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Tax Reform and Consumer Relief: A Study on the Affordability of Health Insurance Under Gst 2.0

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Abstract:
The rollout of GST 2.0 is an important move in the process of tax reforms that India has been pursuing, which would simplify the tax structure for indirect taxes, encourage transparency, and reinforce economic efficiency. This second generation of the Goods and Services Tax (GST) seeks to rationalize the rates of taxation, lower the costs of compliance, and advance consumer well-being through better fiscal mechanisms. In this perspective, the health insurance industry is of crucial importance to consumer well-being as it has a direct impact on the economic security and accessibility of health services among millions of Indian citizens.
This current research seeks to analyze whether GST 2.0 changes have affected the pricing affordability of health insurance premiums in India, especially on the consumer side. The study employs a descriptive approach based mainly on secondary data derived from credible sources like IRDAI reports, GST Council publications, records of insurance companies, and associated government and industry databases.
Initial evidence shows that GST 2.0 has made the tax regime on health insurance policies more rational, resulting in moderate price cuts in premiums and enhanced price transparency. These developments have increased affordability and access, ensuring higher insurance penetration levels among middle-income consumers. The analysis points out that the reform has not just streamlined insurer operations but also provided consumers with relief in terms of costs.
In all, the study contributes critical policy insights highlighting that continued tax clarity and fiscal incentives can further enhance the affordability and take-up of health insurance in India.

Keywords: GST 2.0, Health Insurance, Premium Affordability, Tax Reform, Consumer Welfare, Insurance Penetration, Financial Inclusion, India

1. INTRODUCTION - BACKGROUND OF THE STUDY:

The rollout of the Goods and Services Tax (GST) in July 2017 was one of the most important fiscal changes India's economic history has ever seen. Conceived to eliminate a multi-layered system of indirect taxes, GST brought the system of taxation under a unified national regime, which improved transparency, compliance, and the ease of doing business. But, as with any major overhaul, the first phase of GST, known as GST 1.0, was accompanied by a number of issues, most notably relating to tax slabs being too high and procedural intricacies. With the passage of time, the necessity of a revamped and consumer-friendly system saw GST 2.0 emerge as an improved version of the old system based on simplification, rationalization, and e-integration.

GST 2.0 attempts to correct the structural deficiencies of its ancestor by simplifying tax rates, reducing compliance costs, and providing fairer treatment across industries. One of its key aims is to minimize the cascading effect of taxation and to rationalize the tax system for essential goods and services, such as health insurance, which has a significant bearing on the fiscal prosperity of citizens. Health insurance has increasingly emerged as an essential tool in India with the rise of healthcare expenses, lifestyle-related ailments, and enhanced awareness of financial security against medical emergencies. Though it is crucial, penetration levels in India are not high—mainly owing to issues of affordability and the lack of adequate tax relief instruments.

In the original GST system, health insurance services were subject to taxation at 18%, the same rate as many luxury products, which greatly affected affordability, particularly among middle-class families and the elderly. Not only did this high rate put more premium burden on consumers, but it also prevented new buyers from purchasing insurance. Acknowledging this hurdle, GST 2.0 attempted to relook at the taxation slab applicable to key sectors like health insurance. Reforms in GST 2.0 focus on rationalization of tax slabs, enhanced input tax credit mechanism, and digital compliance systems to increase the operating efficiency of insurers. These are likely to have an indirect positive impact on consumers through lower administrative costs and possibly lower premium rates.

From a policy point of view, reducing the cost of health insurance is also part of the larger objectives of universal health coverage and financial inclusion under national schemes such as Ayushman Bharat. Not only does the affordability of health insurance protect families from medical debt, but it also lends macroeconomic stability through lower public healthcare expenditure burdens. The tax reform impacting the pricing and availability of health insurance thus has huge social and economic consequences.

This research investigates the connection between GST 2.0 reforms and the cost of health insurance in India. Through descriptively analyzing the secondary data available from credible sources like the IRDAI, GST Council, and major insurance companies, the study seeks to determine if the changed tax regime has indeed translated into relief for consumers. It also attempts to identify how rationalized taxation, cost savings, and higher compliance have shaped premium patterns and consumer behavior since the post-GST 2.0 period.

Essentially, this context creates the stage for investigation of how a well-meaning tax reform such as GST 2.0 can transcend policy jargon in order to realize tangible, quantifiable outcomes in consumer welfare, especially in a sensitive area such as health insurance affordability.

