ERGO

KHAITAN & CO ADVOCATES SINCE 1911

Insurance 2.0 | Parliament passes the *Sabka Bima Sabki Raksha* (Amendment of Insurance Laws) Bill, 2025

18 December 2025

The much-anticipated "Insurance 2.0" reforms have moved a decisive step forward, with both Houses of Parliament adopting the *Sabka Bima Sabki Raksha* (Insurance for All, Protection for All) (Amendment of Insurance Laws) Bill, 2025 (the Amendment Bill), which seeks to amend the Insurance Act, 1938 (Insurance Act), the Insurance Regulatory and Development Authority of India Act, 1999 (IRDAI Act), and the Life Insurance Corporation Act, 1956.

How we got here

The reform process commenced in November 2024, when the Ministry of Finance (MoF) invited public comments on proposed amendments to the Insurance Act, 1938 (coverage available here). In February 2025, the Hon'ble Finance Minister announced, in her Budget speech, the Government's intent to increase foreign investment limits in insurers to 100% (coverage available here). In August 2025, the Department of Financial Services, MoF, invited public comments on proposed amendments to the foreign investment rules applicable to Indian insurers (coverage available here).

When will the reforms take effect?

While both houses of Parliament have adopted the Amendment Bill, it will become operational only after: (a) Presidential assent; and (b) notification of the commencement date by the Government of India.

In parallel, the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 (NDI Rules) will need to be amended to reflect the increase in foreign investment limits to 100%. Relevant regulations framed by the Indian insurance regulator, i.e. the Insurance Regulatory and Development Authority of India (IRDAI) will also need updating to operationalise several reforms (including the proposed increase in foreign investment limits).

Expected implementation timeline for 100% foreign investment

When foreign investment limits were increased from 49% to 74% in 2021, the time between the bill's introduction and the corresponding amendments to the NDI Rules was approximately five months. We expect a faster implementation timeline this time and anticipate the necessary amendments to the NDI Rules and IRDAI regulations to be rolled out in short order.

Key reforms and implications

1. 100% FDI in Indian insurers

The Amendment Bill enables 100% foreign investment in Indian insurers, subject to conditions that may be prescribed. The stated objective is to accelerate growth in the insurance sector.

Further clarity is expected on the contours of these conditions. The proposed amendments to the foreign investment rules circulated in August 2025 (coverage available here) contemplated a reformed regime that, among other things:

- requires only one of the following to be an Indian resident: the Chairman, Managing Director, or Chief Executive Officer; and
- removes restrictions relating to dividend repatriation and board composition.

We are optimistic that these relaxations will be carried through in the new regime, although this will ultimately depend on the notified conditions and the final text of the amended NDI Rules and allied IRDAI regulations.

2. IRDAI approval thresholds for share transfers / issuances

The Amendment Bill increases the threshold for obtaining IRDAI approval for share transfers/issuances from 1% to 5%.

This change should reduce regulatory friction for immaterial transactions and improve ease of doing business. For effective implementation, IRDAI will need to amend its operating guidelines to harmonise approval thresholds. As part of this exercise, IRDAI is also expected to clarify whether acquisitions spread across multiple years could trigger approval requirements.

3. Composite insurance licences: enabling framework

The Amendment Bill defines "class of insurance business" as life, general, health, reinsurance, or other classes as may be notified by the Central Government (in consultation with IRDAI). An "Indian insurance company" is defined as a public limited company whose sole purpose is to carry on life, general, health or reinsurance business.

This formulation enables the Central Government (in consultation with IRDAI) to notify a composite insurance regime. While the definition of "Indian insurance company" does not expressly refer to a composite licence, the amendments support a position where an insurer may be permitted to engage in a combination of core insurance activities.

4. Value-added / ancillary services

"Insurance business" has been defined to mean the business of effecting contracts of insurance and includes any other form of contract as may be notified by the Central Government, in consultation with IRDAI.

This provides an enabling basis for the Central Government (in consultation with IRDAI) to notify ancillary and value-added services that insurers may undertake.

5. Prohibition on common directors and officers

A director or officer of an insurer cannot be an officer or director of:
- any other insurer carrying on the same class of insurance business;
- a banking company; or
- an investment company.

Previously, only managing directors and other officers of life insurers were prohibited from serving as a managing director or other officer of another life insurer, a banking company or an investment company. Several life insurers have nominee directors from their promoter banks serving on their boards as non-executive directors. The *Notes on Clauses* to the Amendment Bill indicate that the legislative intent is to extend this prohibition on common managing directors and other officers (as opposed to all directorships) to all insurers. Regulations framed by the Securities Exchange Board of India (SEBI), the Indian securities market regulator, requires listed entities (including banks and investment companies) to nominate independent directors on the boards of material unlisted subsidiaries. Given the absolute prohibition on common directors, the interplay between SEBI requirements and the Amendment Bill will need careful scrutiny. It remains to be seen how these potential conflicts are resolved in practice. The existing deemed-approval regime enabling insurance intermediaries to appoint directors on insurer boards remains unchanged.

6. Mergers and amalgamations

The Amendment Bill enables the merger of insurers and non-insurance companies into insurers.

