

Explained | New Insurance Bill: What's in & what's left out?

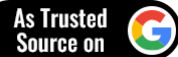
The final draft of the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025 has both hits and misses. Here's an overview.

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The Bill seeks to revamp India's insurance framework, proposing sweeping changes to the Insurance Act, 1938, the Life Insurance Corporation Act, 1956, and the IRDAI Act, 1999, with the stated aim of modernisation, wider coverage and stronger regulatory oversight. (Pixabay)

The Union Cabinet on Friday (December 12) approved the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025, clearing the way for its introduction in Parliament.

The Bill seeks to revamp India's insurance framework, proposing sweeping changes to the Insurance Act, 1938, the Life Insurance Corporation Act, 1956, and the IRDAI Act, 1999, with the stated aim of modernisation, wider coverage and stronger regulatory oversight.

However, the final draft reflects a mix of hits and misses. While several long-awaited changes like 100% FDI have been incorporated, other crucial industry demands like composite licence have been left out or diluted, leaving stakeholders divided on the overall impact. The Bill, which is expected to be taken up in the ongoing Winter Session of Parliament, is likely to trigger debate as it attempts to balance industry expectations, consumer protection and the government's broader financial sector reform agenda.

What's in the Bill?

100% FDI: The amendment will raise the Foreign Direct Investment (FDI) limit in Indian insurance companies from 74% to 100%. This will help in attracting stable and sustainable investment, facilitate technology transfer, enhance insurance penetration & social protection and aid achieve the goal of 'Insurance for All by 2047'. India has about 70 insurers, while the world has close to 10,000. Even if a small share of these chooses to enter India, the capital coming in is expected to be very large.

There is little doubt that raising the FDI limit to 100% marks a decisive step toward globalising India's insurance sector. The reform is expected to draw larger pools of foreign capital, spur product innovation, and intensify competition in underwriting, risk management, and customer experience. Crucially, it will also bring access to global best practices — from sophisticated underwriting models and digital claims platforms to advanced risk-assessment tools — enhancing the industry's resilience and service quality. Together, these shifts lay the groundwork for a more customer-centric and technologically robust insurance ecosystem.

“Opening the sector fully to global capital sends a strong signal of confidence in India's insurance market and regulatory maturity. This reform will enable insurers to access long-term capital, advanced risk-management expertise, global best practices and cutting-edge technology, critical ingredients for expanding insurance coverage, improving product innovation and strengthening claims and service capabilities across the country,” said Narendra Bharindwal, President, Insurance Brokers Association of India (IBAI).

Sharad Mathur, MD and CEO, Universal Sompo General Insurance said increasing the FDI limit to 100% can serve as a strong catalyst for the insurance sector. “Greater capital inflows

will enable insurers to expand their business, strengthen balance sheets, and invest in advanced risk-assessment models and more efficient claims-management systems,” he said.

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Sops for foreign reinsurers: The requirement of Net Owned Funds (includes equity capital, free reserves, balance in share premium account and capital reserves representing surplus) for foreign reinsurers is proposed to be reduced from Rs 5,000 crore to Rs 1,000 crore to facilitate entry of more re-insurers, building greater reinsurance capacities in the country. This has been a long-standing demand of global reinsurance companies. This easing of norms is intended to draw smaller and new-age reinsurers to India, broadening competition in a segment currently dominated by public sector GIC Re.

More powers for IRDAI: In a significant step toward strengthening policyholder protection, the Insurance Regulatory and Development Authority of India (IRDAI) is set to receive enhanced enforcement powers, including the authority to disgorge wrongful gains made by insurers or intermediaries. This brings IRDAI’s punitive capabilities closer to that of SEBI, which already has the power to recover illegally earned profits from violators.

To further streamline industry operations and ensure uninterrupted service for policyholders, the Bill proposes a one-time registration system for insurance intermediaries, removing the need for repeated approvals and simplifying compliance. In another move aimed at easing business processes, the threshold for requiring IRDAI’s approval for the transfer of paid-up equity capital in insurance companies will be raised from 1% to 5%, allowing for smoother share transfers and reducing regulatory bottlenecks.

