



## JSA Prism Employment Law

May 2025

### Karnataka High Court to examine validity of compulsory gratuity insurance rules

In the ongoing case of *Bruhat Bangalore Hotels Association and Ors. vs. The Principal Secretary*<sup>1</sup>, a single judge bench of the Karnataka High Court (“**Karnataka HC**”), while examining the constitutional validity of the Karnataka Compulsory Gratuity Insurance Rules, 2024 (“**Insurance Rules**”) has, *vide* an interim order dated April 28, 2025, restrained the Government of Karnataka from taking coercive action against the petitioners for non-payment of gratuity insurance premiums for employees who have not completed 5 (five) years of continuous service, subject to the petitioners continuing to pay insurance premiums for employees who have completed 5 (five) years of continuous service.

#### Brief facts

On January 10, 2024, the Government of Karnataka notified<sup>2</sup> the Insurance Rules pursuant to Section 4A of the Payment of Gratuity Act, 1972 (“**Gratuity Act**”), requiring all eligible employers in Karnataka to obtain compulsory gratuity insurance from Life Insurance Corporation of India or other approved insurers, for their liability towards payment of gratuity to all eligible employees under the Gratuity Act. Existing establishments were required to comply with these directions within 6 (six) months of the notification (extended from the initial 60 (sixty) days), while new establishments are expected to comply within 30 (thirty) days of commencement of their operations.

On March 19, 2024, the Bruhat Bangalore Hotels Association and other industry bodies filed writ petitions before the Karnataka HC, challenging the constitutional validity of the Insurance Rules in its entirety and seeking:

1. a declaration that the notification dated January 10, 2024 (i.e., the Insurance Rules) is unconstitutional and violative of Article 14 of the Constitution of India; and
2. an interim stay on the operation of the Insurance Rules pending final adjudication.

#### Grounds for challenge

The challenge is primarily premised on the following<sup>3</sup>:

<sup>1</sup> W.P. Nos. 9358/2024, 12931/2025 and other connected petitions (Interim order passed on April 28, 2025)

<sup>2</sup> Notification No. LD 397 LET 2023

<sup>3</sup> As per Karnataka High Court Daily Order dated April 28, 2025

1. pursuant to requirements under the Insurance Rules, employers are bound to pay insurance premiums even for those employees who have not completed 5 (five) years of continuous service as prescribed under the Gratuity Act — despite gratuity becoming payable only upon completion of such period under the Gratuity Act; and
2. the Insurance Rules apply uniformly to all employers, without accounting for differences in the size or financial capacity of the establishment — potentially impacting the profitability of small-scale businesses.

### Preliminary observations and interim order

While passing the interim order that no coercive steps should be taken against the petitioners for not paying premiums for employees who have not completed 5 (five) years of continuous service—so long as premiums are paid for eligible employees—the Karnataka HC made the following observations:

1. as the pleadings in the matter are yet to be completed, it would not be appropriate to stay the operation of the Insurance Rules entirely at this stage, as such a direction could prevent employers in a position to pay the insurance premium, from continuing to do so;
2. continuing with coercive enforcement measures during pendency of the proceedings could result in undue hardship—particularly in respect of employers who are unable to pay premiums for employees who have not completed 5 (five) years of continuous service, and therefore, are not yet eligible for gratuity under the Gratuity Act.

The matter is next listed for hearing on June 3, 2025.

### Potential outcome and impact

The ongoing proceedings before the Karnataka HC assume particular significance as they mark the first constitutional challenge to the Insurance Rules. Notably, several employers across key sectors such as hospitality, manufacturing, retail have already commenced compliance efforts—ranging from procuring group gratuity insurance policies, to undertaking internal documentation and registration requirements as compliance measures under the Insurance Rules and Gratuity Act.

Against this backdrop, the outcome of the present case is likely to set a precedent with broad-based implications. Should the Karnataka HC uphold the validity of the Insurance Rules—particularly the obligation to insure employees who have not yet completed 5 (five) years of continuous service—employers will be required to front-load insurance costs regardless of whether gratuity has legally accrued. This would effectively result in continued concerns around cost efficiency, disproportionate burden on smaller enterprises, and inconsistency with the broader statutory construct under the Gratuity Act. Conversely, a favourable ruling for the petitioners could potentially offer significant relief to financially constrained businesses and may prompt a reconsideration of the manner in which gratuity insurance obligations are framed and enforced.

## Employment Practice

JSA has a team of experienced employment law specialists who work with clients from a wide range of sectors, to tackle local and cross-border, contentious and non-contentious employment law issues. Our key areas of advice include (a) advising on boardroom disputes including issues with directors, both executive and non-executive; (b) providing support for business restructuring and turnaround transactions, addressing employment and labour aspects of a deal, to minimize associated risks and ensure legal compliance; (c) providing transaction support with reference to employment law aspects of all corporate finance transactions, including the transfer of undertakings, transfer of accumulated employee benefits of outgoing employees to a new employer, redundancies, and dismissals; (d) advising on compliance and investigations, including creating compliance programs and policy, compliance evaluation assessment, procedure development and providing support for conducting internal investigations into alleged wrongful conduct; (e) designing, documenting, reviewing, and operating all types of employee benefit plans and arrangements, including incentive, bonus and severance programs; and (f) advising on international employment issues, including immigration, residency, social security benefits, taxation issues, Indian laws applicable to spouses and children of expatriates, and other legal requirements that arise when sending employees to India and recruiting from India, including body shopping situations.

JSA also has significant experience in assisting employers to ensure that they provide focused and proactive counselling to comply with the obligations placed on employees under the prevention of sexual harassment regime in India. We advise and assist clients in cases involving sexual harassment at the workplace, intra-office consensual relationships, including drafting of prevention of sexual harassment (POSH) policies, participating in POSH proceedings, conducting training for employees as well as Internal Complaints Committee members, and acting as external members of POSH Committees.

**This Prism has been prepared by:**



**Sonakshi Das**  
Partner



**Mitali Jain**  
Associate



18 Practices and  
41 Ranked Lawyers



7 Ranked Practices,  
21 Ranked Lawyers



14 Practices and  
12 Ranked Lawyers



12 Practices and 50 Ranked  
Lawyers



20 Practices and  
22 Ranked Lawyers



8 Practices and  
10 Ranked Lawyers  
Highly Recommended in 5 Cities



Recognised in World's 100 best  
competition practices of 2025



Among Best Overall  
Law Firms in India and  
14 Ranked Practices



Asia M&A Ranking 2024 – Tier 1

Employer of Choice 2024

Energy and Resources Law Firm of the  
Year 2024

Litigation Law Firm  
of the Year 2024

Innovative Technologies Law Firm of  
the Year 2023

Banking & Financial Services  
Law Firm of the Year 2022



Ranked Among Top 5 Law Firms in  
India for ESG Practice

**vahurā**  
2022

Ranked #1  
Best Law Firms to Work

Top 10 Best Law Firms for  
Women

For more details, please contact [km@jsalaw.com](mailto:km@jsalaw.com)

[www.jsalaw.com](http://www.jsalaw.com)



Ahmedabad | Bengaluru | Chennai | Gurugram | Hyderabad | Mumbai | New Delhi



This Prism is not an advertisement or any form of solicitation and should not be construed as such. This Prism has been prepared for general information purposes only. Nothing in this Prism constitutes professional advice or a legal opinion. You should obtain appropriate professional advice before making any business, legal or other decisions. JSA and the authors of this Prism disclaim all and any liability to any person who takes any decision based on this publication.