Historically, mergers involving insurers and non-insurance entities have faced regulatory headwinds. While the Amendment Bill does not expressly address the permissibility of multi-step or composite merger structures (including transactions where an insurance business is temporarily combined with a non-insurer), the *Notes on Clauses* clarifies that the amendments are aimed at empowering IRDAI to approve a scheme of arrangement, including merger, demerger, reverse merger etc between an insurer and a company not engaged in insurance business. The Hon'ble Finance Minister also stated in the Rajya Sabha that the framework is intended to permit mergers between insurer holding companies and their subsidiaries. The merger of insurers with other operating companies may be possible only after Central Government notifies other businesses that an insurer may engage in.

7. Commission regime

Historically, insurers were subject to product-specific caps on commissions. This regime was omitted in 2023 in favour of a general expenses of management cap. The Amendment Bill now authorises IRDAI to prescribe caps in respect of commissions.

This should not automatically be interpreted as a return to the earlier commission-caps regime. Rather, the amendments provide IRDAI with an explicit regulatory lever over commissions. The existing expenses of management framework will continue to apply unless and until modified.

8. Policyholder and claims data: enhanced collection and sharing (including IIB strengthening)

Enhanced policyholder information

The Amendment Bill requires insurers to maintain an enhanced set of minimum information with respect to policyholders. IRDAI is expected to issue operating regulations specifying how such policyholder information must be submitted. The Amendment Bill also provides a statutory basis for IRDAI's powers relating to 'Know Your Customer' aspects of insurers' and intermediaries' businesses.

While these changes strengthen IRDAI's supervisory toolkit, safeguarding data security and privacy in respect of policyholder information will be critical.

Formal mechanism for policy and claims information

The IRDAI Act is being amended to enable IRDAI to collect policyholder and claims information from insurers and intermediaries. A new Section 14C introduces a formal mechanism under which an insurer may apply to IRDAI for policy-related information in connection with any policy issued or proposed to be issued, subject to the insurer first confirming that the concerned person has validly consented to data sharing in accordance with applicable law.

IRDAI will be required to process such applications within prescribed timelines, while ensuring that the identity of the insurer or regulated entity that originally submitted the information is not disclosed. IRDAI may also levy a fee for furnishing such information.

Strengthening the Insurance Information Bureau (IIB)

These changes are expected to strengthen the IIB framework (IRDAI's policyholder and claims information repository) significantly. A more robust IIB should materially enhance insurers' ability to conduct diligence for new policies and may reduce turnaround times for policy issuance through centralised data access. For this mechanism to deliver its intended benefits, it will be essential to ensure the accuracy, completeness and ongoing integrity of the data housed with the IIB.

9. Insurance intermediaries: structural reforms and expanded supervisory perimeter

Managing General Agents (MGAs)

MGAs have been recognised as a class of insurance intermediaries.

This reflects a deliberate shift towards a more layered, specialist intermediation model aligned with mature markets. The reform is expected to enable large digital and specialised intermediaries to move beyond pure distribution and participate more meaningfully in product design (and potentially risk sharing). Given India's diverse risk pools, MGAs could catalyse specialised products; however, supervisory expectations relating to pricing, risk participation and use of third-party data will need to be assessed as the implementing framework emerges.

Renewal of intermediation licences

Intermediation licences will no longer require periodic renewal. Licences will remain in force until suspended or revoked by IRDAI, subject to payment of annual fees.

Expanded supervisory powers

Insurance intermediaries have been expressly brought within IRDAI's investigative powers and its power to issue directions, aligning intermediaries more closely with insurers from a supervisory perspective.

10. Other notable changes

- **Net owned funds for foreign reinsurers**: Net owned funds requirements for foreign reinsurance branches/ Lloyd's is proposed to be reduced from INR 5,000 crore (~USD 553 million) to INR 1,000 crore (~USD 111 million).

- **Investments by insurers:** The statutory framework governing insurer investments is proposed to be streamlined. IRDAI regulations will continue to prescribe a detailed supervisory regime. While the restriction on investments in private companies has been removed, it remains to be seen whether IRDAI will retain comparable constraints through its operating regulations. Separately, the existing cap on investments in promoter group entities (currently set at 5% of an insurer's assets under IRDAI regulations) is now proposed to be reflected in the Insurance Act.

- **Data sharing with third parties:** The Amendment Bill introduces an express statutory confidentiality framework under which policyholder information may be shared with third parties only in limited circumstances; most notably, where the customer has given express consent. This is broadly consistent with IRDAI's existing policyholder protection regulations, which also prohibit third-party sharing unless explicit policyholder consent has been obtained.

- **Actuarial investigations**: While the Insurance Act historically contemplated statutory actuarial investigations in the context of life insurance, IRDAI's prudential framework has, in practice, required all insurers to operate within an IRDAI-mandated actuarial valuation and financial-condition reporting ecosystem (including reserving, solvency and related actuarial certifications and filings). The Amendment Bill now gives specific statutory recognition to these requirements under the Insurance Act itself, thereby strengthening their legislative footing.

