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Insurance regulator enhances accountability of Key Management Personnel of insurance companies

The Insurance Regulatory and Development Authority of India (“IRDAI”), *vide* circular dated May 25, 2026 (“**Amendment Circular**”), has amended the Master Circular on Corporate Governance for Insurers, 2024 (“**CG Master Circular**”) to revise the performance parameters applicable to members of the core management team of insurers including all whole-time directors or Managing Directors (“**MD**”) or Chief Executive Officer (“**CEO**”) and the functional heads one level below the MD or CEO, including the chief financial officer, appointed actuary, chief investment officer, chief risk officer, chief compliance officer and the company secretary (collectively “**KMPs**”). The amendments have come into effect immediately.

IRDAI has emphasised the need for deeper analysis and wider consultation on the evolving insurance sector wide framework and benchmarking KMP remuneration with other financial sector players. Regulatory focus on governance is also being shaped by concerns around mis-selling and providing a transparent and effective insurance ecosystem to the customer to ensure a customer centric approach across the industry.

Background

The IRDAI (Corporate Governance for Insurers) Regulations, 2024 and the CG Master Circular (collectively “**Corporate Governance Framework**”) regulate and provide a governance framework for all insurers in India (other than foreign reinsurance branch offices in India).

Amongst other aspects, the Corporate Governance Framework regulates the remuneration of KMPs, with the relevant remuneration provisions being applicable only to private sector insurers. Further, KMPs deputed from public sector undertakings or by foreign promoters may continue to be governed by the remuneration rules and guidelines applicable to their respective promoters.

In this regard, the following principles apply in relation to the remuneration of KMPs:

1. the board of the insurer (“**Board**”) must have a sound remuneration policy and must oversee the implementation of the policy;
2. the remuneration must be adjusted for all types of risk;
3. the remuneration outcomes must be symmetric with risk outcomes;
4. pay-outs must be sensitive to the time horizon of risk; and
5. the mix of cash, equity and other forms of remuneration must be consistent with risk alignment.

The Corporate Governance Framework prescribes 2 (two) components of remuneration for KMPs, namely, fixed pay and variable pay. Fixed pay includes basic pay, allowances, perquisites, retirement benefits and other fixed items of compensation. Variable pay is in the form of share-linked instruments (such as employee stock option schemes, employee stock purchase schemes and stock appreciation rights schemes) or a mix of cash and share-linked instruments.

The Amendment Circular makes changes in relation to the following key aspects of remuneration of KMPs:

1. the principles that must govern the Board approved remuneration policy;
2. the minimum parameters for assessing KMP performance for variable pay and incentives; and
3. the disclosures that insurers are required to make in relation to remuneration of KMPs and insurer performance data.

Key changes introduced by the Amendment Circular

Revised principles for formulating the remuneration policy

A new requirement has been introduced that remuneration must be aligned to policyholder outcomes. This was not included earlier and is a subjective criterion for the insurer to determine if this requirement has been met.

Revised KMP performance parameters for variable pay

The parameters for assessing KMP performance for the purpose of variable pay and incentives have been revised and are applicable for the remuneration for FY 2026-27.

Previously, certain broad parameters including overall financial soundness, expenses of management compliance, claims efficiency, grievance redressal, reduction in unclaimed amounts, persistency/renewal rates, and overall compliance were collectively required to account for at least 60% of the performance assessment weightage for the MD/CEO and whole-time directors. In the case of other KMPs, these parameters were required to account for at least 30% of the performance assessment weightage.

Now, the aforesaid parameters have been replaced with the following 6 (six) specific parameters that together carry a combined mandatory weight of 50% of the total performance assessment:

1. **Overall financial soundness and improvements thereof:** Sector-specific financial ratios have been prescribed. Life insurers are assessed on: (a) the ratio of assets under management to total premium; (b) the ratio of renewal premium to new business premium; (c) the proportion of policies issued against policies exited in the year (covering pre-mature exits, exits due to death and maturities); and (d) the expense of management to gross direct premium ratio.

