11,200	$11{,}200 - 11{,}800/11{,}800$ X100 = **-5.08%**	Decrease

Table 3: Mean and Standard Deviation calculation of premium changes

Insurance type	**% change (X)**	**x-mean**	$(\mathbf{x - mean})^2$
Individual life	-15.25	-9.95	99
Individual health	-15.25	-9.95	99
Group life& health	0	5.30	28.06
Crop insurance	-10.71	-5.41	29.27
Motor insurance	+5.36	10.66	113.63
General insurance	0	5.30	28.09

Travel insurance	-5.08	0.22	0.05
Marine insurance	-1.69	3.61	13.03
Personal accident	-5.08	0.22	0.05
Total	**-47.70**		**410.21**

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Interpretation:

1. Life and Health insurance: seen -15.25% reductions due to **complete GST exemption.**
2. Crop insurance: also reduce by -10.71% because of **tax relief in rural sector.**
3. Motor insurance: increase by 5.36% due to **improve safety of drivers.**
4. Marine insurance has been slightly decrease by -1.69% because **of support shipping industry.**
5. Travel & Personal Accident both are reduced by 5.08% due to make **travel insurance affordable** & **give protection for all citizens.**
6. Group life/health and Business insurance **premium remain unchanged**

Mean	-5.30%	On average premiums decrease by 5.3% after GST reform.
Median	-5.08%	Half of the insurance types had reduced by 5.08%.
Standard deviation	6.75%	Based on standard deviation we interpret moderate variation in changes. Due to sharp fall in life & health insurance.

- **Hypothesis interpretation:**

Based on null hypothesis "Next-Gen GST Reforms have no significant impact on the insurance sector in India."**-has been rejected**. The alternate "Next-Gen GST Reforms have significant impact on the insurance sector in India."**-has been accepted**. The reason behind accepting alternate hypothesis is results clearly indicates Next-Gen GST playing major role in insurance sector.

Conclusion:

The present data analyzed the effect of the **Next-Generation GST reforms (2025)** on the Indian insurance sector using descriptive and analytical tool. The results showed that insurance premium has been decrease by average 5.3% because of sharp drop/completely exemption in life and health insurance. But in other side motor insurance showed highly increase it has playing major role in structural changes in indirect taxation.

This study conclude that the Next-Gen GST reforms have positively influenced on India's insurance sector. These reform made insurance **affordable** by reducing or removing tax rates. As result now more people can buy different type of insurance. These changes also promoted financial inclusion by encouraging citizens' protection through affordable insurance. No tax on health, life and crop insurance showed that strength of national health security and support farmer and give protection rural area through government schemes such as PMFBY.

Overall, the reforms simplified the tax structure, reduce cost for citizens and increased security and public participation in both insurance company public or private. In India where citizens from all income groups' now affordable tax plan can help them to give protection from health, business, agriculture, travel, marine etc. risks.

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