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Topics *Regulatory reform in India's insurance sector*

Over the past quarter century, the Indian government has pursued the liberalization of the country's insurance market, with the aim of bringing stability to people's living standards and strengthening financial intermediation functions. Recently, however, it has begun to reverse course, tightening rules in order to better protect consumers.

■ India's insurance market has grown rapidly with deregulation

The Indian government has long pursued the development of the country's insurance market, with the aim of bringing stability to people's living standards and strengthening financial intermediation functions. This stance can be attributed to two background factors:

The first is that India's social security system remains underdeveloped. As a result, enrollment in health and life insurance can provide a vital safety net for mitigating the risk of sharp declines in household income due to unexpected illnesses or accidents.

The second is that the sustainable development of the Indian economy requires the accumulation of long-term and stable domestic capital, separate from short-term bank deposits, in order to finance the development of infrastructure and the nurturing of industry. The hope has been that the enormous sums of money collected and managed by insurance companies can serve as a reliable source for this long-term financing.

These factors have led the Indian government to walk a path of gradual deregulation over the past quarter century. The process began with the liberalization of market entry by private and foreign companies in 2000, which was followed by a lifting of the ban on "bancassurance" (the sale of insurance through bank branches) in 2002, the raising of the ceiling on foreign ownership, and other reforms.

<Regulatory Trends in the Indian Insurance Industry>

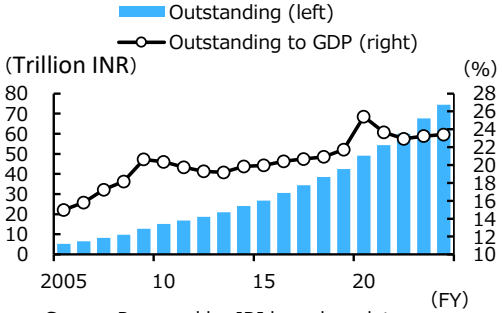
Year	Event
2000	Establishment of the IRDAI (Insurance Regulatory and Development Authority of India)
	Acceptance of market entry applications from domestic private firms and foreign entities (foreign equity cap set at 26%)
2002	Authorization of bancassurance (sale of insurance through banks or bank-owned distribution channels)
2015	Increase in foreign equity cap from 26% to 49%
2016	Introduction of a post-facto notification system for the sale of new insurance products (replacing the previous prior-approval system)
2021	Increase in foreign equity cap from 49% to 74%
2022	Rationalization of regulations regarding online and diverse insurance distribution channels
2023	Removal of caps on commissions paid by insurance companies to agents and intermediaries
2025	Increase in foreign equity cap from 74% to 100%
2026	IRDAI releases a public consultation paper on major reforms to the insurance distribution system

Source: Prepared by JRI based on information from IRDAI and various sources

This series of deregulatory measures spurred the entry of numerous private and foreign firms, causing market competition to intensify. Several Japanese insurers, including Nippon Life and the Tokio Marine Group, also entered the market, helping to drive investment in India.

Besides deregulation related to market entry and sales, other factors also contributed to the rapid growth of India's insurance market, namely the expansion of the middle class, improvements in household financial literacy, and the digitalization of insurance services. Premium income grew at a pace exceeding economic growth, and in recent years insurance companies' assets under management have reached a level equivalent to

<Insurers' AUM>



Source:Prepared by JRI based on data from IRDAI and MOSPI

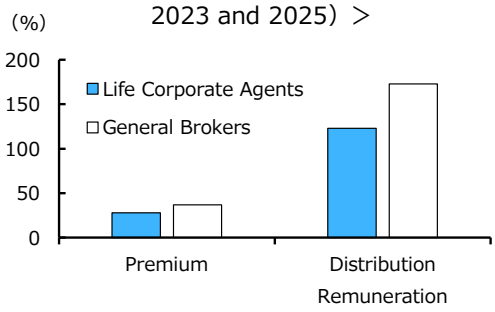
approximately one-quarter of GDP.

The Indian government has set a goal of "Insurance for All by 2047," aiming to ensure citizens have access to insurance products suited to their individual risks at affordable prices by the 100th anniversary of India's independence in 2047. In light of this, India's insurance market is expected to maintain a generally solid growth trajectory going forward.

■ Why authorities are turning toward tighter regulation

At the same time, structural problems have become evident as side effects of the rapid market expansion. The most significant challenges are soaring costs associated with selling insurance and the widespread prevalence of inappropriate sales practices. As competition in insurance sales intensified, the fees and commissions paid by insurance companies to agents such as commercial banks and non-bank financial institutions increased at a much faster pace than growth in new policy premiums. This fueled concerns that such costs would lead to higher premiums on new policies and lower future returns to policyholders. Meanwhile, high-pressure sales of complex products that did not match customer needs and insufficient explanations of product features emerged as issues among the public.

