



# Impact of GST on Hospitalisation Bills

In the recent 47<sup>th</sup> meeting of the GST Council (June 2022), the Government decided to modify certain tax exemptions. One of these includes levying GST of 5% on room rent, excluding ICU, exceeding INR 5,000 per day, per patient. This is effective from July 18, 2022.



Healthcare cost is expected to increase as hospital room rent will be taxed at 5%

	Earlier	Now
Room rent/day (INR)	6,000	6,000
Length of stay	3	3
GST	0%	5%
<b>Total bill for 3 days (INR)</b>	<b>18,000</b>	<b>18,900</b>

This will increase the cost of healthcare for patients, thereby leading to challenges in the industry.

## Question of the hour:

Will the additional amount be borne by the insurer as part of the medical policy or by the insured?

## Insurers' take:

Basis our discussion with various insurers, the impact is yet to be calculated and they are currently evaluating this among themselves and waiting for update from IRDAI.

This change came as a surprise to the insurers, as they did not anticipate it while underwriting ongoing policies. A few possibilities that the insurer is looking are mentioned below:

- A few insurers believe that the GST should be considered and paid as a part of the total room rent limit. If the room rent limit is up to INR 5,000 and after applying GST the total chargeable amount is more than INR 5,000, then it may lead to a proportionate deduction on the overall bill if GST has led to the excess rent.
- Currently, medicines are also liable to GST and insurance companies are paying the same as part of the settlement. However, the insurers might consider the GST on room rent as non-medical charges and hence to be considered under non-payables. Even now, admin charges and service charges from the hospitals are not paid and are considered under deductibles.
- If hospitals relook at the package rates and propose increasing the same, the overall outgo on claims of the insurer will also be impacted.



## Hospitals' take:

Hospitals are taken by surprise as their systems were earlier not equipped with this functionality.

- Billing systems need to be updated with the inclusion of GST on room rent.
- Package rates will increase, as a component of the overall package now attracts GST.

## Impact on claims payout:

- In insurance programs where the room rent charges are defined by category or have a higher sub-limit, the out-of-pocket expenses on account of proportionate deduction might not be impacted.
- There will be a lower payout in the middle of the policy year, owing to proportionate deduction on account of room rent or higher package rates than the specified limit.
- On a single claim: Patients with a shorter length of stay may not be heavily impacted by GST, but patients suffering from chronic diseases like diabetes or cancer, where they require hospitalisation frequently, will feel the impact.
- On overall corporate portfolio: The majority of private hospitals have a room rent of INR 5,000 and above. In general, room rent constitutes roughly 25-30% of the overall bill amount and GST of 5% means an increase in claims by approximately 1.25–1.5%.

## Way forward:

### For on-going policies:

Approval from the insurance companies is needed to settle the claims inclusive of GST charges.

### For new policies:

Inclusion of GST as a part of room rent should be worded in policy terms itself.

## Conclusion:

- In the long term, premiums can go up, as overall cost for insurance companies will increase by paying more for hospitalisation.
- In the short term, basis the utilisation pattern, we suggest looking at enhancing the room rent limit or percentage of the sum insured by 5% to save oneself from the proportionate deduction on the entire bill, if GST leads to overlimit the room rent.
- Defining the room rent limit as a single standard AC room, if possible must be done, to avoid proportionate deductions in the hand of the claimant.

Prudent Insurance Brokers Pvt. Ltd., 101 Tower B, Peninsula Business Park, G. K. Marg, Lower Parel, Mumbai 400013, 📞 +91 22 3306 6000

**Locations:** Mumbai (H.O.), Ahmedabad, Bengaluru, Chennai, Gurgaon, Hyderabad, Ludhiana, Pune



PRUDENT INSURANCE BROKERS PVT. LTD.

Registered Office at 101, Tower B, Peninsula Business Park, G.K. Marg, Lower Parel, Mumbai 400 013 Maharashtra, Tel: +91 22 3306 6000

CIN No.: U70100MH1982PTC027681 | IRDA License No. 291 (Validity: 18th February 2020 to 17th February 2023)

Insurance is a subject matter of solicitation

Prudent Insurance Broker Pvt. Ltd. is the registered Composite Broker with IRDAI and does not underwrite the risk or act as an insurer. Insurance products are obligations only of the Insurance company. All claims under the policy will be solely decided upon by the Insurance Company. This report and any recommendations or analysis provided herein, are based on our experience as insurance and reinsurance brokers or as consultants, as applicable, are not intended to be taken as advice or recommendations regarding any individual situation. The opinions expressed herein are valid only for the purpose stated herein and as of the date hereof. We are not responsible for the consequences of any unauthorized use of this report. The information in this document is provided for general information purposes only. No information contained in this document should be construed as an advice from Prudent Insurance Brokers Private Limited. This document is not a legal advice and Prudent expressly disclaims any liability to any person for actions taken based on the views stated in the given document and we recommend and encourage all to obtain independent legal advice in relation to any subject matter contained herein.