

December 2025

Insurance sector reforms: Parliament approves the bill including proposal for 100% foreign investment in insurance companies

The Lok Sabha (lower house of the Parliament) on Tuesday (December 16, 2025) and the Rajya Sabha (upper house of the Parliament) on Wednesday (December 17, 2025) cleared the much-anticipated landmark insurance reforms bill i.e., The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025 (the “**Bill**”). The Bill seeks to amend the Insurance Act, 1938 (“**Insurance Act**”), the Life Insurance Corporation Act, 1956 and the Insurance Regulatory and Development Authority Act, 1999 (“**IRDA Act**”). For these reforms to now come into effect, the Bill would need to receive Presidential assent and thereafter be notified in the official gazette.

The Bill marks a pivotal step towards liberalisation of the Indian insurance market with increase in the permissible foreign investment limits in Indian insurance companies from 74% to 100%. Additionally, the Bill includes amendments with the objective of improving ease of doing business, providing greater flexibility in structuring transactions, strengthening policyholders’ protection framework and enhanced regulatory powers for the Insurance Regulatory and Development Authority of India (“**IRDAI**”).

Key amendments sought to be introduced under the Bill

Easing the investment and deal framework

1. **Increased foreign investment limit:** With a view to enhancing foreign capital inflow in the sector, the Bill raises the foreign investment limit from 74% to 100% of the paid-up equity capital of an Indian insurance company. Liberalisation of foreign investment limits is expected to encourage new entrants into the sector. While foreign investors, as on date, are required to have a domestic partner for investing in the Indian insurance market, they may (upon coming into effect of these reforms) consider setting up independent operations or restructuring their existing investments.

However, such foreign investment would be subject to conditions which are yet to be prescribed. In August 2025, in anticipation of the proposed liberalisation of the foreign investment regime, the Ministry of Finance had published draft rules proposing amendments to the Indian Insurance Companies (Foreign Investment) Rules, 2015 for seeking stakeholder observations and suggestions. The draft rules had sought to rationalise and simplify the conditionalities applicable to foreign investment by omitting certain stipulations such as: (a) minimum independent director requirements; (b) dividend declaration and solvency margin related conditions; (c) requirement of majority of board of directors; and (d) key managerial personnel being resident Indian citizens. The only stipulation proposed to be retained was that, in an Indian insurance company with foreign investment, at least one among the chairperson of its board, its managing director and its chief executive officer must be a

resident Indian citizen. However, it would be critical to review the stipulations under the rules as are finally notified by the Central Government in this regard.

Also, for operationalising the liberalised foreign investment regime, suitable amendments would have to be made to the foreign direct investment policy, relevant rules under the Foreign Exchange Management Act, 1999 as well as relevant regulations issued by the IRDAI.

2. **Net owned funds requirement:** With a view to encouraging entry of foreign reinsurers, the net owned fund requirement applicable to a foreign re-insurer which establishes a branch in India, or to Lloyd's or its members, has been reduced from INR 5,000 crore (Indian Rupees five thousand crore) (~ USD 555,000,000 (US Dollars five hundred and fifty-five million)) to INR 1,000 crore (Indian Rupees one thousand crore) (~USD 111,000,000 (US Dollars one hundred and eleven million)).
3. **IRDAI's approval for share transfer:** Clause 6A of the Insurance Act is proposed to be amended under the Bill to revise the threshold for a share transfer which requires prior approval of the IRDAI. These approval requirements also apply in case of change in shareholding caused by fresh issuance of shares by the insurer. Pursuant to the Bill, such approval would be required for transfer of more than 5% (currently, this is 1%) of the paid-up equity share capital of an insurer. This amendment would help in reducing compliance burden for insurers who are required to apply for such approvals.
4. **Transfer of business:** Another much-anticipated reform introduced under the Bill is a proposed amendment which recognises that non-insurance business of a company may also be transferred to, or amalgamated with, the insurance business of an insurer pursuant to a scheme prepared as per Section 35 of the Insurance Act and with approval of the IRDAI. The current provision only permits transfer or amalgamation of insurance business of one insurer with that of another insurer (because of which IRDAI had refrained from approving certain transactions in the past). Once notified, the proposed amendment would result in greater flexibility in structuring of such transactions.