<Premium and Distribution Remuneration (Growth between FY 2023 and 2025)>



Source: Prepared by JRI based on data from IRDAI

In response to these developments, the Insurance Regulatory and Development Authority of India (IRDAI) has begun considering tighter regulations focused on consumer protection, in order to maintain the integrity of the market. Proposed reforms announced in September 2026 included 1) altering commission structures for insurance agents, 2) tightening rules on insurers' operating and administrative expenses, 3) strengthening regulations governing sales practices, 4) streamlining sales channels to enhance compliance, and 5) imposing more stringent auditing and disclosure requirements. After taking on board comments received as part of a public consultation process, the IRDAI plans to adopt a new regulatory framework in the first half of 2027.

<Draft Regulatory Reform Policy by the IRDAI>

Reform Area	Key Details, Specific Figures, and Strategic Direction
Review of Compensation Structures for Sales Intermediaries	Introducing caps on commissions and compensation paid to sales intermediaries (as a percentage of premiums) to curb excessive competition driven by aggressive incentives.
Stricter Regulation of Operating and Administrative Expenses	Imposing tighter limits on operating and administrative expenses relative to an insurance company's premium income to ensure a sound cost structure.
Stricter Regulation of Sales Practices	Eliminating sales practices that harm consumer interests—such as the use of "dark patterns" online, which manipulate consumers into making choices that favor the insurance provider.
Ensuring Compliance through Streamlined Distribution Channels	Streamlining regulations for "web aggregators" (online platforms that allow consumers to compare premiums and coverage across multiple insurers) and "Insurance Marketing Firms" (IMFs—entities that offer integrated advice and sales for insurance alongside other financial products like mutual funds) to enhance transparency and ensure strict compliance.
Strengthening Audits and Disclosure Requirements	Tightening audit and disclosure mandates for insurance distributors to prevent issues arising from significant discrepancies between the growth rates of premiums and those of sales commissions/compensation.

Source: Prepared by JRI based on information from IRDAI

This stricter regulation will have both positive and negative impacts. On the plus side, consumer protection is likely to be strengthened substantially through the curbing of excessive competition in the provision of

incentives to sell products and inappropriate sales practices. This should shore up the credibility of the insurance market and the foundation for its sustainable development.

On the minus side, there are worries about side effects arising from the transition. As rules on selling become stricter, insurance companies and the financial institutions acting as insurance agents will inevitably see some temporary moderation in the pace of their earnings growth. Moreover, given that insurance companies and financial institutions are major investors in India's financial markets, tighter regulation is likely to exert downward pressure on equity and bond prices.

These changes in the insurance market provide an important perspective for assessing the future trajectory of the Indian economy. They illustrate that rapid market expansion driven by liberalization can create a variety of problems. And this dynamic is not limited to the insurance sector, as it can also occur across many other industries. At the same time, the redesign and recalibration of regulations in response to such developments can provide a foundation for a new stage of growth. The new insurance regulations could constitute an early example of this phenomenon, so will be closely watched to see what changes they bring in the years ahead.

(Shotaro Kumagai)

Topics *Talent travel curbs may weigh on China's growth*

In September, the Chinese government introduced new exit-entry rules. Indicative of an effort to retain talent in order to prevent technology leakage, the rules could narrow opportunities for China to absorb overseas knowledge and weigh on its economic growth over the medium to long term.

■ Scope of overseas travel restrictions expanded

On September 15, the Chinese government brought in new rules specifying conditions and screening procedures for entry and exit. The new rules explicitly state that the Ministry of Commerce or other departments may prohibit Chinese citizens from leaving the country if they violate export-control or technology import/export regulations and are deemed likely to threaten national industrial or technological security.

Under China's Exit and Entry Administration Law, which came into effect in 2013, defendants and suspects in criminal cases, as well as persons involved in unsettled civil cases whom courts have prohibited from leaving the country, had already been subject to exit restrictions. In addition, Chinese citizens could be denied permission to leave the country if the competent departments determined that their departure might endanger national security or interests. Aside from formal exit bans, personnel who handle state secrets and officials in the public sector have long been subject to controls such as centralized passport management and the need to obtain approval in advance of overseas travel. What the new rules effectively do is make it clear that exit can also be restricted when there are issues from the standpoint of economic security.

<Exit Restrictions for Chinese Citizens under The New Rules>

Grounds for Restriction	Persons Targeted / Measures
Illegal Entry-exit, Criminal Conduct, etc.	・Persons who have been placed in administrative detention for fraudulently obtaining entry - exit documents or for illegal entry or exit
	・Persons who have committed unlawful acts or criminal offenses abroad that threaten national security and interests
	・Competent departments may impose exit bans
Industrial and Technological Security	**・Persons who violate export - control or technology import/export regulations and are deemed likely to threaten national industrial or technological security**
	・The Ministry of Commerce or other departments may impose exit bans

Source: Prepared by JRI based on information from the State Council of China

Against this backdrop, it was reported at the end of September that overseas travel restrictions already imposed on key personnel in the AI and semiconductor sectors had been expanded to include their spouses, children, and other family members. According to these reports, these key personnel include prominent AI startup founders, senior executives at major private enterprises, and core R&D talent. Although the measure does not constitute a blanket travel ban, affected individuals and their families are reportedly required to obtain government approval for exit even in the case of short private trips or business travel.

