



INSURANCE

REGULATORY

India's Insurance Law Reforms 2025: An Overview Of The Insurance 2.0 Framework

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Introduction

The Indian insurance sector has entered a decisive phase of reform with the passage of the *Sabka Bima Sabki Raksha (Amendment of Insurance laws) Bill, 2025*¹ or the Insurance 2.0 Framework by both Houses of Parliament.

The Bill seeks to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956, and the Insurance Regulatory and Development Authority of India Act, 1999, with the stated objective of achieving “Insurance for all” while simultaneously improving capital availability, regulatory efficiency, governance standards, and policyholder protection.

At a broader level, these reforms are also aimed at repositioning India within the global insurance ecosystem. Despite being one of the world's largest emerging economies, India's insurance penetration and density remain below global averages. The structural constraints particularly foreign ownership limits, capital requirements, and rigid transaction frameworks have historically limited scale and innovation. The 2025 reforms attempt to address these constraints through a calibrated liberalisation model combined with strengthened regulatory oversight.

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The Key Reforms & their implication

Capital Liberalisation

100% Foreign direct Investment in Indian Insurers

Perhaps the most far-reaching change is the decision to permit up to 100% from 74% foreign investment of paid-up equity capital in Indian insurance companies, subject to conditions to be prescribed. This change signals a clear policy intent to unlock foreign capital, improve solvency levels, and enable insurers to scale their operations without structural constraints. While foreign investors are required to have a domestic partner for investing in the Indian insurance sector, they may after enforcement of these reforms consider setting up independent operations.

Reduced Net Owned Fund Requirements

To encourage the participation by global reinsurers, the Bill significantly reduces the net owned fund requirement for foreign reinsurance branches and Lloyd's entities operating in India from INR 5,000 crore to INR 1,000 crore. This is expected to decrease the entry barriers, enhance India's risk absorption capacity and further enhance the competition in the reinsurance

market. Global reinsurers may view India as a more commercially viable

Re-insurance hub as the reform aligns India's reinsurance entry norms more closely with international standards.

Ease of Doing Business & Transaction Flexibility

Higher Thresholds for IRDAI Approval of Share Transfers

The Bill revises the threshold for share transfers or issuances requiring prior IRDAI approval from 1% to 5% of an insurer's paid-up equity capital by amending the Clause 6A of the Insurance Act. This significant change is aimed at easing the compliance burdens and enabling routine corporate actions without compromising any regulatory oversight. It will enable secondary market transactions and internal group restructurings and further improve deal certainty and execution timelines for investors and insurers alike.

Expanded Framework for Mergers & Amalgamations

Previously, the transfer, merger & amalgamation in insurance sector was limited to insurance business with another insurer, restricting corporate restructuring options. The Bill now allows transfer or amalgamation of non-insurance businesses into insurance companies, provided IRDAI approval is obtained and a scheme is prepared under Section 35 of the Insurance Act. This reform will enable group restructuring, simplification of corporate structures, and operational consolidation, enabling insurers to integrate complementary businesses, achieve synergies, and optimize their capital deployment.

Composite Insurance: Another class of insurance

By redefining "class of insurance business" and empowering the Government of India to notify additional classes, the Bill lays the statutory groundwork for a potential composite license regime. This will allow insurers to operate across life, health, and general insurance under a unified regulatory structure which will further encourage diversification and cross-selling opportunities.

Commission Regime Flexibility

The Amendment Bill also gives IRDAI explicit authority to prescribe commission caps for insurance products, replacing the previous product-specific cap model. The existing expenses of management framework remains applicable unless modified by IRDAI.

Value-Added and Ancillary Services

The Bill expands the definition of "insurance business" to include traditional insurance contracts and other forms of contracts as may be notified by the Central Government in consultation with IRDAI. This enables insurers to offer ancillary or value-added services alongside core insurance products, such as risk management solutions, digital advisory services, or any other complimentary financial products.

Prohibition on Common Directors & Officers

The Amendment Bill introduces a broad restriction preventing directors or officers of an insurer from serving simultaneously as directors or officers of another insurer carrying the same class of business, a banking company, or an investment company. Previously, this applied only to managing directors and officers of life insurers. This will strengthen governance and prevent conflict of interest.

Enhanced Policyholder & Claims Data Collection

Insurers are required to maintain enhanced policyholder information, with IRDAI empowered to specify submission standards. The amendment requires the insurers to maintain an enhanced and more structured set of minimum information of the policyholders. A formal statutory mechanism is established for accessing policy and claim data, subject to consent, and strengthens the Insurance Information Bureau (IIB).

Recognition to New insurance Intermediaries

Managing General Agents (MGAs) and insurance repositories are being formally recognized as intermediaries. MGAs can underwrite policies and manage specialized portfolios. This will allow specialized intermediaries to participate in underwriting and product design, beyond traditional distribution roles which will further enable development of niche products, risk-sharing arrangements, and tech-enabled distribution models, supporting innovation and deepening insurance penetration.

Corporate Naming & Online Premium Payments

Insurers and intermediaries must adopt corporate names reflecting their business, and online premium payments are formally recognized, with coverage assumed once the payment is credited. This will improve transparency, customer clarity, and operation efficiency.

One- time Registration for Intermediaries

Previously, intermediary registration was valid for three years and required renewal. The Bill introduces one-time registration, valid indefinitely provided annual fees are paid, unless suspended or cancelled by IRDAI. This reduces procedural friction, provides operational continuity, and improves ease of doing business.

Conclusion

The Sabka Bima Sabki Raksha (Amendment of Insurance Law) Bill, 2025 marks a significant reorientation of India's insurance regulatory framework. By addressing ownership restrictions, transaction flexibility, intermediation structures and supervisory powers in a single legislative exercise, the Bill seeks to modernise the sector in line with the evolving market realities and global practices.

The reforms are notable for opening the sector to full foreign ownership, and for strengthening regulatory oversight through enhanced enforcement powers, clearer governance norms and improved data and actuarial supervision. Together, these measures aim to promote sustainable growth while safeguarding policyholder interests.

Much will, however, depend on the content and timing of the implementing regulations, particularly in relation to foreign investment conditions, composite licensing and intermediary supervision. If rolled out with clarity and consistency, the reforms have the potential to materially deepen insurance penetration and reinforce India's position as a competitive and well-regulated insurance market.

Author's view

The 2025 amendments and reforms reflect a deliberate shift from incremental reform to structural recalibration of the insurance sector. Allowing 100% foreign investment addresses long-standing capital and control constraints, while enhanced regulatory powers ensure that liberalization is accompanied by stronger market discipline.

The Bill provides a strong legislative foundation for the next phase of growth in the insurance sector. With proper structured implementation, it can support capital formation, innovation, and consumer confidence, aligned with India's broader objective of expanding insurance coverage and financial resilience.

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1. <https://www.pib.gov.in/PressReleaseDetailm.aspx?PRID=2206011®=3&lang=1> ??

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