February 2026

Insurance regulatory round-up: Key developments in February 2026

Several regulatory changes introduced in February 2026 impact the investments and operations of insurance entities and insurance products. The regulatory developments include: (a) the Department for Promotion of Industry and Internal Trade ("**DPIIT**") issuing Press Note 1 (2026 Series) ("**Press Note 1**") proposing to amend the Consolidated FDI Policy, 2020 ("**FDI Policy**") for foreign direct investments ("**FDI**") in the insurance sector; (b) the Reserve Bank of India ("**RBI**") releasing draft regulations relating to the advertising, marketing and sale of financial products including insurance products; (c) the Insurance Regulatory and Development Authority of India ("**IRDAI**") introducing guidelines for liaison offices; and (d) IRDAI issuing clarifications on insurers' investments in Alternative Investment Funds ("**AIFs**").

Press Note 1 (2026 Series): Amendments to the FDI Policy for the insurance sector

Press Note 1, issued on February 11, 2026, reiterates the amendments to the Insurance Act, 1938 ("**Insurance Act**") and the Indian Insurance Companies (Foreign Investment) Rules, 2015 ("**Foreign Investment Rules**"), as amended by the *Sabka Bima Sabki Raksha* (Amendment of Insurance Laws) Act, 2025 and the Indian Insurance Companies (Foreign Investment) Amendment Rules, 2025, in relation to the increase in the foreign investment in the insurance sector and the conditionalities associated with the foreign investment.

Press Note 1 *inter alia*, sets out the following conditions for Indian insurance companies with foreign investment:

1. foreign investment up to 100% of the total paid-up equity of an Indian insurance company is allowed under the automatic route subject to approval by IRDAI;
2. Press Note 1 also reiterates certain conditions prescribed under the Foreign Investment Rules, including the following:
    a) at least 1 (one) of the chairperson of the board of directors, managing director or chief executive officer must be a resident Indian citizen;
    b) foreign portfolio investment in an Indian insurance company will be subject to the applicable provisions contained of the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019, and the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019; and
    c) any increase in foreign investment must comply with the pricing guidelines specified by the RBI under the Foreign Exchange Management Act, 1999 and the rules and regulations framed thereunder;
3. foreign investment in Life Insurance Corporation of India is permitted up to 20% under the automatic route;

4. Press Note 1 also reiterates the existing 100% FDI limit for insurance intermediaries and the foreign investment conditions for insurance intermediaries with majority foreign shareholding which, *inter alia*, require that:

   a) at least 1 (one) from among its chairman of the board of directors or the chief executive officer or principal officer or managing director as a resident Indian citizen;

   b) the intermediary must bring in the latest technological, managerial and other skills; and

   c) disclosures, in the formats specified by the IRDAI, must be made of all payments to its group, promoter, subsidiary, interconnected or associate entities.

Press Note 1 and the amendments to the FDI Policy will be effective upon issuance of the corresponding notification under the Foreign Exchange Management Act, 1999.

Draft amendment directions issued by RBI on advertising, marketing and sales of financial products and services

RBI, on February 11, 2026, issued various draft amendment directions[1] to amend the corresponding RBI Master Directions (collectively "**Draft Amendment Directions**") in relation to the advertising, marketing and sales of financial products including insurance products and services by regulated entities such as Commercial Banks, Small Finance Banks, Payments Banks, Local Area Banks, Regional Rural Banks, Urban Co-Operative Banks, Rural Co-Operative Banks, All India Financial Institutions and Non-banking Financial Companies ("**NBFCs**") (collectively, "**Regulated Entities**").

Various Regulated Entities act as corporate agents and solicit insurance products or bundle group insurance products along with the primary product and the Draft Amendment Directions propose to govern the manner of selling and advertising financial products including insurance products with the objective of preventing mis-selling of such products to the end customer. The Draft Amendment Directions are proposed to come into effect from July 1, 2026.