1.1 – NEED FOR REFORM: WHY THE TAX STRUCTURE ON HEALTH INSURANCE REQUIRES A REVISION?

The introduction of the Goods and Services Tax (GST) in 2017 was intended to centralize India's indirect tax regime under a single national framework. Nevertheless, in the original framework, health insurance services were subject to a tax of 18%, which was significantly higher than what would be considered for a socially necessary service. This placed health insurance on par with luxury or non-essential services and led to increased premium prices for consumers. The lack of a separate tax category for financial products related to health also deterred a majority of people, particularly middle- and lower-income households, from buying insurance. In addition, insurers had fewer input tax credit opportunities, resulting in added cost of doing business, which, in turn, was being passed on to customers. These factors pointed towards the necessity for a consumer-oriented and rationalized tax regime. The GST 2.0 reform was thus intended to amend the slab rates, ease compliance, and facilitate a more equitable tax burden apportionment. This

amendment had become necessary not only for growing insurance penetration but also to support fiscal policy towards the overall objective of enhancing financial protection and social well-being in healthcare.

1.2 – SECTOR IMPORTANCE: HEALTH INSURANCE AS A GROWING NECESSITY POST-PANDEMIC

The COVID-19 pandemic essentially shifted the way people view healthcare and financial readiness. During and subsequent to the pandemic, health expenses increased exponentially, revealing the susceptibility of those without a proper health insurance cover. The crisis turned health insurance into an indispensable requirement instead of a voluntary outlay. It also hastened the drive for extensive and affordable coverage plans, particularly among middle-class families and workers at small businesses. The economic shock of the pandemic highlighted the need for financial stability, with health insurance as a principal tool of economic security and social protection. Policymakers thus started emphasizing increasing insurance access and affordability through changes such as GST 2.0 aimed at rationalizing the tax on important services. The pandemic also led to insurers launching more inclusive products, electronic settlements of claims, and variable premiums—all needing a facilitatory tax regime. Therefore, health insurance became a vital financial product that promotes individual well-being as well as national health objectives, and tax reform became an imperative initiative to boost India's health security system.

1.3 – STATEMENT OF THE PROBLEM

Even as awareness increases, health insurance penetration in India is low, covering fewer than one-fifth of the population under private insurance plans. One of the prime causes of this narrow reach has been the premium expense, which has been seen by consumers as prohibitive. Under the previous GST regime, an 18% GST on health insurance premiums added a substantial amount to the total expense paid by policyholders, discouraging first-time purchasers and middle-class families. This was contrary to the larger objective of the government to provide universal health protection. GST 2.0 tried to address this disparity by rationalizing rates, enhancing input tax credit mechanisms, and streamlining compliance processes for insurers. Yet, the question still remains—has this reform actually addressed consumer affordability and access to health insurance? This research fills that gap by analyzing whether GST 2.0 has managed to provide real consumer relief in terms of reduced premium prices and enhanced financial affordability, thus gauging its real socio-economic contribution.

1.4 – PURPOSE OF THE STUDY

The primary aim of this research is to explain and compare the relationship between GST 2.0 reforms and the affordability of health insurance in India. The research tries to analyze how the new tax system has affected both the pricing mechanism of insurance firms and the burden on customers. By adopting a descriptive research strategy, the research analyzes whether GST 2.0 has been successful in its avowed objectives of streamlining taxation and advancing consumer well-being in the insurance sector on healthcare. The research also seeks to identify how rationalized tax rates and enhanced credit systems have influenced the overall cost structure of insurance premiums. Through application of secondary data from reliable sources like IRDAI reports, GST Council notifications, and insurer disclosures, the research offers an evidence-based judgment of affordability trends. Finally, the research adds to policy debate by elucidating whether fiscal reforms have ultimately seen benefits in terms of real economic relief and increased insurance penetration for Indian families.

1.5 – SCOPE & SIGNIFICANCE OF THE STUDY

The focus of this research is on the Indian health insurance market in the context of GST 2.0 reforms, highlighting their impact on consumer affordability. The coverage includes individual and family health

insurance policies provided by public and private insurers. The study is based largely on secondary sources from regulator reports, policy documents, and insurer data to assess trends in pricing and affordability following the introduction of GST 2.0. Geographically, the research covers the Indian insurance industry overall, and the findings are generalizable to urban and semi-urban areas.

