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India's Landmark Insurance Sector Reforms: 100% Foreign Investment Approved and Comprehensive Regulatory Overhaul

Executive Summary

- **What's new:** India has enacted landmark insurance sector reforms through the 2025 Amendment Act and Amendment Rules, including approval of 100% foreign direct investment, relaxation of ownership and governance norms, and facilitation of mergers.
- **Why it matters:** These reforms modernize the sector, attract foreign capital, enhance regulatory oversight and align India's insurance regime with global standards, fostering growth and increased market participation for insurance companies and foreign investors.
- **What to do next:** Companies should consider reviewing the new regulatory framework; assessing opportunities for increased foreign investment, restructuring and operational flexibility; and ensuring compliance with revised governance, investment and reporting requirements.

India has enacted landmark reforms in its insurance sector through the [Sabka Bima Sabki Raksha \(Amendment of Insurance Laws\) Act, 2025](#) (Amendment Act) and the [Indian Insurance Companies \(Foreign Investment\) Amendment Rules, 2025](#) (Amendment Rules). These measures represent the most significant overhaul of the regulatory framework since the sector's liberalization in 2002, with the centerpiece being the approval of 100% foreign direct investment (FDI) in Indian insurance companies. The reforms are designed to modernize the sector, attract foreign capital, enhance regulatory oversight and align India's insurance regime with global standards.

The reforms are likely to increase interest still further in the Indian insurance market. India's demographic profile, macroeconomics and the current low level of insurance penetration into the market (which is expected to grow considerably) all mean that India is perceived to be one of the key growth markets for the global insurance industry in the years ahead. Ease of distribution — through aggregators and bancassurance, and declines in market share from historically dominant providers — mean that market access has proven to be available to dynamic new entrants. This is expected to lead to opportunities in both insurance and reinsurance markets.

Key Highlights and Significant Issues

- **Liberalization of foreign investment:** The FDI cap in Indian insurance companies has been raised to 100% from 74%. This is expected to drive capital inflows, foster sectoral growth, and enable foreign investors to exercise full ownership and control.
- **Relaxation of ownership and governance norms:** The Amendment Act removes the requirement for a majority of directors and key management personnel to be resident Indian citizens, now mandating only one such individual in a key leadership

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role. Board composition requirements for companies with high FDI have been eased, and restrictions on dividend repatriation and profit retention have been relaxed, providing greater operational flexibility.

- **Facilitation of mergers and amalgamations:** For the first time, a statutory framework permits the merger or amalgamation of insurance companies with noninsurance entities, subject to Insurance Regulatory and Development Authority of India (IRDAI) approval. This is expected to facilitate complex corporate restructurings and attract new investment structures, though the practical impact will hinge on the specific conditions imposed by the regulator.
- **Operational and structural reforms:** The reforms introduce the concept of composite insurance business, potentially allowing insurers to operate across multiple lines (life, general, health, reinsurance). The definition of insurance intermediaries is expanded, and licensing requirements are streamlined.
- **Corporate governance and investment norms:** The threshold for IRDAI approval of share transfers has been raised to 5% from 1%, reducing regulatory friction for minority transactions. Statutory investment restrictions have been streamlined, with IRDAI empowered to set detailed norms, including caps on investments in promoter group entities. The minimum net owned fund requirement for foreign reinsurer branches has been reduced, encouraging greater foreign participation.
- **Strengthening of regulatory powers:** IRDAI has been granted enhanced enforcement powers, including the ability to order disgorgement of wrongful gains and impose significantly higher penalties for noncompliance. Penalties collected will fund a new Policyholders' Education and Protection Fund. The Amendment Act also mandates greater transparency in IRDAI's rulemaking process, requiring public consultation and disclosure of responses.
- **Policyholder and market reforms:** Insurers are now required to maintain comprehensive policyholder records, and statutory recognition has been given to online premium payments, supporting digitalisation and operational efficiency.

Overview

The Amendment Act received presidential assent on 20 December 2025. The Amendment Act amends the Insurance Act of 1938 (Insurance Act), the Life Insurance Corporation Act of 1956 and the Insurance Regulatory and Development Authority Act of 1999 (IRDA 1999). The Amendment Act was notified by the Indian Ministry of Finance to come into effect from 5 February 2026.¹

¹ Section 1(2) of the Amendment Act.

In conjunction, the Amendment Rules have amended the Indian Insurance Companies (Foreign Investment) Rules of 2015 (Insurance Rules) with effect from 30 December 2025.

This summary provides an analysis of the Amendment Act and Amendment Rules' material provisions and their implications for market participants, referencing the legislative text and relevant statutory amendments.