Definition and classes of insurance business

1. **Definition of 'Insurance Business':** The Bill has proposed inclusion of a new definition of 'insurance business' to mean the business of effecting insurance contracts¹ and includes any other form of contract as may be notified by the Central Government in consultation with IRDAI. Arguably, the above definition of 'insurance business' seeks to include an enabling provision for the government to permit insurers to undertake certain other/allied activities, while the scope of such activities/contracts which may be permitted remains to be seen.
2. **Class of insurance business:** The Bill also seeks to introduce a new definition of 'class of insurance business' to include life insurance, health insurance, general insurance and re-insurance, as well as "*such other classes of insurance business as may be notified*" by the Central Government in consultation with IRDAI. Accordingly, this amendment enables additional classes of insurance business to be notified and may potentially lead to enabling a composite licence regime going forward (as was also previously contemplated). Interestingly, however, the revised definition of 'Indian insurance company' refers to an insurer whose sole purpose is to carry on life insurance business or general insurance business or re-insurance business or health insurance business (*which language does not, strictly speaking, seem to be aligned to a composite license framework*).

¹ The expression 'insurance contract' has been defined as a contract under which the insurer, on payment of premium, undertakes to take on risk and pay to the insured an agreed compensation for loss, damage or liability arising from a contingent event on agreed terms and conditions and subject to agreed limitations.

Insurance intermediaries

1. **Additional Classes of Insurance Intermediaries:** The definition of ‘insurance intermediaries’ is proposed to be expanded to include managing general agents² and insurance repositories.
2. **One-time registration:** Under the current regime, the registration granted to an insurance intermediary is valid for 3 (three) years. The Bill proposes grant of a one-time registration which would remain in force (so long as annual fee is paid), unless suspended or cancelled by IRDAI.

These measures seek to improve ease of doing business for intermediaries by reducing their compliance burden and may also help in achieving higher insurance penetration.

Governance framework and compliances

1. **Actuary report:** Pursuant to the Bill, all insurers would have to cause an investigation to be undertaken by an actuary into the financial condition of their business and have a report prepared in the prescribed manner. Under the current regime, this requirement applies only to life insurers.
2. **Restriction on common directors and officers:** The Bill proposes that a director or officer of an insurer cannot simultaneously serve as a director or officer of: (a) another insurer engaged in the same class of insurance business, or (b) a banking company or (c) an investment company. The current provision restricts only a managing director or an officer of a life insurer from occupying such positions in another life insurer, banking company or investment company.
3. **Investment by insurers:** Various provisions concerning investments by insurers have been rationalised while powers have been vested with the IRDAI to prescribe stipulations and conditionalities regarding such investments.

Enhanced penalty regime and regulatory scrutiny

1. **Enhanced penalties and factors for determination:** The maximum penalty for relevant contraventions under the Insurance Act and IRDA Act have been sought to be increased to INR 10,00,00,000 (Indian Rupees ten crore) (~USD 1,100,000 (US Dollars one million one hundred thousand)) from INR 1,00,00,000 (Indian Rupees one crore) (~USD 110,000 (US Dollars one hundred and ten thousand)). The Bill also lists relevant factors which must be considered by IRDAI while imposing penalties, which among others include the following: (a) the nature, gravity and duration of the default; (b) whether the default is repetitive; (c) resultant disproportionate gains or unfair advantage; (d) loss caused to policyholders; (e) actions taken to mitigate consequences; and (f) number of policyholders impacted.
2. **Disgorgement of wrongful gains:** The Bill also seeks to empower the IRDAI to issue directions to an insurer or insurance intermediary requiring them to disgorge an amount equivalent to the wrongful gain made or loss averted by indulging in any transaction or activity which constitutes a contravention of the Insurance Act.
3. **Appointment of administrator:** The Bill also proposes to expand the powers of the IRDAI to supersede the board of directors of any insurer and appoint an administrator to manage its affairs (under the direction and control of IRDAI) for a period of up to 1 (one) year (which term may be extended by IRDAI), if it has reasons to believe that an insurer’s affairs are being conducted in a manner prejudicial to the interests of policyholders. Currently, the IRDAI has the authority to appoint such administrator only in respect of life insurance companies.

