New Insurance Bill – Important Provisions & Limitations – Explained Pointwise

The Union Cabinet on Friday approved the **Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025**, clearing the way for its introduction in Parliament to revamp India's insurance framework. The Bill proposes 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 & stronger regulatory oversight. However, the final draft reflects a mix of hits & misses.

What are some of the important provisions of new Insurance Bill?

1. **100% FDI in Insurance:** The Bill **raises the FDI cap in Indian insurance companies from 74% to 100%**, allowing foreign promoters to own insurers fully, subject to fit-and-proper and control conditions.

2. **Foreign Reinsurers:** For foreign reinsurers, the **Net Owned Funds requirement is cut from ₹5,000 crore to ₹1,000 crore**, making it easier for more global reinsurers to set up in India and deepen reinsurance capacity.

3. **Enhanced Powers:** IRDAI gets stronger enforcement powers, including the authority to **disgorge wrongful gains** made by insurers or intermediaries, similar to SEBI's power to recover illicit profits.

4. **Role of IRDAI:** The Bill introduces a **one-time registration system for insurance intermediaries** and **raises the threshold for IRDAI approval of equity transfers from 1% to 5%**, reducing routine regulatory frictions.

5. **SOPs:** IRDAI is required to frame and follow **formal Standard Operating Procedures (SOPs)** for regulation-making and for imposing penalties, with clearer criteria, to improve transparency and predictability.

6. **Policyholder Focus:** The overall stated objectives are to **strengthen policyholder protection, promote innovation and competition, and push towards "insurance for all by 2047"** by attracting capital and technology.

7. **Greater Operational Freedom for LIC:** The Bill gives **greater operational autonomy to LIC**, including more flexibility in investments and governance, while keeping government ownership and policyholder safeguards intact.

8. **Regulatory Improvements:** The Bill aims to strengthen the insurance regulatory framework by streamlining compliance processes, reducing unnecessary administrative burdens, and improving transparency and policyholder protection.

What is the need/significance of the new Insurance Bill?

1. **Boosting Capital, Growth & Penetration of Insurance Sector:** India's insurance penetration and density remain low compared to global averages, and many insurers face capital constraints; allowing **100% FDI** is aimed at bringing in fresh equity, technology and product innovation to expand reach, especially in under-served segments.

2. **'Insurance for All by 2047':** The 100% FDI will help in attracting stable & sustainable investment, facilitate technology transfer, enhance insurance penetration & social protection, and help achieve the goal of **'Insurance for All by 2047'**.

3. **Benefits of Foreign Reinsurers:** More foreign reinsurers with lower entry barriers are expected to deepen risk-carrying capacity, support infrastructure and catastrophe cover, and stabilise premiums over time.

4. **Strengthening Regulation:** The Bill's enhanced powers for IRDAI (like disgorgement of wrongful gains and clearer enforcement procedures) seek to **deter mis-selling and governance failures**, thereby improving trust in insurance products.

5. **Policyholder Protection:** Standard Operating Procedures and rationalized approval thresholds are intended to make regulation more transparent and predictable while keeping policyholder interests central.

6. **Improving Ease of Doing Business:** One-time registration for intermediaries, higher thresholds for share-transfer approvals, and procedural streamlining reduce compliance friction and are meant to make India a more attractive insurance hub.

7. **New Insurance Products:** By signaling a stable, liberalized framework, the Bill is expected to encourage new products (health, micro-insurance, climate and crop risks, cyber cover) aligned with changing economic and climate risks.

8. **Financial Mobilisation:** Higher insurance penetration helps **mobilise long-term savings**, channel them into infrastructure and capital markets, and provide household-level shock protection, supporting inclusive growth.

9. **Financial Sector Liberalization:** The reform also aligns insurance regulation with broader financial-sector liberalisation, while deliberately stopping short of riskier steps (like immediate composite licences), reflecting a calibrated, phased approach.

What are the limitations/criticisms of the new Insurance Bill?

1. **Concern over 100% FDI:** Allowing 100% FDI may lead to effective foreign control of major insurers and reinsurers, raising worries about profit repatriation, job localisation and alignment with long-term developmental priorities. Allowing 100% FDI could disadvantage domestic promoters and make India more vulnerable to global financial cycles, especially without equally strong consumer and macro-prudential safeguards.

2. **Limited Focus on Inclusivity & Affordability:** The Bill is criticised for focusing more on capital and ease of doing business than on concrete mechanisms for **expanding affordable cover** in rural, informal and low-income segments (for example, explicit obligations, cross-subsidy rules, or product mandates). There is concern that insurers, once better capitalised, may still chase high-margin urban products rather than deepen genuinely inclusive micro-insurance and health cover unless stronger obligations are built into the law.

3. **Composite License:** The Bill does not include provisions for composite licences, which would allow a single insurer to operate across both life and non-life insurance segments. The absence of this reform maintains the existing segregation of life and general insurers and limits the ability to offer bundled insurance products.

4. **Reduced Capital Norms and New Entrants:** The Bill does not lower the minimum paid-up capital requirement of ₹100 crore for insurers and ₹200 crore for reinsurers. This omission restricts the entry of smaller, specialised, or regional insurers, thereby limiting financial inclusion and market diversity.

5. **Regulatory Capacity:** Strengthening IRDAI's powers without proportionate investment in **capacity, staffing, and oversight checks** risks either regulatory overreach or continued weak enforcement in practice.

6. **Accountability Issues:** Critics point out that the Bill does not significantly enhance **parliamentary or citizen oversight** of IRDAI's expanded discretion, which could affect transparency and consistency of decisions.

7. **Missing Proposals:** The original Insurance Amendment Bill, which was prepared 2 years ago, had provisions for distributing other financial products like mutual funds, loans & credit cards, creating new revenue streams & offering integrated solutions & reduced capital requirements. It also proposed more flexibility in revising investment norms in line with market needs, potentially improving returns for policyholders. The new Bill is also silent on the long-awaited proposals to allow large corporations to establish captive insurance entities.

8. **Missed Opportunity on Deeper Structural Reforms:** The Bill does not fundamentally address issues like complex policy wording, claims disputes and long settlement delays, which are central to policyholder experience but left largely to regulations and market practice.

9. **Dilution of LIC's Role:** While the Bill offers more operational flexibility to LIC, critics worry about a gradual dilution of LIC's public-interest role if market pressures dominate, without a clear statutory articulation of its developmental mandate.

10. **Reducing Public Sector's Role in Insurance Sector:** Trade unions and some political voices fear that aggressive liberalisation plus LIC's greater autonomy could pave the way for future disinvestment or strategic shifts that weaken the public sector's stabilising role in the insurance market.

Conclusion: The Sabka Bima Sabki Raksha Bill, 2025 marks a significant step toward modernising India's insurance sector, however, to fully realise the sector's growth and financial inclusion objectives, further measures are needed to encourage innovation, diversify financial offerings, and attract new entrants.

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