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India's Insurance Sector: Patient Capital, Financial Protection and the Road to Insurance for All by 2047 (2026)

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Recent Developments:

- The **Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025** has amended the **Insurance Act, 1938**, **Life Insurance Corporation Act, 1956**, and **IRDAI Act, 1999** to deepen insurance penetration, strengthen regulation, and liberalise the sector. It has increased the **FDI limit to 100%**, expanded **IRDAI's** supervisory powers, created a **Policyholders' Education and Protection Fund**, and enhanced operational flexibility for **LIC**.
- India's life insurance industry has emerged as one of the largest domestic institutional investors, holding nearly **one-fourth of outstanding Central Government dated securities**, thereby supporting sovereign borrowing and long-term infrastructure financing.

Insurance Sector in India:

Meaning and Economic Significance:

- **Insurance** is a financial risk-transfer mechanism under which individuals or businesses pay premiums in exchange for protection against specified future losses.
- The insurance sector performs the dual role of **providing financial security** to households and **mobilising long-term domestic savings** for productive investment.
- Insurance institutions transform millions of small household premiums into **patient capital**, thereby supporting infrastructure creation, economic development, and fiscal stability.

Why Insurance is called "Patient Capital":

- **Long-term liabilities**, Life insurance policies generally extend over **20–40 years**, allowing insurers to invest in long-duration assets.
- **Asset-liability matching**, Long-term **Government Securities (G-Secs)** provide stable returns that align with insurers' future claim obligations.
- **Household savings mobilisation**, Small retail premiums are pooled into large investment funds that finance public expenditure and infrastructure.
- **Stable domestic financing**, Unlike volatile foreign portfolio flows, life insurers remain long-term investors across market cycles.
- **Yield curve stability**, Continuous demand for long-dated government bonds helps maintain a stable sovereign yield curve and lowers government borrowing costs.
- **Fiscal resilience**, Insurance investments reduce debt rollover risk and strengthen sovereign financing capacity.

Constitutional and Legal Framework:

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Constitutional Position:

- **Insurance** falls under **Entry 47 of the Union List (Seventh Schedule)**, giving Parliament exclusive legislative authority.

Important Legislations:

- **Insurance Act, 1938** provides the foundational legal framework for insurance regulation.
- **Life Insurance Corporation Act, 1956** established **LIC** following nationalisation.
- **General Insurance Business (Nationalisation) Act, 1972** reorganised general insurance under **GIC**.
- **Insurance Regulatory and Development Authority Act, 1999** created **IRDAI** as the statutory regulator.
- **Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025** modernised India's insurance regulatory framework.

Important Supreme Court Judgment:

- **LIC of India v. Consumer Education & Research Centre (1995)** held that **LIC** is an **instrumentality of the State** under **Article 12**.
- The judgment emphasised that LIC's commercial operations must advance **public welfare** and **socio-economic justice**.

Evolution of India's Insurance Sector:

Colonial Period:

- **Oriental Life Insurance Company (1818)** became India's first life insurer.
- **Triton Insurance Company (1850)** pioneered general insurance.
- The **Insurance Act, 1938** introduced comprehensive regulation.

Nationalisation Phase:

- **Life insurance** was nationalised in **1956** through the creation of **LIC**.
- **General insurance** was nationalised in **1972**, leading to **GIC**.

Liberalisation Phase:

- The **Malhotra Committee (1993)** recommended private participation and competition.
- The sector opened to private insurers in **2000**.
- **FDI limits** gradually increased from **26%** to **74%**, and finally **100%** under the **2025 Amendment Act**.

Role of LIC in India's Financial System:

Systemic Importance:

- **LIC** alone holds around **19% of outstanding Central Government Securities**.
- **IRDAI** classifies LIC as a **Domestic Systemically Important Insurer (D-SII)** because its stability is closely linked to the country's financial system.
- Any significant disruption in LIC could adversely affect government borrowing programmes and financial market stability.

Difference between LIC and Private Insurers:

- **LIC** predominantly invests in long-term sovereign securities.

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- Private insurers allocate relatively larger shares to **ULIPs**, equities, and corporate bonds because of shorter investment horizons.

Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025:

Major Reforms:

- **100% FDI**, Foreign investment ceiling increased from **74% to 100%**.
- **Policyholder Protection**, Establishment of the **Policyholders' Education and Protection Fund**.
- **Ease of Doing Business**, Perpetual registration for intermediaries and higher approval threshold for share transfers.
- **Stronger IRDAI**, Expanded investigative, supervisory, enforcement, and corrective powers.
- **Greater LIC Autonomy**, Operational flexibility including opening zonal offices without prior government approval.
- **Reinsurance Reforms**, Reduced net-owned fund requirement for foreign reinsurers to improve competition and capital availability.

Institutional Framework:

Insurance Regulatory and Development Authority of India (IRDAI):

- **Established:** 1999
- **Nature:** Autonomous statutory regulator.
- **Functions:**
 - Protects policyholders' interests.
 - Licenses insurers and intermediaries.
 - Regulates solvency and governance standards.
 - Ensures orderly growth of the insurance industry.
 - Promotes fair competition and consumer protection.