² Managing general agents are generally understood to mean a class of intermediaries which are granted binding authority by an insurer and can underwrite insurance policies on behalf of the insurer (and may provide other services as well). The regulatory regime governing such intermediaries is yet to be notified.

Rule making framework

1. **Consultative process:** With a view to bringing in transparency in IRDAI's regulation making process, the Bill provides that IRDAI must: (a) publish draft regulations inviting public comments prior to issuing regulations; (b) publish a general statement of its response to such public comments; and (c) periodically review the regulations. Moreover, if IRDAI considers approving regulations which are substantially different from the proposed regulations (other than changes made based on public comments), the above process must be repeated. However, the consultative process may be dispensed where amendments are needed urgently in public interest or the regulations pertain solely to IRDAI's internal functioning.
2. **Subsidiary instructions:** The Bill also seeks to introduce a new provision whereby IRDAI's chairperson or whole-time members may issue subsidiary instructions to clarify ambiguities in any regulations or specify ancillary procedural requirements. Except where instructions need to be issued urgently, such instructions must be issued after conferring with a Consultative Committee (which is to be constituted for advising on such matters), whose advice would be non-binding.

Measures for policyholders' protection

1. **Obligations concerning policyholders' information:** The Bill proposes that IRDAI may specify the manner in which know your customer (KYC) information of policyholders is processed by insurers and other regulated entities. Further, insurers and regulated entities must also ensure that policyholders' information is accurate and updated, has been adequately secured and protected against loss or unauthorised access or use and is maintained with utmost confidentiality. In any case, going forward, insurers would also need to evaluate their processes and adopt measures to ensure compliance with requirements of the Digital Personal Data Protection Act, 2023.
2. **Policyholders' education and protection fund:** The Bill contemplates establishment of a policyholders' education and protection fund by IRDAI which would be primarily utilised for the education and protection of the interests of policyholders. In addition to grants and donations received, penalties realised by the IRDAI and such other amounts as may be specified would be credited to the fund.

Conclusion

The Bill seeks to introduce various reforms which are aimed at accelerating growth of the Indian insurance sector and would assist in creating a more competitive, accountable and resilient insurance ecosystem, enhance policyholder trust and provide IRDAI with enhanced authority and tools to regulate and further develop the sector.

It will, however, be important to closely review the fine print of the regulations framed in respect of these amendments, particularly any guardrails that are eventually proposed with respect to foreign investment. While certain anticipated amendments such as a composite license framework and enabling differential capital requirements for specified classes of insurance business have not as such been incorporated under the Bill, the Bill does nonetheless seek to introduce critical reforms which should help augment capital infusion in the sector and encourage entry of new market participants, which in turn would help deepen insurance penetration in the Indian market.

Insurance Practice

JSA is a trusted advisor to leading insurers, reinsurers, brokers, underwriters and consultants on complex transactions, disputes, financing and regulatory and commercial matters. The team with domain-expertise in the sector has an unparalleled ability to assist insurance companies in their Indian operations. JSA has been keenly involved in advising private players both in life and non-life insurance sectors on diverse matters relating to: (a) Regulatory approvals; (b) Compliance requirements; (c) M&A transactions; (d) corporate and regulatory issues; (e) Litigation relating to insurance claims.

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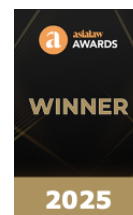
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