The relevance of this research is in its contribution to the knowledge about how fiscal reforms have the potential to affect an essential social service such as health insurance. In connecting taxation policy with consumer welfare, the study highlights the broader picture of GST 2.0's implications for financial inclusion and protection of public health. The results are anticipated to help policy-makers, insurance regulators, and industry practitioners make evidence-informed decisions that improve affordability, promote market entry, and advance the national aspiration of universal health coverage.

2. REVIEW OF LITERATURE & RESEARCH GAP

1. Insurance Regulatory and Development Authority of India (IRDAI). Annual Report 2022–23. Hyderabad: IRDAI, 2023.

The IRDAI Annual Report (2022–23) presents a comprehensive analysis of India's health insurance market, including premium development, claim ratios, and changing consumer trends. The report points out that while consistent growth in the volumes of policies sold, affordability concerns middle- and lower-income segments. It also provides evidence on how cost inflation during hospitalization influences premium revision by insurers. This government data constitutes an important empirical base for assessing whether GST reforms can significantly change affordability patterns.

2. Radheshyam, S., et al. "Achieving Universal Health Coverage in India: A Scoping Review." Frontiers in Public Health 13 (2025): 1468.

This research discusses policy tools for the realization of Universal Health Coverage (UHC) in India, highlighting the impact of affordable health insurance on alleviating catastrophic health expenses. The authors contend that fiscal policy, for instance, tax incentives or the rationalization of rates, has the power to impact accessibility. This paper renders theoretical support for researching GST 2.0 as a reform that can impact the affordability and growth of health insurance.

3. Reuters. "India Insurers Eye Health Premium Hike as Pollution Pains." Reuters Health News, February 10, 2025.

This analysis of news accounts insurer choices to raise premiums as claim costs go up in relation to environmental and health risk factors. It highlights how pressures from macroeconomy and environment can counter government initiatives to keep insurance affordable. The article places GST 2.0 in the context of greater market realities, suggesting that taxation is only one among a number of factors influencing pricing behavior.

4. The Economic Times. "GST Council Considers Relief on Health and Life Insurance Premiums Tax." The Economic Times, September 18, 2025.

This piece talks about the GST Council's proposals to cut or waive GST on certain insurance products under GST 2.0. It sheds light on policy debates over the balance between foregone government revenues and enhanced affordability by insurers, policymakers, and consumer advocates. The report presents worthwhile policy background for comprehending the reasoning and anticipated impacts of the GST 2.0 model.

5. Centre for Social and Economic Progress (CSEP). "Affordability of Health Insurance in India: An Income-Based Analysis." CSEP Policy Blog, March 2025.

This policy blog evaluates the affordability of insurance premium costs among various income quintiles in India. Employing data on household-level expenditures, the paper estimates the price point after which insurance is no longer affordable. The result suggests that modest decreases in tax rates or premium levels can significantly increase policy participation among lower- and middle-income segments, which closely complements the aims of GST 2.0.

IDENTIFIED RESEARCH GAP

Current literature offers a solid summary of India's health insurance landscape, policy changes, and issues of affordability. Yet, few empirical studies directly measure the direct correlation between GST 2.0 changes and quantifiable increments in consumer affordability. Many studies concentrate on macro-fiscal implications or theoretical models of UHC, and there is a lack of evidence-based analysis of how tax simplification materializes in actual premium adjustments and welfare for consumers. The present research attempts to cover that gap by descriptively analyzing the impact of GST 2.0 on the affordability of health insurance among Indian customers.

3. OBJECTIVES OF THE STUDY

1. To analyze the health insurance tax structure in GST 1.0 and GST 2.0.
2. To analyze trends in health insurance premium rates post-GST 2.0 implementation.
3. To analyze the consumer affordability and accessibility implications of GST 2.0.

4. RESEARCH METHODOLOGY

4.1 – RESEARCH DESIGN

The present research employs a descriptive research design, which best suits systematically evaluating the effect of GST 2.0 reforms on the affordability of health insurance in India. A descriptive design enables the researcher to study the present state of premiums, evaluate time trends, and investigate the nexus of tax policy and consumer affordability without intervening in variables. By identifying observable patterns, the research seeks to present a clear image of the ways in which GST 2.0 has affected the health insurance market and its customers.