Key Concepts introduced by the Draft Amendment Directions

The Draft Amendment Directions introduce the following key concepts and definitions that will govern the manner in which Regulated Entities may undertake solicitation and distribution activities:

1. **Compulsory bundling**: Compulsory bundling is defined as the practice whereby a Regulated Entity makes the availability of one product or service to a customer conditional upon the customer availing another product or service, whether offered by the Regulated Entity itself or by a third-party. This does not include the offering of multiple products or services as a package where the customer provides voluntary consent or where such products or services are offered on a complimentary basis (i.e., without any additional direct or indirect cost to the customer).

2. **Mis-selling**: A definition of mis-selling is introduced to cover the sale of financial products or services by a Regulated Entity in, *inter alia*, the following circumstances:

   a) sale of a product or service, that is unsuitable in view of the customer's profile even where explicit consent is obtained;

   b) sale without providing correct or complete information or by providing misleading information;

[1] The Draft Directions, inter alia, include: (a) RBI (Commercial Banks - Responsible Business Conduct) Amendment Directions, 2026; (b) RBI (Small Finance Banks - Responsible Business Conduct) Amendment Directions, 2026; (c) RBI (Payments Banks - Responsible Business Conduct) Amendment Directions, 2026; (d) RBI (Local Area Banks - Responsible Business Conduct) Amendment Directions, 2026; (e) RBI (Regional Rural Banks - Responsible Business Conduct) Amendment Directions, 2026; (f) RBI (Urban Co-operative Banks - Responsible Business Conduct) Amendment Directions, 2026; (g) RBI (Rural Co-operative Banks - Responsible Business Conduct) Amendment Directions, 2026; (h) RBI (All India Financial Institutions - Responsible Business Conduct) Amendment Directions, 2026; and (i) RBI (Non-Banking Financial Companies - Responsible Business Conduct) Amendment Directions, 2026.

c) sale without the customer's explicit consent;

d) compulsory bundling with another product; and

e) sale of a product or service defined by the relevant financial sector regulator as mis-selling.

3. **Dark pattern**: The Draft Amendment Directions define dark patterns to mean a deceptive design pattern using user interface or user experience interactions. These patterns are used on any platform designed to mislead or trick users into actions they did not originally intend or want to do. They work by undermining or impairing a user's autonomy, decision-making or choice, amounting to misleading advertisement or unfair trade practice or violation of consumer rights.

   Illustrative examples include trick wording (using confusing or vague language), basket sneaking (adding additional items at checkout without the user's consent such that the amount payable exceeds the cost of the selected product e.g., adding loan protection insurance by default during the loan application process. However, addition of necessary fees disclosed at the time of purchase or providing complimentary services is not considered as basket sneaking).

Obligations imposed on Regulated Entities

The Draft Amendment Directions further impose various obligations on Regulated Entities including the following:

1. **Policy requirements**: Putting in place a comprehensive policy on advertising, marketing and sale of own and third-party products, covering suitability and appropriateness determination, feedback mechanisms and customer compensation in cases of mis-selling.
2. **Engagement of Direct Selling Agent ("DSA")/Direct Marketing Agent ("DMA")**:

   a) Regulated Entities must maintain updated lists of empanelled DSAs and DMAs and display these lists on the entity's website.

   b) Regulated Entities must ensure that DSAs and DMAs make upfront disclosure to customers regarding any difference in fees or charges, interest rate, where a product or service is purchased through a DSA/DMA *vis-à-vis* the same being purchased directly from the bank.

3. **Consent requirements**: Products or services must be sold only with explicit customer consent. Consent for multiple products cannot be clubbed. User interfaces must be designed such that consent cannot be granted without viewing applicable terms.
4. **Promotional materials or communications**:

   a) Third-party products must not be advertised as the Regulated Entity's own products and the Regulated Entity's role must be clearly disclosed.

   b) Promotional materials must be factual and disclose interest rates and charges.

   c) Promotional communications may be sent only with explicit customer consent.

   d) Unsubscribing must be as easy as subscribing, and customers must have access to the full list of subscribed services.

