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INDIA'S INSURANCE SECTOR REFORMS: KEY HIGHLIGHTS

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Introduction

On December 21, 2025, the Indian government published the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025 (the "**Amendment Act**") in the official gazette for general information. The Amendment Act, once notified, will introduce important changes to three (3) key insurance statutes in India, namely, the Insurance Act, 1938 (the "**Insurance Act**"), the Life Insurance Corporation Act, 1956, and the Insurance Regulatory and Development Authority Act, 1999. Subsequently, on December 30, 2025, the Indian government notified the Indian Insurance Companies (Foreign Investment) Amendment Rules, 2025 (the "**Amendment Rules**") to amend the norms applicable to foreign investment in Indian insurance companies.

This update discusses the key changes introduced through the Amendment Act and the Amendment Rules and analyses their ramifications.

Key amendments

(i) Increase in the foreign investment limit: By virtue of an amendment to Section 2(7A) and the introduction of Section 3AA of the Insurance Act, the Amendment Act will increase the foreign investment limit in the Indian insurance sector from 74% to 100%, albeit with conditions that will be prescribed by the Indian government in due course.

Given the importance of the insurance sector to the Indian economy, the large capital requirements, the longer gestation period for investments, and the under penetration of insurance in India, it had become imperative to attract more foreign investment from global insurance companies that understand the sector better. Permitting 100% foreign ownership will do away with the need to have an Indian partner and will provide more certainty to foreign insurance companies on ownership and control of their Indian operations. In addition to an increase in insurance penetration and density, the inflow of additional capital in the sector and the possibility of new entrants seeking licenses is likely to encourage innovation and competition in the sector.

(ii) Amendment to foreign investment norms: The Amendment Rules make corresponding changes to the Indian Insurance Companies (Foreign Investment) Rules, 2015, to enable the liberalization of the insurance sector. In addition, the Amendment Rules also liberalize the governance and operational requirements applicable to Indian insurance companies having foreign investment. Previously, an Indian insurance company with foreign investment had to ensure that a majority of its directors and a majority of its key management persons were resident Indian citizens. The Amendment Rules remove this requirement. However, the requirement to ensure that at least one among the Chief Executive Officer, Managing

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Director or Chairperson of the board is a resident Indian citizen continues to apply. Further, Indian insurance companies having foreign investment in excess of 49% were subject to additional requirements in relation to dividend payouts, maintenance of general reserves and appointment of independent directors. These requirements have also now been removed. Similarly, for insurance intermediaries having foreign investment, the restrictions on repatriation of dividends, payments to group entities, and requirements relating to board composition have also been done away with.

Allowing foreign investors to not only acquire up to 100% equity in Indian insurance companies but also retain significant flexibility in governance and operational matters is a step in the right direction that is likely to make the sector more attractive.

(iii) Relaxation in approval requirement for transfer of shares: The Insurance Act currently requires an Indian insurance company to obtain prior approval of the Insurance Regulatory and Development Authority of India (the "**IRDAI**") for any transfer of its shares where: (a) after the transfer, the total shareholding of the transferee is likely to exceed 5% of the insurance company's paid-up equity capital; and (b) the nominal value of the shares intended to be transferred by a transferee (including by a group of persons under the same management) will exceed 1% of the insurance company's paid-up equity capital.

The Amendment Act, upon its commencement, will increase the per-transfer threshold in (b) above from 1% to 5%. The amendment will reduce the compliance burden on insurers where shareholders are seeking to transfer a nominal number of shares (i.e., less than 5%), and improve the ease of doing business in the sector. That said, the approval requirement highlighted under (a) above will continue to apply independently, and therefore, IRDAI approval will be required for transfers where the shares intended to be transferred aggregate to less than 5% but the transfer is likely to result in the transferee's shareholding in the insurance company aggregating to more than 5% when aggregated with the transferee's pre-existing shareholding in the company.

(iv) Reduction in the net-owned fund requirements for foreign reinsurers: The Insurance Act currently requires foreign reinsurers seeking to operate in India to have net owned funds of at least INR50 billion. The Amendment Act, upon its commencement, will lower the net-owned fund requirements for foreign reinsurers who establish a branch in India to INR10 billion. This relaxation is expected to encourage the entry of new foreign reinsurers into the Indian market.

(v) Extension of certain obligations of life insurers to all insurance companies: The Insurance Act currently requires insurers engaged in the life insurance business to comply with several additional compliance requirements. These requirements include the requirement to: (a) cause an actuary to annually investigate the financial health of its business; (b) not appoint an officer or managing director of another life

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insurance company, banking company or investment company as its managing director or officer; (c) undertake a prescribed percentage of life insurance business in rural and social sectors (this requirement also applies to insurers engaged in the general insurance business); and (d) adhere to restrictions on declaring and paying dividends to shareholders and bonuses to policy holders. The Amendment Act, upon its notification, will extend these obligations to insurers engaged in any class of the insurance business, including health insurance, general insurance and reinsurance. In addition, the Amendment Act will also allow the IRDAI to appoint an administrator to supersede the board of directors of any insurance company and manage its affairs if it determines that the insurer is acting in a manner that is likely to be prejudicial to the interests of its policyholders.

<u>Non-life insurers may find it difficult to undertake rural penetration in India as their pricing and business models may not be geared for this. However, an annual actuarial assessment of the financial health of non-life insurance companies may be a good thing to increase accountability and better protect policyholders</u>.

(vi) <u>One-time registration for insurance intermediaries</u>: The Insurance Act currently requires insurance intermediaries to renew their registrations every three (3) years. The Amendment Act will permit insurance intermediaries to hold their registrations in perpetuity subject to payment of an annual fee, unless the IRDAI suspends or cancels the registration. <u>This removal of a periodic renewal requirement will reduce a significant compliance burden for insurance intermediaries and further improve the ease of doing business in the sector</u>.

(vii) <u>Increase in regulatory oversight</u>: The Amendment Act will give more regulatory oversight powers to the IRDAI, such as: (a) a requirement to obtain IRDAI approval for any transfer or amalgamation of the non-insurance business of any company to or with the insurance business of any insurer (previously, this approval requirement only applied in respect of a transfer or amalgamation of any insurance business between two (2) insurers); and (b) an express recognition of the IRDAI's right to issue directions for disgorgement where any person has made wrongful profits or averted losses by contravening applicable insurance laws.

(viii) <u>Enhanced penalties</u>: The Amendment Act will increase the maximum penalty for violations of the Insurance Act and other applicable insurance laws from INR10 million to INR100 million. In addition, the Amendment Act also requires the IRDAI to take into account certain specified factors when determining the quantum of penalty for any contravention or default. These factors include the nature, gravity, and duration of the default, whether the default is repetitive, whether any disproportionate gain or unfair advantage was derived, whether any loss was caused to policyholders, whether any mitigation actions were undertaken, and the number of policyholders impacted by such default. <u>The enhanced penalty framework and assessment based on specified factors is likely to strengthen regulatory deterrence while also providing clarity on determination of penalties by the IRDAI</u>.

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Conclusion

The Amendment Act and the Amendment Rules are forward-looking sector-wide reforms that are aimed at accelerating the Indian government's goal of increasing insurance penetration and insurance density in India. It marks an important step in updating India's insurance regulatory framework to reflect current market needs and global best practices. By allowing greater foreign investment and balancing compliance requirements, the amendments aim to promote growth while safeguarding policyholder interests. Overall, the reforms have the potential to increase competition, attract greater participation, and support the development of a strong, transparent, and resilient insurance sector in India.

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