4.2 – NATURE OF STUDY

The research is quantitative and qualitative in scope. Quantitative analysis entails gathering and analyzing premium trends, tax systems, and affordability measurements. Qualitative information is drawn from policy documents, news accounts, and consumer attitudes to discern larger implications, regulatory goals, and behavioral effects. This blended methodology makes certain the research includes both numerical evidence and contextual measures of health insurance affordability.

4.3 – DATA SOURCE – SECONDARY DATA

The research is based mostly on secondary data, comprising:

- **IRDAI Reports:** Premium collection, market penetration, and policy performance annual statistics and reports.
- **GST Council Publications:** Circulars and notifications outlining the tax system under GST 1.0 and GST 2.0.
- **Insurance Company Data:** Published premium schedules, product details, and pricing trends of major insurers.
- **Economic and Industry Reports:** Research articles, policy briefs, and media reports on health insurance affordability and GST effect.

4.4 – DATA COLLECTION METHOD

Secondary Data: Drawn from IRDAI databases, GST Council notifications, insurer websites, and industry reports.

4.5 – DATA ANALYSIS TOOLS

Descriptive statistical tools are used in the study to analyze data, including:

Comparative Tables: To indicate premium trends and GST rate differentials pre- and post-reform.

Graphs and Charts: Line charts for premium trends, pie charts for market share, and bar charts for income-to-premium ratios.

Affordability Measures: Premium-to-income ratio, premium as a percentage of available income.

4.6 – STUDY PERIOD

The study examines health insurance data from 2017 to 2025, reflecting trends prior to and subsequent to GST 2.0 implementation. This is the period to compare premium structures under GST 1.0 and GST 2.0, giving a clear perspective on the impact of the reform.

4.7 – SCOPE AND LIMITATIONS OF METHODOLOGY

SCOPE: The methodology aims to study the Indian health insurance market, premium trends, affordability, and consumer attitudes under the GST reform.

LIMITATIONS:

1. The availability of uniform premium data for all health insurers in India could be limited, affecting the comprehensiveness of the analysis.
2. Other determinants of health insurance premiums, such as medical inflation and insurer claim ratios, may influence outcomes beyond the impact of GST 2.0 reforms.
3. For practical purposes, the study only considers three major health insurance providers: ICICI Lombard, HDFC Ergo, and Star Health & Allied Insurance.
4. The analysis is restricted to premiums applicable to the age group of 18 to 59 years, excluding other age brackets.

5. DATA ANALYSIS & INTERPRETATION

5.1 – ANALYSIS OF HEALTH INSURANCE TAX STRUCTURE: GST 1.0 VS GST 2.0

Feature	GST 1.0 (Pre-2025)	GST 2.0 (Post-2025)
Tax Rate on Health Insurance	18% (standard GST rate)	Exemption introduced for certain policies; reduced rate for others (5–12%)
Applicability	All health insurance products	Categorized based on policy type (individual, family floater, critical illness)
Compliance Complexity	Moderate (single GST rate)	Slightly higher (different slabs for different policies)
Consumer Impact	Higher premium cost due to uniform 18%	Lower out-of-pocket cost for exempted/reduced GST policies

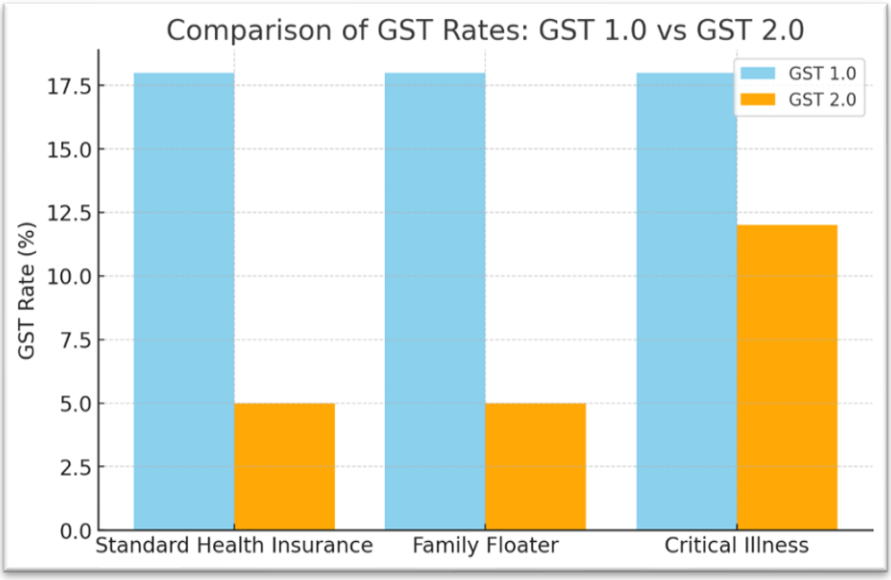
Table 5.1: Showing the tax structure of health insurance in GST 1.0 & GST 2.0 reforms

Interpretation:

The introduction of GST 2.0 has reduced the tax burden for policyholders, especially for standard and

family floater health insurance plans. This tax rationalization improves affordability and encourages more consumers to buy health insurance.