General insurers and stand-alone health insurers are assessed on: (a) the line-wise net incurred loss ratio; (b) the line-wise renewal premium to new business premium ratio; and (c) the expense of management to gross direct premium ratio.
2. **Products' performance and improvements thereof:** Insurers must disclose features, premiums, performance and returns of all products that collectively contribute 90% of new or renewal premium, as well as Board approved policies on commission payments, product approvals and anti-fraud measures.
3. **Claim responsiveness and improvements thereof:** For general insurers and stand-alone health insurers (limited to retail lines — motor, health, homeowners, etc.), the disclosures must cover the proportion of claims settled in full, in part, repudiated, rejected or closed, and a value proportion of claims settled.
4. **Grievance redressal and improvements thereof:** Grievance data is required to be publicly disclosed. The number and proportion of grievances redressed within 15 (fifteen), 30 (thirty) and 60 (sixty) days and beyond,

and those remaining unaddressed, must be disclosed on the website for period up to the preceding month in a year.

5. **Implementation of Indian Accounting Standards:** The assessment of this parameter is binary i.e. it will be assessed on a 'met' or 'not met' basis, carrying a fixed weight of 10%.
6. **Removal of dark patterns:** Dark patterns refer to practices or deceptive design patterns on platforms that are designed to mislead or trick users into doing something they did not intend to do, thereby impairing consumer autonomy and decision making. Insurers must remove dark patterns from their own interactions with the public and ensure their distributors do the same. This is also assessed on a 'met' or 'not met' basis, carrying a fixed weight of 10%.

As aforesaid, the 6 (six) mandatory parameters together carry 50% of the total assessment weightage for variable pay. For the balance weightage of 50% for performance assessment, the Board may adopt additional parameters in line with the insurer's business plan.

Disclosures

Annual account disclosures

Insurers were previously required to disclose, in their annual accounts each year, the 'elements' of the remuneration packages (including incentives) of KMPs and all directors. This requirement has now been amended to mandate disclosure of the 'parameters forming basis' of such remuneration packages. The change in terminology suggests a shift from merely identifying the components of remuneration to explaining the criteria, benchmarks and considerations underlying such remuneration packages.

Further, insurers were earlier required to disclose payments made to group entities out of policyholders' funds. This disclosure requirement has now been expanded to cover payments made to both group entities and related parties generally, irrespective of the source of funds. As a result, the disclosure obligation is no longer limited to payments made from policyholders' funds and now extends to all related party payments.

Website disclosures

A new provision creating additional disclosure obligations for insurers has been introduced. Insurers must now disclose on their website the insurer's performance against the parameters used for assessing KMP remuneration (discussed above). The disclosure must include corresponding information for the preceding 3 (three) years and must be presented in an 'easy to access' and 'easy to understand' manner.

Insurers must not restrict access to information by requiring visitors to disclose personal details, such as telephone numbers to access the aforesaid information. The purpose of this is to ensure that the public and policyholders can make informed decisions.

The year-to-date information must be disclosed in the following manner:

1. financial soundness being the prescribed sector-specific financial ratios, on a quarterly basis; and
2. products' performance, claim responsiveness, grievance redressal and improvements on a monthly basis.

The linkage between publicly disclosed performance data and KMP pay is intended to create accountability and align management incentives with policyholder outcomes.

Conclusion

The amendments reflect IRDAI's focus on strengthening accountability and enhancing governance standards across the insurance sector.

For insurers, this will require a careful review of existing remuneration policies, performance evaluation frameworks and internal processes, along with building the capability to support regular, public-facing disclosures in a manner that is clear and accessible.

While the revised performance parameters apply for remuneration for the financial year 2026–27, it remains to be seen whether this framework will continue beyond this period or evolve further based on regulatory experience and feedback. Given the immediate effect of the Amendment Circular, insurers would be well advised to begin aligning their internal policies and systems at the earliest to ensure a smooth transition and continued compliance.

Insurance Practice

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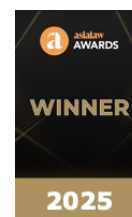


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