

STUDY OF IMPACT OF GST ON INSURANCE POLICIES AND POLICY HOLDERS

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Abstract

GST is the act of unifying all taxes in India. It has removed all the indirect taxes and a single tax reform has been formed called GST. The idea of this paper is to understand the impact of Goods and Service Tax (GST) on insurance policy holders and agents. Opinions and view of the insurance agents and insurance policy holders were collected through the interviews and by administering the structured questionnaire. It was observed that the GST have a positive impact on insurance sector in India though there were negative views in the minds of both the insurance agents and insurance policy holders during the initial phase of implementation of GST.

Keywords:

GST;
Life Insurance;
General Insurance;
Insurance Sector;
India.

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1. Introduction

Goods and service tax has changed the tax structure between centre and state in India. It has unified all the current indirect taxes under the Dual Tax structure of GST. It is a pioneer reform for Indian economy going forward. GST has cascaded the double tax effect of goods and services. The tax slabs set by government are 5%, 12%, 18%, 28%. All goods and services sold in India fall under these tax slabs. GST has impacted the Insurance sector in an obstructive way by setting a tax slab of 18%. Not only insurance industry but also the policy holder got effected. The various industry leaders opined that the increase in GST rates would be passed on to policy holders hence the customers or policy holders would be paying the additional tax effected by GST. This will directly impact the premium prices which will increase insurance premium and the customers has to bear it. This will impact the customers mind set on paying high prices for the insurance they have taken earlier or they are planning to take in future.

The premium paid by policy holder or the customers is based on the type of policy they buy. Insurance Policy are categorised as Term plan, ULIP, Motor insurance, Endowment Plan, Health Insurance Plan.

Term Plan

The term plan offers risk protection and only gives the death benefits for the sum assured to the nominee. Before GST, the service tax was 15%. After GST, it has risen to 18% which the policy holders has to pay. This implies the premium will get costlier by 300 basis points or by 3%.

Endowment plan

Endowment plans is savings plans offering maturity benefits and death benefits whichever occur first. The premium of endowment plans attracted a service tax of 3.75 % in the first year of the policy, now it will rise to 4.5 % in the first year under the new GST rule. 1.88 % of the service tax which was levied on endowment plan's premium for the second year, is expected to rise to 2.25 % from the second year onwards after the implementation of GST.

ULIP

Unit Linked Insurance Plans (ULIPs) offers dual benefit of insurance as well as investment. In the pre-GST era, a service tax of 3.5 % was levied on protection part of ULIPs for the first year

and 1.75 % from second year onwards. These charges would go up to 4.5 % for the first year and 2.25 % from second year onwards after the GST implementation.

Health Insurance Plan

Before GST, health plan premiums attracted a service tax of 15 % on its premium cost. After the implementation of the GST, the cost of purchasing the health insurance became expensive as it attracts a tax of 18 % on premium post GST.

Motor Insurance

Motor insurance premium attracted a service tax of 15%, which rose to 18% from July 2017 (DHAWAN, 2017). The question here arises if the hike in tax would impact the decision of buying insurance or not. It is evident that GST will make buying insurance little expensive compared to pre-GST era, but it is imperative for anyone to secure their life, especially when the person is the sole bread-earner for the family. Life insurance plans like term plans are the important insurance plans that help the family to compensate financially. So through this research paper, we are trying to find out what the policy holders or customers think about the price hike of premiums and the implications of GST on insurance.

This research paper primarily focuses on the impact of GST on insurance sector and if the policy holders still would buy the high premium insurance. In recent times the awareness of insurance has increased rapidly as people want to secure their life and other aspects. Will the rise in price impact their decision? This research study focuses on the policy buyer's behaviour towards rise in price.

Relevant Literature

As insurance is growing sector in India raising the tax slab has left many people worried about the rise in premium prices. After analysing various research papers and our own primary data we found that. Though the premium prices have become costlier in has impacted very minimal. (Dani, 2016)

A policyholder pays service tax only on the risk factor of the premium element, whereas the investment component of the insurance plans usually isn't included in the service tax umbrella.

