PP No-01/2026

EGROW Foundation
FOUNDATION FOR ECONOMIC
GROWTH & WELFARE

EGROW POLICY PAPER

Role of Insurance in Viksit Bharat

Tirath Raj Mendiratta

January 2026

Role of Insurance in Viksit Bharat

Tirath Raj Mendiratta[1]

India stands on the threshold of a historic transformation. **The Viksit Bharat 2047** vision articulated by the Hon'ble Prime Minister is mobilizing the nation across sectors to achieve comprehensive development by the time the Nation completes 100 years of independence.

At the core of this vision is financial stability, which is capable of withstanding uncertainties and challenges.

Development and Financial Inclusion: The Insurance Nexus

Development and financial inclusion are inseparable. True inclusion must protect people against risk and uncertainty, not just provide credit or bank accounts. The vision of Viksit Bharat envisages inclusive growth, where no individual or community is left exposed to risks of impoverishment due to health shocks, disasters or economic disruptions. Insurance performs this protective role. Without insurance, even rapid GDP growth can mask deep vulnerabilities. A population that remains uninsured is one step away from distress, weakening the very foundations of inclusive development.

Role of Insurance in Economic Development

Insurance contributes to economic development in multiple ways:

- **Capital formation**: long-term insurance funds support infrastructure and nation-building
- **Fiscal resilience**: reduces government burden during disasters and health crises
- **Entrepreneurship**: risk coverage encourages enterprise and job creation
- **Labour productivity**: a protected workforce is more confident, mobile, and productive
- **Household stability**: protects savings from health shocks, death, and accidents

In essence, insurance converts uncertainty into manageable risk—an essential condition for sustained growth.

The Government of India, in alignment with the Prime Minister's vision, has recognised this by articulating a clear policy goal: **"Insurance for All by 2047.** This reflects a commitment to making insurance a foundational component of India's development journey.

---

[1] Former Executive Director, Life Insurance Corporation of India

WHERE INDIA STANDS TODAY: THE INSURANCE GAP

India's insurance landscape still lags behind global peers in depth and breadth of coverage. Despite being the fifth-largest economy in the world, India's Life insurance penetration is modest whereas non-life penetration remains very low. Nearly half of healthcare expenses are still paid out of pocket. A recent report indicates that India's insurance penetration stands at just 4.2% of GDP, compared to a global average of about 7%. Insurance density—measured as per capita premium—was USD 95 in FY 2023–24, marginally higher than USD 92 in the previous year, but far below the global average of USD 889. These numbers reveal a dual challenge of underinsurance and outright non-insurance.

Macro Snapshot (2023):

- India's GDP stood at approximately USD 3.6 trillion, with real growth of 8.2%
- Population: 1.433 billion
- Insurance penetration: 4.2 % of GDP
- Insurance density: USD 95
- Annual premium collection: ₹11.25 lakh crore
- Industry Assets Under Management (AUM): ~₹60 lakh crore
- Commission payout: ~₹62,000 crore

Initiatives such as PMJDY, Ayushman Bharat, PMJJBY, and PMSBY—enabled by the JAM trinity—have laid a strong foundation for universal risk coverage by integrating insurance with financial inclusion and have demonstrated the state's capacity to deliver risk protection at scale. However, a large protection gap still persists. Comprehensive and adequate insurance remains out of reach for large sections of the population—especially informal workers, MSMEs, women, and senior citizens.

Understanding the Insurance Deficit

1. **Underinsurance -** Many households and businesses hold policies with inadequate sums assured, insufficient to meet actual risks—be it health expenses, asset replacement, or income loss.
2. **Non-insurance -** Large segments of the population — especially in rural areas, informal employment, MSMEs, gig workers, and self-employed individuals—remain completely outside the insurance net.

Key Roadblocks and Challenges

1. **Low Awareness and Trust Deficit**
   Insurance is still perceived as a complex subject which is difficult to understand. It is generally push-sold rather than purchased on need-based basis. Mis-selling episodes, low literacy levels and unpleasant Claims experience have all created a trust gap.
2. **Product Complexity**
   Policy wordings, exclusions, riders, and claim procedures are often difficult for the average consumer to understand, discouraging voluntary adoption.
3. **Affordability vs. Perceived Value**
   While insurance may be affordable in absolute terms, the perceived immediate value is low, especially among low-income households prioritising consumption over protection.
4. **Distribution Challenges**
   Despite digital progress, last-mile human touch remains critical. Vast geographies, language diversity, and varying literacy levels make distribution expensive and uneven.
5. **Informal Economy Dominance**
   With a large informal workforce, premium regularity and documentation remain challenges, especially for long-term policies.