1. Foreign Investment and Ownership

Foreign Investment Liberalisation

The Amendment Act's most transformative reform is the increase of the FDI cap in Indian insurance companies to 100% from 74% of paid-up equity capital. Concurrently, the government of India has amended India's FDI Policy on 9 February 2026 to increase the FDI cap in the insurance sector.²

This liberalisation is intended to accelerate sectoral growth, facilitate capital inflows, and enable foreign investors to assume full ownership and control of Indian insurance companies.

Changes to Residency Criteria

The obligation for insurance companies with FDI to appoint a majority of resident Indian citizens as directors and key management personnel has been removed. Now only one amongst the chairperson, managing director or chief executive officer is required to be a resident Indian citizen.³

Revised Board Structure

The previous stipulation for insurance companies with FDI in excess of 49% to have either (i) at least half of the board of directors as independent directors or (ii) the chairperson as an independent director with a minimum of one-third of the board comprising independent directors has been removed.⁴

Easing of Dividend and Repatriation Restrictions

Insurance companies with more than 49% FDI are no longer required to retain 50% of their net profits in general reserves if their solvency margin falls below 180%. This change allows such companies greater discretion in the allocation and use of profits, irrespective of their solvency position.⁵

² Press Note No. 1 (2026) Series, FDI Policy Cell, Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, Government of India.

³ Rule 4 of the Amendment Rules omitting Rule 4 of the Insurance Rules.

⁴ Rule 5 of the Amendment Rules omitting Rule 4A of the Insurance Rules.

⁵ Ibid.

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Relaxing the Requirements for Insurance Intermediaries

Insurance intermediaries with majority foreign shareholding no longer require prior approval from IRDAI for the repatriation of dividends. These changes align the regulatory treatment of insurance intermediaries with that of insurance companies.⁶ Like insurance companies, insurance intermediaries need at least one individual among its chairperson, managing director, principal officer or chief executive officer to be a resident Indian citizen.

Amalgamation and Transfer of Business

The Amendment Act establishes a clear statutory framework permitting the merger or amalgamation of an insurance company with a noninsurance entity, subject to the prior approval of IRDAI.⁷ Historically, IRDAI has declined to sanction such transactions on the grounds that the Insurance Act did not provide an enabling provision for such combinations.

The Amendment Act empowers IRDAI to impose conditions on such mergers. This legislative development is expected to provide much-needed certainty for corporate restructurings involving insurers and noninsurers, particularly in the context of holding company or special purpose vehicle structures. The practical viability of these transactions will, however, depend on the specific requirements set forth in the rules and any conditions imposed by IRDAI as part of the approval process.

2. Regulatory Enhancements and Powers

Enhanced Powers of IRDAI

The Amendment Act significantly strengthens IRDAI's regulatory and enforcement toolkit. Notable enhancements include:

- **Disgorgement powers:** IRDAI is expressly empowered to order the disgorgement of wrongful gains or losses averted by insurers and intermediaries in contravention of law.⁸
- **Penalty:** The maximum penalty for contraventions has been increased to INR 100 million (about US\$1,100,000) from INR 10 million (about US\$110,000). Section 102, as substituted, provides for penalties up to INR 100,000 (about US\$1,100) per day of continuing default, subject to a maximum of INR 100 million, for failures such as nonfurnishing of documents, noncompliance with directions or failure to maintain solvency margin. The Amendment Act introduces a structured framework for determining penalties, requiring IRDAI to consider the nature, gravity and duration of the default, repetitive conduct, disproportionate gain, loss to policyholders, mitigation steps and proportionality. IRDAI

must provide an opportunity to be heard before imposing penalties and is required to publish a summary of penal actions on its website within 30 days.⁹

- **Policyholder Education and Protection Fund:** Penalties collected are to be credited to a newly established Policyholders' Education and Protection Fund, administered by IRDAI.¹⁰

Transparency in Rulemaking

The Amendment Act mandates greater transparency in IRDAI rulemaking. IRDAI is required to publish draft regulations for public comment, issue a general statement of its response to comments and, if regulations are adopted in a form materially different from the draft, repeat the consultation process, except in cases of urgent public interest or internal matters.¹¹

Subsidiary Instructions and Consultative Committees

IRDAI's chairperson and whole-time members are authorised to issue subsidiary instructions to clarify regulatory ambiguities or prescribe ancillary procedures, generally after consulting a Consultative Committee. The advice of such committees is not binding and urgent instructions may be issued without prior consultation, with reasons recorded in writing.¹²

3. Operational and Structural Changes

Composite Insurance Business

The Amendment Act introduces the concept of "class of insurance business," defined to include life, general, health, reinsurance and any other class as may be notified by the Central Government of India in consultation with IRDAI.¹³ Introducing this defined term is meant to facilitate the future creation of composite insurance licences, allowing insurers to engage in multiple lines of business.

