

GST impact on insurance less harsh than feared, say insurers

Schemes For Underprivileged, Micro-insurance Life Products To Be Exempt

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Chennai: GST's impact on insurance premiums will be much less than feared, said insurers, who expect no adverse fallout, but long-term benefits like a simplified tax structure. Insurers also point to the fact that service tax rates have been increased a couple of times in the last decade with no visible negative impact.

"The GST impact on policies for the common man will be at a minimum. For instance with the Pradhan Mantri Fasal Bima Yojana, a 3% increase in taxation will hardly result in a few paise increase. Likewise, even for high-end customers who take mediclaim policies worth a few crores, a few hundreds wouldn't matter," said Tapan Singhel, CEO, Bajaj Allianz. The impact of GST is the lo-

NO ADVERSE FALLOUT

Insurers say that the GST impact on insurance premiums might not be as high as feared earlier. Endowment policies see the lowest impact (taxation lowers after the first-year), while ULIPs, health policies are seeing the most impact

Type of policy\ premium	GST rate on charges	Effective GST rate on premium	Current service tax rate on premium	Difference (%=100 bps)
Endowment - first year*	18%	4.50%	3.75%	75 bps
Endowment - second year*	18%	2.25%	1.88%	37 bps
Single premium annuity products	18%	1.80%	1.50%	30 bps
Term/rider/health	18%	18%	15%	300 bps
ULIP charges	18%	18%	15%	300 bps

west on single premium annuity products (30 bps) (100 basis points=1%), endowment poli-

es — and highest for term, health and ULIP policies (300 bps). One of the biggest misun-

derstandings insurers say is that many people think the GST is on the premium — when the taxation is actually on the charges for that premium amount. Insurers also point out that taxation is highest in the first year and reduces as the policyholders over the second year, third year and others.

"To give an example, on a pure term plan if the premium (without service tax) is Rs 10,000 per annum the total outflow for the consumer will increase from Rs 11,500 per annum to Rs. 11,800 per annum. In case of ULIPs the GST will be applicable only on charges and not on the portion of money invested on behalf of the consumer. In traditional endowment plans, the effective GST rate would be 4.5% for first year premium and 2.25% for renewal premium as compared to current service tax

of 3.75% and 1.88% respectively," said Prashant Tripathy, senior director and chief financial officer, Max Life Insurance Company.

"GST will marginally increase the premium policyholders will have to pay. But, as life insurance companies will be net payers of GST, there is no possibility of passing on any GST credit to policyholders," he added. Some of the financial-inclusion focused life insurance schemes targeted at the underprivileged sections of society like the Janashree Bima Yojana and Aam Aadmi Bima Yojana (AABY) are exempt from taxation. Likewise micro-insurance life products are also exempt from GST. But some critics say that more products could have been exempted from GST, given that insurance penetration in India is at a low of 3.4%.