After the GST is implemented, insurance plans, including life, motor, and health would become more expensive, as taxes would be hiked (Pudari, 2017).

The customers are centre to the insurance selling by putting whole increase in the insurance premium on customers is not fair and it will slow down the insurance growth initially. (Antony, 2018).

But some feel as the Insurance is growing and it is contributing 3.7% to our GDP. So the growth cannot be stopped as more and more people are being aware of the importance of insurance. So the author's focused more on customers as they are the key more people aware of it more will buy. No matter of premium rates people will buy if he or she feels the importance of life or the life of the product (Banik, 2017).

Next authors focused of the company policy in which they feel since the price rise of tax from 15% to 18% the company are not in possession in baring the increase the hike price as the growth of insurance in India is in nascent stage and company cannot bear whole burden so they are enforcing the price rise on customers. Though we understand the company stand but they should bear some burden like the total rise 2.6%. The company should bear 1% at least. This will help the customers to ease on initially and then rise it to full 2.6%. (M.Sankaran, 2017).

The government also should support the companies as they have immediately increased to 18% rather than taking it slowly. They have exempted all the government yojaja out of GST which is unfair to other insurance plans. As the government is planning to increase the sale of government implemented insurance products. (Agrawal, 2017).

The study covers procurement of new insurance policies, collection of renewal premium, awareness among the customers, need of training for insurance people to adapt to the changes and growth of insurancebusiness.

2. Objectives of the study

This research study primarily focuses on the impact of GST on insurance sector and if the policy holders still would buy the high premium insurance. In recent times the awareness of insurance

has increased rapidly as people want to secure their life and other aspects. Will the rise in price impact their decision? This research study focuses on the policy buyer's behaviour towards rise in price.

The study was undertaken to understand the following points:

- the effect of GST on insurance business
- people's attitude towards buying insurance products
- impact on job of insurance agents
- growth of insurance sector

Relevant data was collected by taking personal interviews of insurance agents and customers and collect the responses by administering the structured questionnaires. The researchers interacted with 30 insurance agents from the cities of Pune and Mumabai. The researchers also conducted the interviews of insurance policy holders. The questionnaire was administered over 150 insurance policy holders and out of 150, 128 completed responses were finally used for the analysis. The sampling techniques used was stratified random sampling.

ANOVA is used to analyze the differences among group members in the selected samples. The data was put to ANOVA test to find out the F critical value and find whether the observed F value is less than or greater than calculated F value.

3. Results and Analysis

Initially when the premium rates were increased because of implementation of GST, the sale of insurance policies droppeddown but soon the scenario changed as the insurance business got to normal. The reason is although the rates are high, on the other hand the awareness of buying insurance has been increasingamong the people

What the GST has done? It has made people to think of other insurance products where the risk is low. Now people know various insurance products like AamAadmiBimaYojana, Pradhan MantriJeevanJyotiBimaYojana, Pradhan Mantri Jan DhanYojana, Pradhan MantriVayaVandanYojana which are exempted for tax calculations by Government and the agents are also earning money by selling these products (India, 2017).

The business of agents has flourished as compared to pre-GST era. Customers' continuous investment in insurance has led to the growth of income of insurance agents. Insurance agents have majorly received high rate of commissions through single premium policies sale. Hence, the business of agents has increased over the time.

The insurance agents gained a better understanding through training and gained knowledge regarding the changes after GST and hence were able to cope up with the changes and were able to sell products more effectively. Most of the customers knew about the increase in premium policy amount but the general views shows that the getting insurance is far more important than the increase in premium prices.