Life Insurance Corporation of India (LIC):

- Largest life insurer in India.
- Largest institutional investor in government securities.
- Plays a critical role in household savings mobilisation.

General Insurance Corporation of India (GIC Re):

- India's national reinsurer.
- Supports domestic insurers through risk diversification.

Government Initiatives:

Social Security Insurance Schemes:

- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)** provides affordable life insurance.
- **Pradhan Mantri Suraksha Bima Yojana (PMSBY)** offers accidental insurance coverage.
- **Ayushman Bharat–PMJAY** provides health insurance for vulnerable households.

Digital Insurance Initiatives:

- **Bima Sugam** aims to create a unified digital insurance marketplace.
- **Bima Vahak** seeks last-mile insurance distribution, particularly in rural areas.

Current Status of India's Insurance Sector:

Market Profile:

- India is the **10th largest insurance market** globally by premium volume.
- India is the **5th largest life insurance market** among emerging economies.
- Total premium income reached around **₹7.05 lakh crore in FY25**.
- India had **74 insurance companies** as of **April 2026**.
- Insurance penetration stood at **3.7% of GDP**.
- Insurance density increased to around **USD 97** per capita.
- Health insurance contributed around **41% of non-life premiums**, becoming the largest non-life segment.

Major Growth Drivers:

Economic Factors:

- Rising disposable incomes are expanding insurance demand.
- Financialisation of household savings is increasing long-term investments.

Regional Expansion:

- Tier-II and Tier-III cities account for a majority of new premium collections.
- Insurance adoption is expanding beyond metropolitan centres.

Regulatory Reforms:

- **Insurance for All by 2047** provides long-term policy direction.
- Liberalised FDI norms encourage foreign capital and expertise.
- **Use-and-File** regulatory framework enables faster product launches.

Distribution Innovations:

- **Bancassurance** leverages banking networks to expand insurance access.
- **PMJDY** accounts facilitate micro-insurance inclusion.

Technological Transformation:

- Artificial Intelligence, Machine Learning, Robotic Process Automation, and digital platforms improve underwriting, fraud detection, and claims processing.

Major Challenges:

Low Insurance Penetration:

- India's insurance penetration remains significantly below the global average.
- Non-life insurance coverage remains particularly inadequate.

Missing Middle:

- A large segment of informal workers, gig workers, and MSME employees lacks adequate insurance protection.

Affordability:

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- High premiums and rising healthcare costs limit insurance adoption among low-income households and senior citizens.

Mis-selling and Trust Deficit:

- Aggressive cross-selling and complex products reduce consumer confidence.
- Opaque policy conditions and claim disputes discourage participation.

Climate Risk Protection Gap:

- Agricultural, disaster, and catastrophe insurance coverage remains insufficient despite rising climate risks.

Cybersecurity Risks:

- Digitalisation increases exposure to cyberattacks, data breaches, and misuse of personal information.

Regulatory Uncertainty:

- Frequent policy changes may affect long-term business planning and investor confidence.

Way Forward:

Tax and Fiscal Reforms:

- Rationalise **GST** on life and health insurance.
- Expand income-tax incentives for insurance purchases.

Digital Public Infrastructure:

- Fully operationalise **Bima Sugam**.
- Integrate insurance with the **Account Aggregator Framework** and **Ayushman Bharat Digital Mission (ABDM)**.

Inclusive Insurance Products:

- Promote affordable micro-insurance.
- Expand coverage for gig workers, MSMEs, farmers, and vulnerable households.
- Encourage parametric insurance for climate-related risks.

Strengthen Reinsurance Ecosystem:

- Develop **GIFT City** as a global reinsurance hub.
- Attract international reinsurers through regulatory and tax reforms.

Consumer Protection:

- Use AI-enabled monitoring to curb mis-selling.
- Standardise policy documents and exclusions.
- Improve insurance literacy through nationwide awareness programmes.

Capital and Innovation:

- Leverage **100% FDI** for advanced underwriting, catastrophe insurance, cyber insurance, and digital innovation.

Global Perspective:

International Experience:

- Countries such as **Japan, United Kingdom, and South Korea** rely heavily on insurance companies as long-term holders of sovereign debt because of their long-duration liabilities.
- India's insurance market is gradually evolving towards a similar model of stable domestic institutional financing.

UPSC Value Addition:

Important Terms:

- **Patient Capital:** Long-term investment that remains committed for extended periods despite short-term market fluctuations.
- **Insurance Penetration:** Insurance premium as a percentage of **GDP**.
- **Insurance Density:** Per capita insurance premium.
- **Asset-Liability Matching (ALM):** Aligning investment maturity with future policy liabilities.
- **Bancassurance:** Distribution of insurance products through banks.
- **D-SII:** Domestic Systemically Important Insurer whose failure could threaten financial stability.
- **Reinsurance:** Insurance purchased by insurance companies to distribute risk.
- **Parametric Insurance:** Insurance that pays predetermined amounts based on measurable events rather than actual loss assessment