This regulatory tightening is thought to be related to the technological rivalry between the U.S. and China. As competition surrounding critical technologies such as generative AI intensifies, the Chinese government appears to view not only technologies themselves, but also the researchers and engineers who create them, as strategic assets. By widening travel curbs to encompass family members, the authorities are likely seeking to prevent overseas emigration by individuals or the relocation of R&D operations abroad. A noteworthy aspect of the recent reports is that the controls apparently now extend beyond the public sector to key personnel at private enterprises, as well as their families. Restrictions like these on talent mobility could undermine the mechanisms of technology absorption and productivity improvement that have hitherto facilitated China's growth.

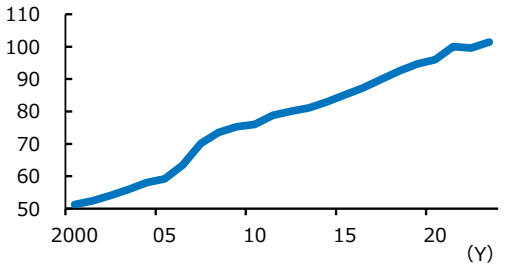
■ China's productivity gains have been supported by market opening and technology absorption

Productivity exerts a substantial influence on economic growth. Total factor productivity (TFP), an indicator of an economy's overall production efficiency, provides an estimate of efficiency in production that cannot be explained solely in terms of inputs of capital and labor, and reflects factors such as levels of technology and efficiency of resource allocation.

China's TFP has been rising for many years. In addition to the transition to a market economy and the growth of private enterprises since the country adopted the policy of reform and opening up, Chinese productivity has benefitted from the absorption of foreign technology and managerial know-how through trade and direct investment. A labor shift from agriculture to manufacturing and other sectors, along with competition among firms and the weeding out of weaker players, has also helped deliver productivity gains across the economy.

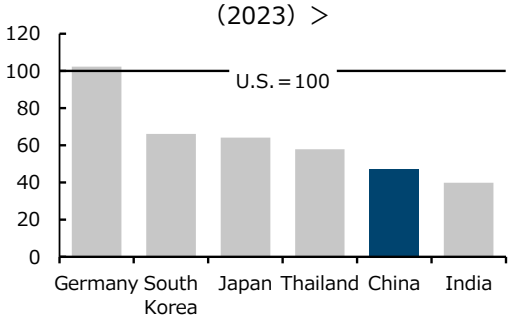
Nevertheless, China's TFP remains low relative to other major economies. According to estimates from Penn World Table, China's TFP in 2023 was less than half that of the U.S., and it was also below the levels not only of Germany and other major European economies and of South Korea and Japan, but of Thailand and Malaysia, too. Factors behind this include inefficient resource allocation and the slow diffusion of advanced technologies and management practices. Preferential financial and institutional treatment for state-owned enterprises, regional protectionism, and mechanisms that impede market entry and exit have distorted the allocation of resources, preventing capital and labor from being fully utilized by more productive firms and sectors. Moreover, although China has achieved strong competitiveness in certain advanced industries, such as electric vehicles and semiconductors, the leading-edge technologies and management practices developed in these sectors have not sufficiently diffused to the service sector and small and medium-sized enterprises, which form the foundation of the economy, and this has constrained overall productivity growth.

<China's TFP (2021=100)>



Source: Prepared by JRI based on data from Penn World Table
Note: Calculated using constant domestic prices

<International Comparison of TFP (2023)>



Source: Prepared by JRI based on data from Penn World Table
Note: Based on purchasing power parity in that year

■ Moves to contain technology could hinder growth over the medium to long term

Efforts to retain talent in order to prevent technology leakage could further delay China's productivity catch-up with advanced economies. While restrictions on overseas travel by elite professionals may help with the retention of domestic R&D talent and protection of current technological advantages, they could also reduce opportunities to absorb overseas knowledge and to jointly develop new technologies with foreign partners. The transfer of technology and know-how does not occur solely through the sharing of "explicit knowledge," in the form of academic papers, technical blueprints, and so on. "Tacit knowledge," which is transmitted through face-to-face discussion, collaborative work, and the acquisition of experience in production settings, is also crucial. If travel controls delay or prevent participation in international conferences, joint research projects, and technology exchanges with overseas companies, opportunities to absorb such knowledge may be lost, slowing technological innovation and improvements in production processes. Furthermore, if obtaining travel approval becomes more time-consuming or less predictable, the overseas assignment or international deployment of technical personnel could also be obstructed.

The new rules also cover the entry of foreign nationals. If uncertainty surrounding the administration of entry and exit controls increases, it could create obstacles to attracting and retaining highly skilled talent from abroad. At a time when inefficient resource allocation and the slow diffusion of advanced knowledge are already weighing on productivity growth in China, curbs on people-to-people exchange could further

impede both the absorption and creation of knowledge, as well as its practical application. Although the magnitude of the impact will depend on the scope of application and actual implementation on the ground, restrictions on talent exchanges and overseas travel that reflect excessive emphasis on technology protection could slow China's TFP growth over the medium to long term and act as a headwind to the Chinese economy by lowering its potential growth rate.

(Hiromu Komiya)