Table 1 : ANOVA test

ANOVA test

	Agents			
	n	Mean	SD	(x-x") ²
Impact on business	30	2.1	0.32	0.4624
Current Performance	30	2.1	0.32	0.4624
Income earning	30	1.82	0.46	0.9216
Customer awareness in increase in premium	30	4.33	0.795	2.4025
Growth in business	30	3.35	0.305	0.3249
	Mean	2.74		4.5738
	Customers			
	n	Mean	SD	(x-x") ²
Impact on business	128	2.52	1.26	6.350
Current Performance	128	1.80	0.90	3.240
Income earning	128	2.10	1.05	4.410
Customer awareness in increase in premium	128	3.35	1.675	11.222
Growth in business	128	4.33	2.165	18.74
	Mean	2.82		43.96

F	0.003027637
DOF C-1	1

N-C	8
Level of significance	5%
F critical	3.45792

There is a positive effect of the implementation of GST on insurance industry. The policy holders want to invest their money in bulk, hence, the sale of single premium policy has increased over the time and thus, there is an increase in growth of business. Agents dealing with premium and high net worth customers have seen increase in commission rates because of the implementation of GST and increase in its price. Due to the increase in the price of premiums, agents dealing with middle and low income earning customers were slightly affected and so the customers were not willing to buy policies for a short while. To counter these, new policies were introduced by the insurance companies as per the current market scenario. Customers hailing from rural backgrounds are the most affected as they fall under middle and low earning income groups.

A survey was conducted which comprised of 15 questions related to individual's insurance buying preferences which received 128 responses. Hence, the inferences and conclusions are based on the responds received from these individuals.

The respondents were found to be in the age brackets of 20-30 years (41.4%), 30-40 years (33.6%), 40-50 years (23.4%) and above 50 (1.6%). So a majority portion of the respondents are under the age of 20-30 years.

Most of the respondents are working in the private sector i.e. 35.9%, followed by Government employees (27.3%), self-employed (18.8%) and students (18%). A majority of respondents are earning income of more than 10 lacs per annum i.e. 61.7% followed by those who are earning 5-10 lacs per annum i.e. 19.5%. Hence, most of the respondents are capable of buying insurance policies and having sufficient coverage. A significant amount of respondents are students as well i.e. 18.8% and therefore the survey shows a diverse

perspective and views of earning as well as non-earning categories of population.

Which insurance policy have you taken

127 responses

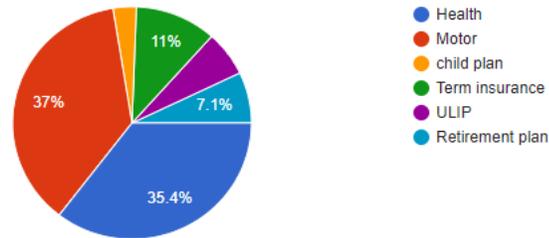


Figure1: Type of insurance policy

A significant number of respondents have taken health and motor insurances. Motor insurance is taken by 37% of respondents and health insurance is taken by 35.4% of respondents followed by term insurance which is taken up by 11% of respondents. This shows that how important health and motor insurance are and how widely they are preferred over all other types of insurance policies.

Most of the respondents (i.e. 94.5%) agree that they want to buy insurance policies and are aware about the importance of insurance policies to cover themselves as well as their families. So we can say that insurance today is one of the most important way of covering risks related to a person which is being widely accepted.

As most of the respondents are from working class as well as already have insurance policies, they are pretty familiar about the GST (93%) and about the changes in premium prices of insurance policies because of GST (89.8%). As the prices of premiums have increased, 88.3% respondents say that this move is going to impact their insurance buying mindset. This move has affected the mindset of people of buying new policies but it was restricted to a small amount of time and has been recovered in a short span of time. But the move certainly lasted an impression under the mind of customers. A large portion of customers are not comfortable in paying these elevated premium prices. The most affected are the ones who belong to medium and low earning brackets and the same has been found in our research as well. 78.1% respondents don't want to pay the increased

premium charges and are not comfortable with the increase in premium prices under GST. 14.8% of respondents are not sure if they want to pay the new prices which could be an indicator that most of the customers are still going to pay the new premium prices in spite of their unwillingness because insurance is an important aspect of life. A small portion of respondents are comfortable in paying the new charges. A significant number of respondents have taken health and motor insurances. Motor insurance is taken by 37% of respondents and health insurance is taken by 35.4% of respondents followed by term insurance which is taken up by 11% of respondents. This shows that how important health and motor insurance are and how widely they are preferred over all other types of insurance policies.