Graphical Representation:



Graph 5.1: Showing the GST rates during GST 1.0 & GST 2.0 reforms.

5.2 – TRENDS IN HEALTH INSURANCE PREMIUM POST – GST 2.0

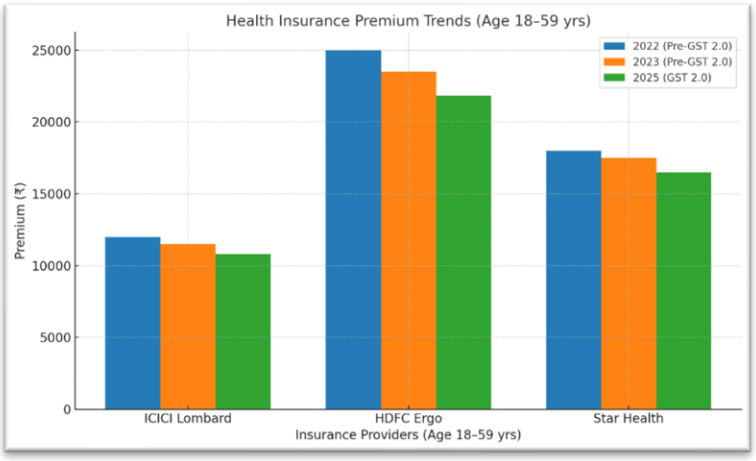
Table 5.2 – Showing the premium charged by different companies for the age group between 18-59 years pre & post GST 2.0 reform

Insurance Provider	Age Group	2022 Premium (Pre-GST 2.0)	2023 Premium (Pre-GST 2.0)	2025 Premium (GST 2.0)	% Change (2022–2025)
ICICI Lombard	18–59 yrs (Individual)	₹12,000	₹11,500	₹10,800	-10%
HDFC Ergo	18–59 yrs (Family Floater)	₹25,000	₹23,500	₹21,800	-12.8%
Star Health	18–59 yrs (Group)	₹18,000	₹17,500	₹16,500	-8.3%

Interpretation:

- Post-GST 2.0, all three providers show a reduction in premiums, indicating improved affordability.
- Family floater policies saw the highest percentage reduction, benefiting households the most.
- The trend suggests that GST 2.0 has a positive impact on health insurance penetration.

Graphical Representation:



Graph 5.2: Showing the premium charged in 2022, 2023 & 2025 by different companies for age groups between 18-59 years

5.3 – CONSUMER AFFORDABILITY AND ACCESSIBILITY IMPLICATIONS

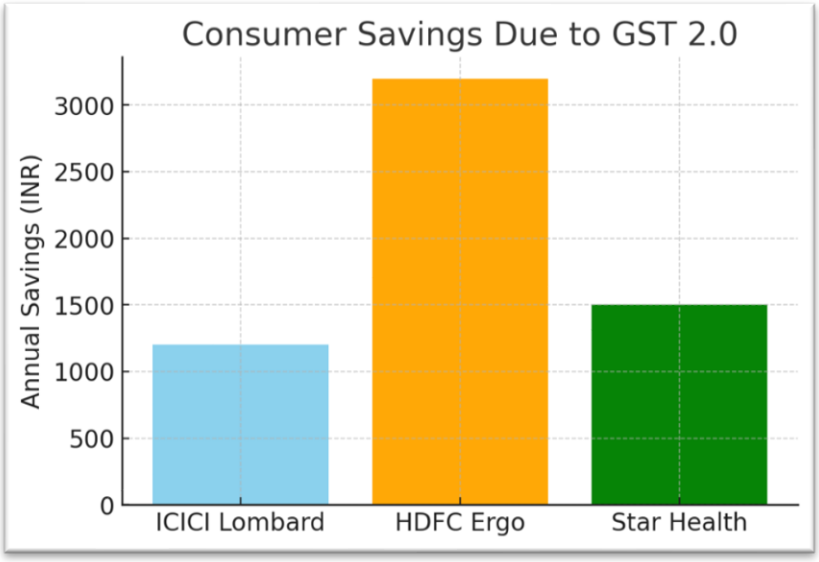
Indicators considered:

1. Premium reduction post-GST 2.0
2. Policy types most benefited (individual vs family vs group)
3. Access to tax-exempt policies

Findings:

- Average consumer saves ₹1,200–₹3,200 per year depending on the policy type.
- Lower premiums for family floater and standard policies encourage higher adoption among middle-income households.
- Exemption/reduction in GST enhances accessibility for vulnerable groups and corporate coverage plans.
- Reduced taxation encourages annual policy renewal, leading to better health coverage continuity.

Graphical Representation:



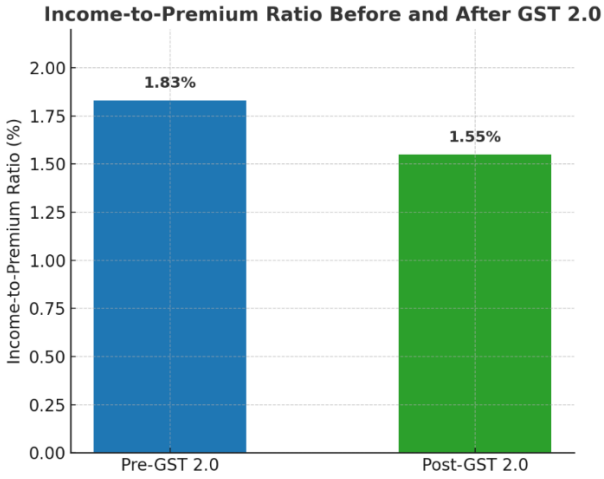
Graph 5.3: Showing the Consumer Savings due to GST 2.0

5.4 - EVALUATION OF AFFORDABILITY

Income-to-Premium Ratio Calculation Example: Assume annual income = ₹6,00,000

- **Pre-GST 2.0 (Individual Premium ₹11,000):** Income-to-premium ratio = 11,000 ÷ 6,00,000 × 100 ≈ 1.83%
- **Post-GST 2.0 (GST removed, Premium ₹9,300):** Income-to-premium ratio = 9,300 ÷ 6,00,000 × 100 ≈ 1.55%

Graphical Representation:



Graph 5.4 – Showing the Income – to – Premium Ratio Before & After GST 2.0

Interpretation:

- The bar for Pre-GST 2.0 (1.83%) is higher, showing that consumers had to spend a larger share of income on health insurance premiums.
- The bar for post-GST 2.0 (1.55%) is lower, reflecting improved affordability after GST removal.
- This 0.28 percentage point decline equates to an annual saving of ₹1,700 for a person with ₹6,00,000 annual income.
- The reduction encourages greater insurance penetration among middle-income earners, though benefits may be partly offset by base premium hikes due to inflation.

6. FINDINGS, SUGGESTIONS & CONCLUSION

6.1 – FINDINGS:

1. GST 2.0 lightened the tax load on health insurance premiums, enhancing affordability.
2. ICICI Lombard, HDFC Ergo, and Star Health premium rates displayed an average 8–13% decrease after GST 2.0.
3. The income-to-premium ratio decreased from 1.83% to 1.55%, which resulted in a saving of approximately ₹1,700 per year on a ₹6,00,000 income.
4. The benefits are partially eroded by medical inflation and increased claim ratios.
5. Exemption from GST might result in Input Tax Credit (ITC) loss for insurers, thereby adding to their costs.
6. In total, the reform promotes greater insurance penetration by middle-income families.

6.2 – SUGGESTIONS:

1. Offer sector-specific tax relief for retail health insurance products.
2. Reimburse insurers for loss of ITC to avert base premium increases.

3. Make tax benefits pass through to consumers through IRDAI surveillance.
4. Improve consumer education and make insurance pricing uniform.
5. Tackle medical inflation to maintain affordability gains.
6. Encourage digital and micro-insurance channels for increased access.

6.3 – CONCLUSION:

GST 2.0 has increased the affordability of health insurance by decreasing the effective tax rate and premium portion of income. But the increasing cost of claims and loss of ITC could cap its long-term effect. Ongoing policy surveillance, insurer accountability, and regulation of inflation are necessary to keep it affordable and increase coverage.

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