Unless addressed, these challenges can dilute the role of insurance as a tool for economic stability and inclusive growth.

Realising the magnitude of the roadblocks, the Government of India has moved decisively by enacting the **Sabka Bima (Inclusive Insurance) Bill, 2025**. The Bill marks a significant shift in policy thinking: from insurance as a discretionary financial product to insurance as a **public good and a pillar of financial security**.

The Sabka Bima Sabki Raksha Bill:

The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025 was passed by Parliament in December 2025. It explicitly aligns with the Insurance for All by 2047 mission by modernising the legal and investment environment for the insurance industry in order to accelerate insurance penetration and help bridge long-standing coverage gaps. Key provisions include:

- Raising the Foreign Direct Investment (FDI) cap from 74 % to 100 %.

- Reducing the minimum capital (Net Owned Funds) requirement for foreign reinsurers from ₹5,000 crore to ₹1,000 crore — likely to attract more global reinsurance participation.
- Strengthening regulatory oversight and policyholder protection
- Easing compliance and operational freedom

In short, the Bill supports Insurance for All by 2047 by:

- Attracting global capital and technology,
- Encouraging competition and product innovation,
- Strengthening regulatory protections and consumer trust,
- Broadening market capacity for risk management.

However, allowing 100 % FDI doesn't automatically ensure coverage in underserved areas. Insurance uptake depends on awareness, affordability, distribution reach and product relevance Without proper policy focus, inclusion metrics may improve unevenly. Insurers may focus more on profitable urban markets/business lines while leaving rural or informal segments unserved.

Likely Size of Insurance by 2047

By 2047, as India moves towards a developed economy, the insurance sector is expected to grow several times over, driven by:

- Rising incomes and formalisation
- Urbanisation and asset creation
- Demographic transition and ageing population
- Greater demand for health, pension, and annuity products

Insurance will evolve from a low-penetration sector to a core pillar of social security, alongside pensions and healthcare.

Estimating the Size of the Insurance Industry by 2047

Scenario Assumptions

- GDP growth (nominal average): 9–10%
- Insurance penetration rises from 4.2% to 6%
- Insurance density rises to USD 250
- Population stabilises around 1.5 billion

Projected Outcomes

- Insurance premium size: USD 1.2–1.5 trillion
- AUM: ₹200–250 lakh crore

- Massive long-term capital availability
- Insurance among the top three financial sectors

How Higher Penetration Translates into National Development

At 6% penetration and USD 250 density:

- Health shocks no longer push families into poverty
- MSMEs operate with confidence
- Disaster losses are absorbed institutionally
- Pension and annuity markets deepen
- Household savings become productive capital
- The industry:
  - Finances infrastructure at scale
  - Reduces government welfare burden
  - Enhances household financial resilience
  - Supports India’s demographic transition

ROLE OF INSURANCE AS AN ECONOMIC MULTIPLIER

Employment and Livelihood Creation

Currently, insurance distribution alone disburses ₹62,000 crore annually as commissions, attracting talent and providing indirect employment to millions of agents, intermediaries, trainers, and service providers.

Beyond direct employment, insurance has a domino effect on allied industries:

- Advertising and media
- Training and skill development
- Payroll and HR services
- IT, analytics, and cybersecurity
- Manpower recruitment and outsourcing

While insurers retain core operations, non-core functions are extensively outsourced, creating a vibrant services ecosystem. This would grow manifold as we enter the centenary year of our independence.

Premium as a Key Enabler of Gross Savings

Insurance is a disciplined savings instrument, especially life insurance:

- Long-term contracts induce forced savings

- Regular premium flows strengthen household sector savings
- Maturity and annuity payouts provide income security in old age

India traditionally runs a fiscal deficit, relying heavily on borrowings. Insurance companies, through their investment of premiums, act as stable, long-term financiers of the government.

Capital Formation and Public Finance Stability

Insurance funds are primarily invested in:

- Government securities
- Infrastructure bonds
- Approved long-term instruments

The Assets of ~₹60 lakh crore (likely to rise up to approx. 250 lakh crore by 2047) managed by Insurance Companies provide a solid foundation to the country's economic structure.

Additionally, lakhs of crore of fresh premium every year are invested strictly as per regulatory norms. This:

- Reduces volatility in bond markets
- Provides predictable funding to infrastructure
- Insulates the Government of India from financial shocks

In effect, insurance money quietly finances roads, ports, power, housing, and social infrastructure.

