

M&A Hotline

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OPENING THE GATES: INDIA'S BOLD MOVES TO ATTRACT FOREIGN INSURERS

INTRODUCTION

The Indian Union Budget for the financial year 2025-26 ("**Budget 2025**")¹, accompanied by a memorandum² issued by the Department of Financial Services (DFS) on November 26, 2024, proposed certain key changes in order to facilitate more foreign investment in the Indian insurance sector, promote ease of doing business, insurance penetration in India, employment generation, etc., particularly in furtherance of the Insurance Regulatory and Development Authority of India's ("**IRDAI**") goal of achieving "*Insurance for All by 2047*". These changes included changes to the foreign direct investment ("**FDI**") policy, introduction of composite licenses and relaxations in capitalization requirements for insurers.

KEY CHANGES

■ 100% Foreign Investment allowed in Indian insurance companies

The Budget 2025 proposed a major reform by increasing the maximum FDI limit in the insurance sector from 74% (seventy-four percent) to 100% (one hundred percent), under the automatic route, provided that the insurers invest the entire premium collected in India.³ An additional relaxation was also offered to foreign re-insurers by lowering of net-owned funds by such re-insurers from INR 50 billion (approximately USD 570 million) to INR 10 billion (approximately USD 114 million).⁴

The Government hopes this major reform will boost insurance penetration in India, which was at 3.7% in 2023-24 while the global insurance penetration hovers at 7%⁵. The move aims to attract more foreign capital, enhance competition, and strengthen the overall growth of the insurance industry in India, since currently, only 5 out of the top 25 global insurers have presence in India.⁶ By allowing 100% foreign ownership, the Government hopes to bring in advanced technologies, better risk management practices, and a wider range of insurance products for Indian consumers.

■ Provision of composite licenses

The IRDAI is considering a new composite license that would allow insurance companies to offer both life and non-life insurance under a single license. This change aims to simplify operations and improve efficiency in the industry. However, insurers opting for this license may need to meet higher capital requirements than the current INR 100 crores required for each of life and non-life insurers.⁷

■ Lowered capitalization requirements

In addition, the IRDAI shall be empowered by the Government to lower entry capital requirements for insurers that focus on underserved or unserved markets. While the general minimum capital remains INR 100 crores, the regulator can now approve a lower amount (not below INR 50 crores) for companies serving these segments on a special case basis.⁸ This reform is expected to encourage new players, improve insurance accessibility, and promote financial inclusion across India.

CONCLUSION

The reforms and proposals introduced in Budget 2025 mark a significant step toward modernizing India's insurance sector. By increasing FDI limits, introducing composite licenses, and easing capital requirements, the Government is fostering an environment that encourages investment, competition and innovation. As these reforms take shape, India moves closer to achieving "*Insurance for All by 2047*", ensuring broader coverage, financial security, and a thriving insurance ecosystem that benefits both businesses and consumers alike.

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¹The Finance Bill, 2025, No. 14 of 2025

²F. No. 12018/2/2021-Ins.II, Department of Financial Services, Ministry of Finance.

³The Finance Bill, 2025, No. 14 of 2025

⁴F. No. 12018/2/2021-Ins.II, Department of Financial Services, Ministry of Finance.

⁵The Indian Express, FDI in insurance to be hiked to 100%, paving way for investments, entry of foreign giants, available at: <https://indianexpress.com/article/business/budget/fdi-insurance-entry-foreign-giants-inflows-9811462/>

⁶The Indian Express, FDI in insurance to be hiked to 100%, paving way for investments, entry of foreign giants, available at: <https://indianexpress.com/article/business/budget/fdi-insurance-entry-foreign-giants-inflows-9811462/>

⁷F. No. 12018/2/2021-Ins.II, Department of Financial Services, Ministry of Finance.

⁸F. No. 12018/2/2021-Ins.II, Department of Financial Services, Ministry of Finance.

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