The amendment also seeks to improve transparency and strengthen regulatory governance within IRDAI. A formal standard operating procedure (SOP) for regulation-making will be incorporated into the Act, ensuring a more structured and predictable rule-making process. Additionally, the Bill introduces clear criteria for levying penalties, making enforcement more rational, transparent, and consistent across cases. Together, these measures aim to equip IRDAI with sharper tools, reduce unnecessary compliance burdens, and create a more robust, accountable and policyholder-friendly insurance regulatory framework.

More powers for LIC: Life Insurance Corporation of India (LIC) is being given greater operational freedom under the new amendments, allowing it to function with more agility and independence. The Bill proposes to empower LIC to set up new zonal offices without

requiring prior government approvals, enabling faster expansion, improved administrative efficiency, and better regional oversight.

Additionally, LIC will be allowed to restructure and align its overseas operations in line with the laws and regulatory norms of the countries in which it operates. This flexibility will help LIC adapt more quickly to foreign compliance requirements, strengthen its global presence, and reduce delays caused by navigating multiple layers of approval back home. Overall, these changes aim to modernise LIC's governance framework, making the country's largest insurer more responsive, competitive and capable of operating effectively in both domestic and international markets.

What's likely not there in the Bill?

Composite license

One of the most notable omissions in the Bill is likely the absence of provisions for composite licences, a long-awaited reform that many insurers had strongly advocated. Under the existing Insurance Act, 1938, insurers are confined to rigid silos: life insurers can only offer life policies, while general insurers are barred from entering the life segment. This strict segregation has defined the industry for decades, preventing companies from offering a full suite of products under one roof.

A composite licence would have fundamentally reshaped this landscape by allowing a single insurer to operate across both life and non-life segments. It would have dismantled the long-standing compartmentalisation of the sector and enabled insurers to design integrated, bundled offerings. For example, combining life insurance, health coverage, and general insurance products into a single package. Such solutions are increasingly in demand as customers seek convenience, simplicity, and comprehensive protection instead of juggling multiple policies from different insurers.

Had the government permitted composite licensing, several major players were poised to enter or expand into new lines of business, spurring fresh competition and innovation. Analysts expected insurers to aggressively pursue these licences to broaden their product portfolios and strengthen cross-selling opportunities.

Composite licences are widely seen as a game-changer for the industry, enabling seamless, frictionless insurance experiences aligned with global best practices. Their exclusion from the Bill is a significant missed opportunity, leaving the long-standing structural barriers of India's insurance sector firmly intact.

Reduced capital norms & new entrants

Another key omission likely in the Bill is the proposal to lower minimum capital requirements for new insurers. Currently, the law mandates a minimum paid-up capital of Rs 100 crore for insurers and Rs 200 crore for reinsurers, thresholds that have long been criticised as being too high and prohibitive, especially for specialised, regional, or niche players looking to enter the market. The suggested reform aimed to ease these capital norms, making it possible for smaller, innovative, and region-focused insurers to participate in the industry. A reduction in capital requirements would have opened the doors for new entrants that could target underserved segments, particularly rural markets, informal-sector workers, micro-businesses, gig workers, and low-income households, where insurance penetration remains abysmally low.

By lowering the entry barrier, the sector could have seen a surge in specialised insurers, such as health-only or micro-insurance companies, creating more competition, product diversity, and consumer choice. It would also have boosted financial inclusion by enabling insurers with local expertise and community reach to offer customised solutions. The absence of this provision in the Bill is therefore viewed as a missed opportunity, one that could have reshaped the market structure, deepened penetration and accelerated inclusive insurance growth across India.

Many other proposals

The original Insurance Amendment Bill, which was prepared two years back, had provisions for distributing other financial products like mutual funds, loans and credit cards, creating new revenue streams and offering integrated solutions and reduced capital requirements. It also proposed more flexibility in revising investment norms in line with market needs, potentially improving returns for policyholders. Besides, it also proposed permission for individual insurance agents to sell policies of multiple companies, eliminating the existing restriction that limits them to one life and one general insurer.

The Bill is also likely to be silent on the long-awaited proposal to allow large corporations to establish captive insurance entities, a move that many industry leaders viewed as essential for modernising India's risk-management ecosystem. Captive insurers — wholly owned insurance subsidiaries created to insure the risks of their parent companies — are widely used globally by major corporations to manage complex exposures, lower insurance costs, and exert greater control over underwriting and claims.

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