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Insurance Laws Reimagined: Enabling Growth, Ensuring Protection

In a long-awaited move for the Indian insurance and reinsurance sector, the Lok Sabha passed the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025 (“**Bill**”) on December 16, 2025 to amend the Insurance Act, 1938 (“**Insurance Act**”), the Insurance Regulatory and Development Authority Act, 1999 and the Life Insurance Corporation Act, 1956. The Bill reflects the clear intent of the Government to attract foreign investors, by offering incentives such as removal of the foreign direct investment (“**FDI**”) cap, reduction in net owned fund requirements for reinsurers, easing of share transfer restrictions and strengthening distribution with the introduction of managing general agents (“**MGAs**”) and a perpetual licensing regime for insurance intermediaries. The Bill also seeks to increase the Insurance Regulatory and Development Authority of India’s (“**IRDAI**”) oversight over insurance companies and intermediaries.

The Government has been signalling a strong inclination to implement the proposals in the Bill, first with the circulation of the draft Insurance Laws (Amendment) Bill, 2024 by the Department of Financial Services (“**DFS**”), followed by the Finance Minister’s announcement in the 2025 Union Budget and then, the proposal to amend the Indian Insurance Companies (Foreign Investment) Rules, 2015 (“**Draft Rules**”) earlier this year.

The Bill now awaits parliamentary passage at the Rajya Sabha, presidential assent and thereafter, notification in the official gazette. Several of the changes would also require corresponding amendments to the foreign exchange regulations/ FDI rules and various IRDAI regulations, including the IRDAI (Registration, Capital Structure, transfer of Shares and Amalgamation for India Insurance Companies) Regulations, 2024 (“**Registration Regulations**”).

Taken together, the changes in the Bill promise a decisive shift in India’s insurance landscape. Having said that, several of the proposals in the Bill are measured and their full impact would depend to a significant extent on the conditionalities and specifics imposed in subordinate legislation. While some of the expected reforms, such as open architecture for insurance agents, reduction of minimum capital requirements for niche classes of business and captive insurance, do not find a place in the Bill, for some others, like composite licensing and value-added services, the Government appears to have introduced enabling provisions, leaving room for future reforms. All in all, much would turn on the manner in which the Government and IRDAI implements these provisions. Effective implementation will require precise rule-making which delicately balances the objectives of promoting innovation, increasing capital inflows and ensuring policyholder protection. Key amendments are discussed below:

Liberalisation of the investment regime

Removal of FDI limit

- Removal of the existing 74% FDI cap to permit 100% FDI under the automatic route provides impetus to the Government’s agenda to increase foreign participation in the insurance sector. However, such relaxation is not without conditions – the newly introduced Section 3AA requires that any such increase in foreign investment shall be in the manner and subject to such conditions as may be prescribed, by the Central Government. It is possible that this may keep to the changes proposed by the DFS in the Draft Rules – for instance, the requirement of at least one amongst the chairperson, managing director or the chief executive officer being a resident Indian citizen may be introduced. However, one will have to wait for the final rules to be prescribed to evaluate the full extent of these relaxations.



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- The removal of the requirement to tie up with a domestic partner will lower entry barriers and may spur new entrants, although the conditions which 100% FDI is subject to will need to be considered and it is likely that several foreign entrants may continue to rely on domestic partners for their distribution needs.

Share transfers

- Share transfer restrictions have been eased, as prior approval of the IRDAI is now required only for any transfer or issuance of shares exceeding 5% of the insurer's paid-up capital (as opposed to 1% under the existing regime). Notably, unlike the position in the Registration Regulations which takes into account cumulative transfers/ acquisitions within a financial year for calculating the 1% threshold (applicable currently), the Bill does not provide guidance on the reference period during which share acquisitions/ transfers should have occurred to be counted towards the approval thresholds.
- Moreover, the requirement for prior IRDAI approval for any transaction which is likely to result in the transferee's shareholding exceeding 5% of the paid-up capital of the insurer continues to apply.

Net owned fund requirement

The Bill proposes a reduction of the net owned fund requirement for foreign reinsurance branches and Lloyd's or its members from INR 50 billion to INR 10 billion. This brings the net owned fund requirement for foreign reinsurers in the domestic tariff area at par with those in GIFT City. This change is expected to incentivise the entry of new foreign reinsurers in India.

Class of insurance business

- A definition of 'class of insurance business' has now been introduced to cover the traditional 4 classes of insurance business (i.e., life, general, health and reinsurance), along with an enabling power to the Central Government (in consultation with the IRDAI) to notify any other new classes of insurance business, and potentially sub-classes as well. However, the minimum capital requirement continues to be INR 1 billion for all insurers (INR 2 billion for reinsurers) and the Bill does not provide an enabling power to reduce/ relax such requirement. Such a relaxation may be needed, along with other measures such as calibration of solvency and prudential norms to encourage new specialised insurers.
- In addition, this could also pave the way for composite licensing in the future, in a manner similar to the norms applicable to insurance brokers, which currently provide for 3 distinct classes of broking business – direct, reinsurance and composite (which includes direct and reinsurance).

Insurance business

The Bill has defined 'insurance business' – a definition which was conspicuously absent under existing laws. While value added services have not been specifically included, some flexibility has been introduced in the definition of 'insurance business' to allow the Central Government (in consultation with the IRDAI) to notify other forms of contracts, in addition to insurance contracts, that an insurer could effectuate. It is unclear whether the intent is to cover only services which are ancillary to insurance business or include other non-insurance services.