5. **Sale of financial products or services**:

   a) Separate application forms must be used for the sale of a particular product, prominently indicating its nature (e.g., insurance, mutual fund, hybrid.).

   b) Product documents must be available in a language understood by the customer.

   c) Customer confirmation must be sought (through e-mail/SMS/other secure mediums) after submission of applications for third-party products.

6. **Measures for prevention of mis-selling**:
   a) Regulated Entities must ensure policies and incentives do not create incentives for mis-selling nor encourage employees or DSAs to 'push' the sale of products or services.
   b) Third-party products cannot be bundled with the Regulated Entity's own products. In case the sale of the Regulated Entity's own product or service is contingent on purchase of a third-party product or service, the customer must be provided with the option to purchase from any other company/agent and not be forced to purchase it through the third-party service provider with whom the Regulated Entity has entered into an agreement.
   c) User interfaces must not deploy dark patterns and must undergo user testing and periodic internal audit for identification of any unfair features, including dark patterns.
7. **Additional compliance**: Regulated Entities must also comply with applicable guidelines as may be issued by other regulators such as the Securities and Exchange Board of India and IRDAI.

In addition to the above requirements, RBI has also issued the Draft RBI (Housing Finance Companies) Amendment Directions, 2026 which require Housing Finance Companies ("**HFCs**") to comply with certain relevant RBI requirements applicable to NBFCs. As a result, the obligations on NBFCs (and other Regulated Entities) stated above (under the heading 'Obligations imposed on Regulated Entities') would also apply to HFCs.

RBI has sought public comments on the Draft Amendment Directions by March 4, 2026.

Guidelines on establishment and closure of liaison office in India by an insurance company registered outside India

IRDAI has issued the Guidelines on Establishment and Closure of Liaison Office in India by an Insurance Company Registered Outside India ("**LO Guidelines**") on February 11, 2026 (effective immediately), superseding the earlier guidelines dated October 17, 2022 ("**Erstwhile Guidelines**").

The LO Guidelines govern Liaison Offices ("**LOs**") of overseas insurers in India. The definition of an LO as an office that serves as a communication channel between the overseas insurer's head office and entities in India (and which does not undertake commercial activities) remains unchanged from the Erstwhile Guidelines. However, the LO Guidelines introduce certain changes *inter alia*, to the eligibility criteria and the framework for extension of approvals.

Relaxation of net worth requirement

Under the Erstwhile Guidelines, an overseas insurer was required to have:

1. profit-making track record for the preceding 3 (three) financial years; and
2. minimum net worth of USD 65,000,000 (US Dollars sixty-five million).

The LO Guidelines retain the financial soundness and profitability requirements but introduce a relaxation mechanism for relaxing the minimum net worth requirement for:

1. foreign state-owned enterprises;
2. reinsurers with strong credit ratings or demonstrated expertise; or
3. specialised insurers.

The relaxation will be based on bilateral trade significance and scope for market development.

Application and approval framework

The initial approval for operating an LO continues to be valid for 3 (three) years, subject to the LO being established within 6 (six) months of approval. Failure to establish within 6 (six) months results in automatic withdrawal. Overseas insurers that opened LOs within 3 (three) years prior to the issuance of the LO Guidelines may apply for a further 3 (three) year extension under the LO Guidelines.

Revised extension framework

1. **3+3 year framework**:

   Under the Erstwhile Guidelines, an LO was permitted to operate for 3 (three) years from the date of approval, with only a 1 (one) year extension available thereafter. An LO may now seek a 3 (three) year extension after the initial 3 (three) year term, creating a clear 3+3 year regime.

2. **Increase in extension fee**:

   The processing fee for extension applications (Form IRDAI-FIC-1) is increased from USD 2,500 (US Dollars two thousand five hundred) to USD 5,000 (US Dollars five thousand).