Figure 2: Readiness of policyholders to pay extra premium

A huge chunk of respondents (78.9%) say that it is not fair to charge the extra premium solely by policy holders. Hence, this shows that customers are going to bear the grunt of elevated charges and are not in favour of bearing this alone. The research also shows that majority of respondents (93%) want insurance providers or the insurance companies to bear some of the tax charges that are applied to the customers. So the customers are of opinion that the insurance companies share a part of this tax with the customers so that customers alone are not affected because of this and they can buy much more policies than they have right now. Also, 91.4% respondents say that instead of increasing the GST charges, Government should further decrease the tax slab charges to 12% so that the insurance is easily accessible to even the lowest income groups.

Rate the impact of GST on your mind set for buying a insurance policy

128 responses

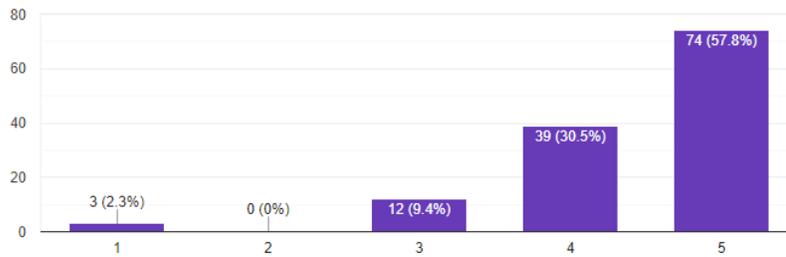


Figure 3: Impact of GST on buying policy

In general, customers do not agree with the increased new tax slab of GST for insurance premiums and want the charges to be decreased or even removed. Insurance in today's world is of utmost importance and acts as a financial shield for anyone. Therefore, this service should be easily affordable and available for all the classes of society. This is possible if the tax rates that are applied on them are relaxed or removed. Thus customers want the tax rate to be reduced if not removed.

Almost all the respondents (94.5%) agree that GST is a revolutionary change that has been applied in the Indian economy and certainly the country is going to benefit from this move. A simplified tax structure is the base of doing business easily. GST rates have been volatile and are being changed every now and then for different products, services or categories. Hence, we can say that GST is still evolving in our country and the basic amenities or services which are key to anyone's life should be relaxed in the GST regime. These should be charged in a relaxed manner or should not be charged at all. Now, respondents agree to the fact that if one type of insurance policy's premiums are increased, the other types of insurances which are exempted as of now should be included in the new rates. There should not be any disparity amongst the different types of insurance policies and should be charged uniformly.

GST will have a positive effect on Growth of Insurance in India

128 responses

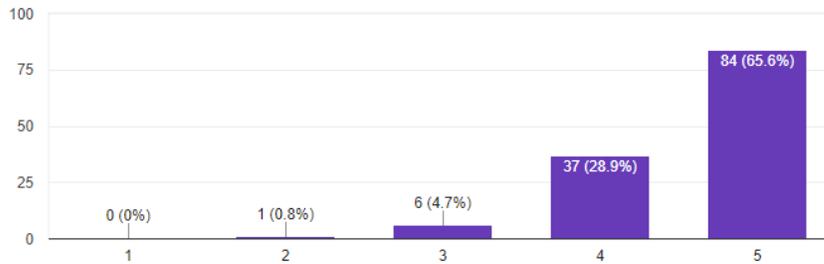


Figure 4: Impact of GST on Insurance sector

These responses show that there is a positive tide of opinion about the increased GST premium charges for insurances in general. But in the initial stages, because of this, there was a slowdown in the overall insurance sector which hampered the growth of the sector for a short span of time. But now the sector is growing more than it was before because people understands how important insurance is and though insurance premium charges are increased for insurance, people are still going to buy policies. Hence, the overall sector is growing at the moment and people have adjusted to the price changes.

4. Conclusion

With the increase in the income of individuals and businesses, the insurance market will expand. As of now, the increase in the price of insurance premiums under GST has a positive impact in the insurance industry. The sale of insurance policies is increasing with the time. This has led to a positive impact on the business of insurance agents. To cope up with the current market situation, new policies are being introduced at much lower premium costs and so the market looks bright in the future

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