Transfer of business to non-insurance company

- It is now clarified that mergers between the non-insurance business of a company and insurance business of an insurer would need to follow the same process as applicable to the scheme of amalgamation/ transfer of two insurance businesses as provided under Section 35 of the Insurance Act. While the Bill does not explicitly mention so, under the current provisions, it appears that the resultant entity of any such merger would need to exclusively carry on insurance business.
- This is a pivotal move given the lack of clarity in the existing regulations on the permissibility and process for a merger between insurance and non-insurance companies. The amendment in the Bill now settles the dust on the position and provides regulatory certainty. Having said that, a contrarian view could be that the Bill imposes additional fetters for such mergers, which did not exist in the current regime.

Premium payment

- The Bill proposes to amend Section 64VB of the Insurance Act to recognise online modes of premium payment to insurers. In such cases, the insurer will assume risk only upon receipt of the money in the insurer's bank account. On the other hand, in cases of payment via cheque or money order, the provision continues to state that an insurer assumes risk from the time when such cheque or money order is posted or booked (respectively).



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- In addition, a definition has been added for the term 'premium', that is the amount paid or payable as consideration to the insurer by the policy holder for a contract of insurance. This definition does not cover payments by persons other than the policyholders, such as a spouse or a parent who has an insurable interest under the policy.

Insurance intermediaries

Definition of insurance intermediaries

MGAs have been introduced as a new category of 'insurance intermediary' under the Bill. MGAs are specialised intermediaries who possess the authority to underwrite binding insurance directly on behalf of the insurer. The manner in which MGAs are likely to operate in the insurance sector will depend on the regulations that the IRDAI prescribes.

Perpetual registration

The Bill has introduced the concept of perpetual registration for insurance intermediaries, in place of renewals every three years. This is a welcome move towards ease of doing business and has been a long standing ask from insurance intermediaries. There is, however, some ambiguity as certain provisions regarding renewal applications for insurance intermediaries seem to have been reintroduced despite perpetual registration norms.

Processing of policyholders' information

The Bill has introduced new provisions under which the IRDAI may direct the manner in which insurers and other regulated entities process KYC information. The Bill also mandates that such regulated entities ensure utmost confidentiality of all KYC information of the policyholders. There are appropriate provisions for maintaining confidentiality and obtaining consents from policyholders/ prospective customers. Previously, the KYC norms to be followed by the insurers were solely derived from the IRDAI's Master Guidelines on Anti Money Laundering / Counter Financing of Terrorism read with the Prevention of Money-launder Act, 2002 and the Prevention of Money-laundering Rules, 2005.

Governance

Restriction on common directors

- All insurers (including general and health insurers) are now restricted from appointing an individual as a director or officer, if such person is a director or officer in (a) another insurer in the same class of business; (b) any banking company; or (c) any investment company. Earlier, such restriction was only in the context of life insurers. Notably, various insurers are promoted by listed banks, which are subject to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, which, *inter alia*, requires an independent director on the board of the listed company to also be a director on the board of its material subsidiary.
- Additionally, Section 48A of the Insurance Act prescribes a similar restriction on directors of insurance intermediaries from being appointed on the board of insurers, subject to prior IRDAI approval. Since 2002, the IRDAI has granted deemed approval for such appointments, without the need of approaching the regulator, subject to satisfaction of the conditions prescribed under its circulars. This position remains unchanged under the Bill.

Investment in private companies

The Bill omits Section 27A of the Insurance Act, which included a prohibition on investment in private companies by insurers. With the omission of this provision, it is up to the IRDAI to prescribe checks and balances safeguarding investments by insurers into private companies and consequently protecting policyholders' interests.

Regulatory oversight

- Insurance intermediaries have now been expressly brought under the purview of the IRDAI's investigative powers and the power to issue directions. Additionally, the IRDAI is specifically empowered to issue directions to insurers and insurance intermediaries to disgorge wrongful gains made or losses averted by a contravention.
- Every insurer (as opposed to only life insurers) must now conduct an actuarial investigation into the financial condition of the business carried on by the insurer and to prepare an actuarial report, reflecting a shift towards uniform and standardised financial disclosures.



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- The Bill provides for the creation of a 'Reserve Fund' (into which 25% of the annual surplus of the IRDAI Fund would be deposited) and a 'Policyholders' Education and Protection Fund' which will be utilised for the education and protection of interests of the policyholders (comprising of grants from the central and state governments, penalties realised by the IRDAI and other prescribed sums).

Delegation of powers

The Bill expressly: (a) empowers the chairperson or any wholetime member, following consultation with the relevant consultative committee, to issue binding subsidiary instructions to clarify ambiguities and lay down procedural requirements ancillary to existing regulations; (b) requires publication of draft regulations for public comments and the issuance of a general response to such comments, together with periodic review of regulations; and (c) permits the prior publication and consultation requirements to be dispensed with, where amendments are considered urgent in the public interest or relate solely to the regulator's internal functioning. While these changes aim to ensure continuity and regulatory agility, they also appear to concentrate rulemaking discretion.

Penalties

- The Bill increases the maximum penalty for a contravention of the Insurance Act, and regulations, from INR 10 million to INR 100 million. The penalty imposed for each day of contravention continues to remain INR 100,000.
- Further, the IRDAI would need to consider certain factors prescribed under the Bill for determining the amount of penalty to be imposed for any contravention/ default, such as the nature, gravity, and duration of the default, repetitive nature of the default, the disproportionate gain or unfair advantage and the loss caused to the policyholders as a result of the default.

Conclusion

Overall, the Bill signals a pro-growth agenda while balancing ease of doing business with regulatory oversight and policyholder protection. With precise, consultative and proportionate rule-making, it can support a more competitive, well-capitalised and a dynamic insurance market. The ultimate success of the Bill will hinge on the effective implementation of the rules and regulations framed by the Central Government and the IRDAI.

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