India's insurance regulator seeks to simplify the operations and listing of insurance companies

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The Insurance Regulatory and Development Authority of India (the "**IRDAI**") has circulated an exposure draft of the IRDAI (Registration, Capital Structure, Transfer of Shares and Amalgamation of Indian Insurance Companies) Regulations, 2024 (the "**Consolidated Draft Regulations**") with the aim of streamlining the insurer registration process, facilitating share transfer and other capital-related transactions, promoting insurer amalgamation, facilitating the listing of insurer shares on stock exchanges, and fostering a business-friendly environment. In this brief update, we set out the key changes proposed under the Consolidated Draft Regulations.

Background

Taking note of the significant compliance burden for stakeholders and with the objective of simplifying the scattered regulatory framework, the IRDAI has circulated the Consolidated Draft Regulations based on inputs from a Regulations Review Committee constituted for this purpose. The Consolidated Draft Regulations bring together and harmonize the provisions of seven (7) different regulations issued over a decade, *viz*.,

(i) the IRDAI (Registration of Indian Insurance Companies) Regulations, 2022;
(ii) the IRDAI (Other Forms of Capital) Regulations, 2022;
(iii) the IRDAI (Manner of Assessment of Compensation to Shareholders or Members on Amalgamation) Regulations, 2021;
(iv) the IRDAI (Issuance of Capital by Indian Insurance Companies transacting other than Life Insurance business) Regulations, 2015;
(v) the IRDAI (Issuance of Capital by Indian Insurance Companies transacting Life Insurance business) Regulations, 2015;
(vi) the IRDA (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013; and
(vii) the IRDA (Scheme of Amalgamation and Transfer of General Insurance Business) Regulations, 2011.

Although the Consolidated Draft Regulations do not introduce sweeping changes, a few key modifications can be seen.

Key changes proposed

- **Approval for listing of shares**: The listing of shares of an insurance company previously required the prior approval of the IRDAI. The Consolidated Draft Regulations do away with this approval requirement, and an insurance company can now directly approach any financial sector regulator for listing its equity shares, subject to the fulfilment of certain criteria, including, *inter alia*: (i) the listing being in the interest of the

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policyholders; (ii) filing an intimation with the IRDAI; and (iii) the insurer being able to comply with the regulatory stipulations of the financial sector regulator(s).

- **Relaxation of lock-in period**: While investments in the shares of an insurance company in the capacity of an investor or promoter continue to remain subject to the previously prescribed lock-in periods, the Consolidated Draft Regulations permit the IRDAI to relax these lock-in requirements in cases where: (i) the insurance company is seeking to list its shares on a stock exchange in India; (ii) the insurer or shareholder is in a distressed financial position; or (iii) the insurer or shareholder is engaged in an amalgamation. This relaxation grants greater flexibility to insurance companies and investors alike, and this action of the IRDAI will be positive as it will help in alleviating the solvency issues that some insurance companies have faced.

- **Miscellaneous**:

  - **Approval for share transfer**: The Consolidated Draft Regulations also provide that any investor, whose aggregate holding is 5% (five percent) or more of the paid-up equity share capital of the insurance company does not require the prior approval of the IRDAI for further acquisitions of shares up to 10% (ten percent) of the paid-up equity share capital of such insurance company.

  - **Nomination of directors**: The previous regulatory regime permitted investors to invest in up to two (2) insurers operating in the same class of insurance business and permitted such investor to nominate a director to the board of the insurance company in which its shareholding exceeded 10% (ten percent) of the paid-up equity share capital. However, in order to avoid a possible conflict of interest, the Consolidated Draft Regulations clarify that an investor holding shares exceeding 10% (ten percent) of the paid-up equity share capital in two (2) insurers operating in the same class of insurance business can only nominate a director to the board of any one (1) of the two (2) insurers.

With the insurance sector being given a significant push and the insurance landscape in India being prioritized as a matter of policy, the Consolidated Draft Regulations mark a significant step towards introducing flexibility to this pivotal sector and will promote greater investment.

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