FDI and Rupee Stability

Higher Foreign Direct Investment (FDI) in insurance brings:

- Capital stability
- Technology transfer
- Better risk management practices

A stronger capital base:

- Enhances the stability of the Indian rupee
- Improves India's sovereign credit perception
- Encourages further global investment

With increased FDI, insurers expand physical branches, especially in underserved regions, supporting financial inclusion and local employment.

Future Challenges and Opportunities

Challenges ahead include:

- Managing longevity risk
- Climate and disaster-related insurance
- Cyber and new-age risks
- Ensuring inclusion without compromising sustainability

Opportunities include:

- Insuring the informal sector and gig economy
- Technology-led underwriting and claims
- Expansion of health, pension, and annuity markets
- India emerging as a global insurance and reinsurance hub
- Booming Hospitality (including Travel) Sector

IRDAI'S INITIATIVES:

Complementing legislative action, the Insurance Regulatory and Development Authority of India (IRDAI) has rolled out a series of forward-looking initiatives, the most notable being the **Bima Trinity**—a three-pillar framework designed to make insurance *accessible, affordable and trusted*.

Bima Trinity: A Structural Breakthrough

- Bima Sugam (digital marketplace)
- Bima Vistaar (simple, bundled products)
- Bima Vahaks (last-mile women-centric workforce).

The Urgency Imperative: Time Is Not on Our Side

However, intent and frameworks alone will not deliver results unless matched by **speed, scale and coordination**. With barely two decades left to 2047, the task at hand is enormous. India must insure hundreds of millions of individuals and millions of enterprises, many of whom have never interacted with formal insurance systems. At the current pace of penetration growth, the gap between aspiration and achievement risks widening.

There is therefore an **urgent need for IRDAI and the insurance industry to fast-track implementation**, simplify regulatory processes, encourage experimentation, and aggressively leverage digital public infrastructure. Product approvals, distribution innovations, claim settlement reforms and grievance redress mechanisms must move from pilot mode to mass adoption. Insurers must shift from a premium-centric mindset to a **protection-centric approach**, while regulators must continue balancing prudence with flexibility.

Most importantly, insurance expansion must be treated as a **mission mode national priority**, akin to financial inclusion through Jan Dhan or digitalisation through UPI. The window of demographic opportunity will not remain open indefinitely. If decisive action is not taken now, the goal of *Insurance for All by 2047* risks becoming aspirational rhetoric rather than a lived reality.

Insurance does not create headlines, but it creates stability. It does not promise instant gratification, but it builds enduring resilience.

The ambition of Viksit Bharat 2047 cannot be achieved without a society that is protected, confident, and future-ready. The insurance industry's parallel mission of Insurance for All by 2047 is not a separate agenda—it is a core enabler of national transformation.

Policy Takeaways for Government and the Regulator

To maximise benefits from the latest Bill and align it with Insurance for All and Visit Bharat strategies, concerted action is needed on:

1. Incentivising insurers to expand into underserved regions, including through tax incentives or rural obligation norms.
2. Embedding tourism insurance into travel ecosystems (e.g., ticketing, hotel booking).
3. Strengthening claim settlement quality and timelines through enforceable regulatory standards.
4. Promoting awareness campaigns linking insurance to financial inclusion and tourism safety.
5. Move from Coverage to Adequacy
   Shift policy focus beyond enrolment numbers to meaningful protection by ensuring sufficient sums assured, appropriate health coverage limits, and inflation-linked benefits, particularly for low- and middle-income households.
6. Deepen JAM-Enabled Insurance Delivery
   Leverage the JAM trinity to enable frictionless onboarding, premium payments, renewals, and claims settlement, especially for PMJJBY, PMSBY, and Ayushman Bharat beneficiaries.

7. Strengthen Trust through Claims Reform

   Mandate faster, transparent, and grievance-free claims processes using standardised timelines, digital tracking, and accountability mechanisms to address long-standing consumer mistrust.
8. Expand Micro and Modular Insurance Products

   Encourage insurers to design affordable, need-based, modular covers aligned to life stages, informal sector risks, and regional vulnerabilities.
9. Integrate Insurance with Social and Employment Policies

   Embed insurance coverage within skilling, MSME, tourism, and urban employment programmes to protect incomes and sustain workforce participation.
10. Invest in Financial and Insurance Literacy

    Launch sustained, outcome-driven awareness campaigns—especially for seniors, women, and youth—to improve understanding, usage, and confidence in insurance.
11. Enable Responsible Private Participation

    Support innovation through regulatory sandboxes, data-sharing frameworks, and public–private partnerships to scale coverage while maintaining consumer protection.