

Insurance

GST 2.0: Rate cuts to benefit policyholders

- The government has exempted retail health insurance and retail life insurance from GST as compared to a tax of 18% with ITC earlier. The change will be effective from 22nd Sep'25.
- With ITC no longer available, the pass-through may not be complete. However, an improvement in retention for health insurance companies and persistency for life insurance companies can offset the impact.
- Also, even if the insurance companies do not pass on the entire cut, we still see a meaningful reduction in premiums for policyholders and prospective customers, which will help drive demand as affordability improves.
- In the near term, ensuing renewals until 22nd Sep, cancellations of the policies sold in the last one month (which are in the free look period), and the delay in fresh purchases until 22nd Sep can pose some challenges from the cash flow perspective.
- General insurance players would benefit from the cut in GST rates on automobiles, which is expected to boost vehicle sales.
- We remain positive on the insurance space and our preferred picks are HDFC Life and Niva Bupa.
- We expect the further tightening of F&O regulations to impact volumes in the near term. However, enhanced market infrastructure with improved transparency should bode well for rising retail participation, which will support the performance of market intermediaries.

Retail Health Insurance – Exempt from GST vs. earlier rate of 18% with ITC

- Ceteris paribus, companies will have to bear the cost of ~4-5%, which was availed as ITC earlier. Assuming the base premium was INR100 and the customer was paying INR118 with GST, to maintain profitability, the insurer can increase the base premium from INR100 to INR104-105. Hence, the customer will see the benefit of lower premium by INR13-14 (from INR118 earlier).
- On the other hand, if companies envisage increased retention of the old book in terms of the number of policies, a base premium hike may not be needed.
- The pass-through of GST rate cuts, whether complete or partial, would still lead to demand growth.
- Cutting commissions may be another alternative for insurance companies as a large portion of ITC was arising from commissions.
- SAHIs with a higher share of retail health, such as Star Health at 93% and Niva Bupa at 67% in FY25 (reported including 1/n), should be major beneficiaries. ICICI Lombard should see a limited benefit as the share of retail health in its overall premium was just 6%.

Retail Life Insurance – Exempt from GST vs. earlier rate of 18% with ITC

- With GST rate cuts, we expect a demand boost for protection plans, which are better VNB margin products. While the back book was priced considering the ITC benefit, which will no longer be available, the companies will have to incur a cost, which can be taken as a hit in the EV.
- On the other hand, if the companies envisage an increase in persistency of the old book in terms of the number of policies, the impact on EV can be offset.

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- IRR for customers can increase even if there is a partial pass-through of the GST rate cuts in the saving products.
- VNB margins may be under some pressure in case the companies don't offset the increase in cost (as ITC is no longer available) via price hikes.
- Cutting commissions may be another alternative for insurance companies as a large portion of ITC was arising from commissions.
- Life insurance sector will not only benefit from stronger growth in 2HFY26 thanks to rate cuts but also from a low base in 2HFY25. Moreover, the profitability should look better with a higher share of non-par products.

Impact from delay in purchases and renewals

- Insurance products have a free look period of 30 days. Hence, the policies purchased during the period could come for cancellations and premiums might have to be returned.
- Also, the fresh business until 22nd Sep could be impacted as customers would delay their purchases.
- For renewals, companies have a grace period of 30 days, wherein customers can delay their renewals.
- If the coverage tenures can be extended for health insurance for the business written in the past 30 days and for renewals falling until 22nd Sep, the cash flow issue could be resolved.

Higher auto sales to drive motor business for GI players

- The cut in GST rates for the auto sector for small cars and 2Ws is likely to drive sales for automobiles, which in turn will drive stronger growth in the motor segment for general insurance players.
- ICICI Lombard with a high share of 40% from the Motor business should be a big beneficiary of this trend.
- On the other hand, the GST cut on Motor TP for goods carrier vehicles from 12% + ITC to 5% + ITC reduces the probability of a Motor TP price hike in this year.

Exhibit 1: GST rationalization for the insurance sector and key beneficiaries

Sector	Earlier Rate	New Rate	Key Stock beneficiaries
Insurance			
Retail health insurance with reinsurance thereof	18% + ITC	Exempt	❖ Niva Bupa, Star Health, ICICI Lombard
Retail life insurance with reinsurance thereof	18% + ITC	Exempt	❖ HDFC Life, SBI Life, ICICI Pru Life, Max Fin, LIC
Motor TP for goods carriage	12% + ITC	5% + ITC	❖ ICICI Lombard

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