Expanded Definition of Insurance Intermediaries

The definition of "insurance intermediary" is broadened to expressly include managing general agents, insurance repositories and other entities as may be notified by IRDAI.¹⁴

Intermediary Licensing and Supervision

Intermediary licences will no longer require periodic renewal; instead, they will remain in force until suspended or revoked by IRDAI, subject to payment of annual fees.¹⁵

⁶ Rule 8 of the Amendment Rules omitting Rule 9(3)(iii),(iv) and (v) of the Insurance Rules.

⁷ Section 35, Insurance Act, as amended.

⁸ Section 34, Insurance Act, as amended.

⁹ Section 102 and Section 105E, Insurance Act, as substituted/inserted.

¹⁰ Section 16A, IRDA 1999, as inserted.

¹¹ Section 114A, Insurance Act, as substituted.

¹² Section 114B and 114C, Insurance Act, as substituted

¹³ Section 2(5A), Insurance Act, as inserted.

¹⁴ Section 2(10B), Insurance Act, as substituted.

¹⁵ Section 42D, Insurance Act, as inserted.

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Prohibition on Common Directors and Officers

The Amendment Act extends the prohibition on common directors and officers across insurers, banking companies and investment companies. A director or officer of an insurer may not serve as a director or officer of another insurer carrying on the same class of insurance business, a banking company or an investment company. This measure, previously limited to managing directors and officers of life insurers, is now applicable to all insurers.¹⁶ However, this amendment has not been notified and for the time being is kept in abeyance.

4. Corporate Governance and Ownership Controls

Share Transfer Thresholds

The threshold for IRDAI approval of share transfers or issuances in insurers has been increased to 5% from 1% of paid-up equity capital. This change is expected to reduce regulatory friction for minority transactions and improve the ease of doing business, particularly for listed insurers and pre-IPO placements. IRDAI is expected to harmonise its operating guidelines accordingly.¹⁷

Streamlining Investment Norms

The statutory framework for insurer investments is streamlined, with the deletion of Sections 27A, 27B, 27C and 27D of the Insurance Act, thereby removing the restriction on investments in private companies. Section 27 of the Amendment Act prescribes the minimum investment in government and approved securities and empowers IRDAI to specify detailed investment norms, including caps on investments in promoter group entities (now statutorily set at 5% of assets).¹⁸

Net Owned Fund Requirements for Reinsurers

The minimum net owned fund requirement for foreign reinsurer branches and Lloyd's India has been reduced to INR 10 billion (about US\$110 million) from INR 50 billion

¹⁶Section 32A, Insurance Act, as substituted.

¹⁷Section 6A, Insurance Act, as amended.

¹⁸Section 27, Insurance Act, as substituted.

(about US\$550 million), bringing parity with the requirements applicable in the Gujarat International Finance Tec-City International Financial Services Centre.¹⁹ This is expected to encourage greater foreign reinsurer participation and support the development of the domestic reinsurance market.

5. Policyholder and Market Operation Reforms

Enhanced Policyholder Information Requirements

Insurers are required to maintain comprehensive records of policyholder information, including personal identifiers, policy details and claims data. IRDAI is empowered to specify the form, manner and details of such records, and to require concurrent submission of data for regulatory purposes.²⁰

Online Premium Payments

The Amendment Act gives statutory recognition to online premium payments, clarifying that an insurer may assume risk once the premium is credited to its bank account.²¹ This aligns the legal framework with prevailing market practice and supports the digitalisation of insurance operations.

6. Conclusion

Our view is that Amendment Act and Amendment Rules represent a significant step forward in facilitating foreign investment and participation in India's insurance sector. By providing a clear legislative pathway for mergers and amalgamations involving insurers and noninsurers, the reforms are poised to attract greater interest from foreign insurers and investors.

In addition, IRDAI's approach to the approval process, particularly its efficiency in reviewing M&A transactions and its willingness to support innovative restructuring, will be critical in shaping the future trajectory of insurance sector M&A activity in India.

[Listen to our podcast on Prudential Insurance Regulation in India.](#)

¹⁹Section 6, Insurance Act, as amended.

²⁰Sections 14, Insurance Act, as substituted.

²¹Section 64VB, Insurance Act, as amended.