

December 2025

A path for reform for the insurance sector

The Government of India is all set to introduce the Insurance Laws (Amendment) Bill, 2025 (“**Bill**”) during the current winter session which will be concluded on December 19, 2025, marking a significant reform initiative aimed at accelerating the growth of India’s underpenetrated insurance sector.

Earlier this evening, the Union Cabinet has approved the Bill and is expected to be introduced in the Parliament next week.

Expected key reforms

Increase in Foreign Direct Investment

Foreign Direct Investment (“**FDI**”) in insurance companies is currently permitted up to 74% and is expected that the FDI limit will be increased to 100%, which will fully liberalise the sector. The Government of India has already issued draft rules, which simplify conditions for foreign investment including relaxation on the requirement of majority directors to be Indian resident citizens, higher solvency norms and 50% of the directors to be independent directors. While majority norms have been relaxed, the chairman or the managing director is still required to be a resident Indian citizen. It will be interesting to see if any new relaxations or conditions are incorporated in the Bill.

Composite license

Composite license has been the buzz word. It has been much debated if composite licensing is the right path for the Indian insurance sector and its limited success globally has not helped its cause. If introduced, composite licensing, will enable, life, general and health insurance to be undertaken under one single registration and the Insurance Regulatory and Development Authority of India (“**IRDAI**”) will have to issue new regulations to account for solvency, minimum capital, accounting and investment norms.

Composite licensing may lead to consolidation of the market and policyholders are expected to benefit from simplified policies and claims redressal with lower premiums.

Value added services

Insurance companies may also be permitted to undertake value added services. Currently, insurance companies are permitted to undertake only insurance business. If implemented, laws on the scope and limitation of each of the business and mechanism to ring fence other business liabilities from insurance liabilities should be formed.

Merger of insurance companies

The Insurance Act, 1938 ("**Insurance Act**") prohibits a merger of, or transfer of insurance business of an insurance company with a non-insurance company. The interpretation of this provision has been much debated in the last decade.

It is proposed that insurance companies can merge and transfer insurance business to a company not engaged in insurance business. If implemented, this proposal could lead to innovative structures in the market where exits could be provided to investors investing in promoters of insurance companies, and non-insurance companies could achieve backdoor license to undertake insurance business.

Open architecture for insurance agents

Insurance agents are currently prohibited to act as an agent for more than 1 (one) life, 1 (one) general and 1 (one) health insurance company. It is proposed that insurance agents can act for 2 (two) or more insurance companies of the same class. IRDAI may have to propose regulations for certain safeguards to avoid conflict of interest when an insurance agent represents multiple insurers.

Higher penalties

The Insurance Act caps the penalties on insurance companies and intermediaries to INR 1,00,00,000 (Indian Rupees one crore (approximately USD 1,10,533) for each violation. It is proposed to increase penalties to up to INR 10,00,00,000 (Indian Rupees ten crore) (approximately USD 1,100,000 (US Dollars one million one hundred thousand)) for each violation. It is also proposed to add new penalty provision for misstatements for which penalty could extend to INR 5,00,00,000 (Indian Rupees five crore) (approximately USD 552,000 (US Dollars five hundred and fifty-two thousand)). The higher penalty comes in light of mis-selling to policyholders and to create deterrence for non-compliance with law.

Perpetual license for intermediaries

Intermediaries such as insurance brokers and corporate agents are required to renew their license every 3 (three) years. It is proposed that the licenses to intermediaries will be granted in perpetuity similar to insurance companies. It will be interesting to see if IRDAI undertakes a one-time assessment before issuing the perpetual license to intermediaries and it may also increase inspection by IRDAI on intermediaries, which is not currently prevalent.

Conclusion

The overhaul of the legislative framework will be an impetus to set the insurance sector for the next big leap. The Bill and the details of the drafting are eagerly anticipated by sector and global investors. Relevant updates and key insights in this area will be shared as developments progress.

Insurance Practice

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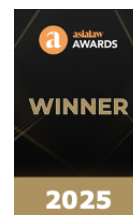
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