3. **Continuation beyond 3+3 years in exceptional cases**:

   In exceptional cases involving strategic importance, bilateral trade significance, contribution to FDI inflows, technology transfers to support market development (including in case of LOs of wholly foreign state owned enterprises), IRDAI may permit continuation beyond the 3+3 year period. Each such exceptional extension is granted for 3 (three) years at a time and is subject to periodic review.

   Overall, the LO Guidelines provide the revised requirements governing LOs of overseas insurers in India.

IRDAI issues clarifications on investments in AIFs by insurers

IRDAI issued a circular with clarifications on February 12, 2026, under the Master Circular on Actuarial, Finance and Investment Functions of Insurers, 2024 (“**AIF Master Circular**”) regarding insurers’ investments in AIFs (“**AIF Circular**”). The clarifications explain the regulatory position on overseas exposure, excusal rights and the revised approach to AIF exposure limits.

Existing framework applicable to AIF investments

Under the AIF Master Circular, insurers must comply with the following requirements when investing in AIFs or Fund-of-Funds (“**FoFs**”):

1. insurers must invest only in FoFs which comply with the requirement of Section 27E of the Insurance Act which prohibits insurers from investing the funds of policyholders outside India;
2. FoFs offer documents must restrain FOFs from investing into AIFs which invest in overseas companies/funds. Insurers must ensure this to comply with Section 27E of the Insurance Act;
3. insurers must ensure that AIFs do not invest in securities of companies incorporated outside India; and
4. no insurer may invest in an AIF which, in turn, has exposure to FoF, in which the insurer already has exposure.

Excusal rights

1. While many AIFs invest outside India, insurance companies are prohibited from investing policyholders’ funds outside India. In this context, the Security and Exchange Board of India’s circular on ‘Guidelines with respect to

excusing or excluding an investor from an investment of AIF' dated April 10, 2023 enable an AIF to excuse its investors from participating in certain circumstances (such as the investor confirming that its participation would violate applicable laws).

2. IRDAI has clarified that insurers will be compliant with paragraphs 1, 2 and 3 mentioned under the heading 'Existing Framework Applicable to AIF Investments' above, subject to compliance with the following conditions:

    a) the insurer submits a formal declaration citing Section 27E of the Insurance Act for its inability to participate in overseas investments;

    b) AIF's Private Placement Memorandum ("**PPM**") must contain a clause confirming that the insurer's capital (including proceeds) will not be used for investments outside India;

    c) statutory auditors of AIF must confirm that insurer capital is not invested abroad;

    d) the insurer receives a compliance certificate from AIF regarding disclosure of overseas investments, valid invocation of 'Excusal rights', and absence of costs related to overseas assets; and

    e) the insurer's concurrent auditor certifies compliance with 'Excusal rights' provisions for insurer's investments in AIFs having outside India exposure.

3. The AIF Circular also includes a 'Comprehensive Operating Framework' which, *inter alia*, prescribes the clauses which must be included in PPM to confirm that capital commitments received from insurance companies must not be drawn for investment outside India, reporting requirements and a 3 (three) tier certification framework to ensure strict segregation of insurer capital from overseas investments.

Modification of single AIF exposure limit

The AIF Circular also amends the AIF Master Circular, which previously provided that if an insurer had exposure to a particular FoF, it was not allowed to invest in any AIF that also had exposure to that FoF. This approach has now changed. Insurers may now invest in an AIF that is exposed to the same FoF, as long as the insurer's total exposure (both direct (to the AIF) and indirect (through the FoF)) stays within the maximum percentage limits specified for AIF investments.

As such, the AIF Circular strengthens compliance safeguards while allowing insurers greater flexibility to invest in AIFs.

Conclusion

The recent regulatory updates are significant for insurers, intermediaries including banks distributing insurance products, and other participants in the financial sector. Businesses should consider reassessing their current structures, customer-facing processes, and investment arrangements in response to the emerging foreign investment framework, the IRDAI's stance on LOs and AIF exposures, as well as RBI's Draft Amendment Directions. While some of these developments offer added flexibility, others may necessitate adjustments to existing compliance and operational practices.

Insurance Practice

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