- **Corporate names:** The Amendment Bill requires insurers and insurance intermediaries to adopt corporate names that clearly reflect the nature of the business they carry on.

- **Online premium payment:** The Amendment Bill gives statutory recognition to online premium payments and clarifies that, where premiums are paid online, the insurer may assume risk once the premium amount is credited to the insurer's bank account.

- **Foreign insurers conducting business in India:** The Amendment Bill clarifies that an entity established under foreign law cannot directly carry on insurance business in India, other than reinsurance.

- **SEZs and IFSCs:** The Amendment Bill empowers the Government to exempt insurers and insurance intermediaries operating in Special Economic Zones and International Financial Services Centres from the application of the Insurance Act, 1938, subject to such conditions as may be prescribed.

11. Penalties and enforcement enhancements

- IRDAI is authorised to disgorge wrongful gains made or losses averted by insurers and intermediaries.

- Maximum penalty that IRDAI can impose in respect of contraventions has been enhanced from INR 1 crore (~USD 100,000) to INR 10 crore (~USD 1.1 million).

- The Amendment Bill introduces a specific penalty of up to INR 1 crore (~USD 100,000) for insurers that engage unlicensed intermediaries. It also introduces personal liability for fines up to INR 10 lakh (~USD 11,000) for directors and officers of the insurer who are knowingly party to such engagement.

- The Amendment Bill also introduces a structured framework for determining penalties, requiring IRDAI to consider specified factors such as the nature, gravity and duration of the default, whether it is repetitive, any disproportionate gain or unfair advantage, loss caused to policyholders, mitigation steps taken (and their timeliness/effectiveness), the number of policyholders impacted, and overall proportionality, along with any other relevant factors. Before imposing a penalty, IRDAI must provide the concerned person an opportunity of being heard. IRDAI is also required to publish a brief of the penal action as a press release on its website within 30 days. The detailed procedure for imposing penalties will be prescribed through specific regulations framed by IRDAI.

- Penalties will be deposited into a Policyholder Education and Protection Fund that will be established and administered by IRDAI under the IRDAI Act. This fund will be used for policyholder education, protection of policyholder interests and such other purposes as IRDAI may by way of regulations specify.

12. Transparency in rulemaking

- IRDAI is mandated to improve transparency in rulemaking by publishing draft regulations and seeking public comments while framing or amending regulations. Where IRDAI proposes to adopt regulations materially different from those on which comments were sought, the consultation process is required to be repeated. These requirements do not apply to urgent rulemaking in the public interest.

- The Amendment Bill empowers IRDAI's Chairperson and/or whole-time Members to issue subsidiary instructions to clarify regulatory ambiguities and prescribe ancillary procedures. Such instructions must generally be preceded by consultation with a Consultative Committee, except in urgent cases. The Consultative Committee's advice is not binding on the IRDAI.

Conclusion and takeaways

Once the enabling legislative changes are brought into force, we expect the move to permit 100% foreign investment in Indian insurers to be implemented promptly. This reform addresses a longstanding structural constraint: many foreign entrants have struggled to identify suitable Indian partners, and even where partnerships are feasible, domestic ownership requirements have often limited the ability of foreign shareholders to provide capital at scale. Full management control should also strengthen governance, accelerate decision-making and enhance accountability. That said, the need for deep distribution capabilities, particularly in life insurance, may continue to make local partnerships commercially attractive for many foreign entrants. However, this should no longer operate as a binding constraint on capital commitment; foreign shareholders should be able to fund growth even where a domestic partner is unwilling or unable to contribute proportionately.

The increase in IRDAI approval thresholds for share issuances and transfers should reduce compliance friction for routine transactions and improve ease of doing business. The proposed strengthening of IIB is also a positive development, although its utility will depend materially on the final data-sharing framework and, critically, the quality and integrity of data contributed by market participants.

The statutory recognition of MGAs is another important step, which somewhat makes up for the Amendment Bill not reducing minimum capitalisation requirements. If implemented with proportionate guardrails, MGAs can deepen market penetration and support product innovation, while preserving insurer accountability and avoiding opaque risk-transfer arrangements. The reduction in net owned funds requirements for foreign reinsurer branches and Lloyd's supports greater foreign reinsurer participation in India.

Finally, enabling provisions for composite licensing and value-added services provide a constructive foundation, although operationalisation will require further implementing steps. Additional clarity on restrictions relating to common directors and officers across insurers, banks and investment companies, would also be welcome.

Overall, the reforms represent a meaningful advance and should support the next phase of growth for the sector, aligned with the Government's objective of "Insurance for All by 2047".

- *Aravind Venugopal (Partner) and Amrutha Alapati (Associate)*

About Khaitan & Co

Khaitan & Co is a top tier and full-service law firm with over 1200 legal professionals, including 300+ leaders and presence in India and Singapore. With more than a century of experience in practicing law, we offer end-to-end legal solutions in diverse practice areas to our clients across the world. We have a team of highly motivated and dynamic professionals delivering outstanding client service and expert legal advice across a wide gamut of sectors and industries.

To know more, visit **www.khaitanco.com**