

INDIA PERMITS 100% FDI IN INSURANCE SECTOR: KEY REGULATORY CHANGES AND ITS IMPLICATIONS



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1. INTRODUCTION:

- i. India remains one of the biggest insurance markets in the world, with a market share of 1.8%. According to the Insurance Regulatory and Development Authority of India (the “**IRDAI**”) Annual Report 2024-25, insurance penetration was at 3.7% of the country’s GDP, with life insurance making up 2.7% and non-life insurance making up 1%.¹ Additionally, average insurance density (the amount of premium paid per person) went up slightly from USD 95 to USD 97. This demonstrates the unrealized potential of the Indian insurance sector.
- ii. IRDAI’s vision of “**Insurance for All by 2047**” positions India as a promising market among international players for long term growth.² India’s young population and ever expanding middle class reinforce the sector’s growth potential. Even so, insurance coverage in India is still lower than the global average of about 7% of GDP.³ This gap along with favourable demographics presents an opportunity for the government to drive growth in the sector with effective government policies. It makes a strong case for scalable and long-term growth in India’s insurance sector.
- iii. Therefore, to close this gap and initiate the necessary steps to put India on the same level as other major global economies, both houses of Parliament passed the **Sabka Bima Sabki Raksha (Insurance for All, Protection for All) (Amendment of Insurance Laws) Bill, 2025** (the “**Bill**”) on 18th December 2025. The Hon’ble President of India assented the Bill on 20th December 2025, whereby, the Bill came to be known as **the Sabka Bima Sabki Raksha (Insurance for All, Protection for All) (Amendment of Insurance Laws) Act, 2025** (the “**Act**”).⁴
- iv. Thereafter, by way of a Gazette notification dated 03rd February 2026 (the “**Notification**”), the Act was brought into force, with all provisions of the Act became effective from 05th February 2026.⁵ The Act amends, inter alia, the Insurance Act, 1938, the Insurance Regulatory and Development Authority Act, 1999,

¹ IRDAI Annual Report 2024-2025, Page 12, <https://irdai.gov.in/documents/37343/366637/%E0%A4%86%E0%A4%88%E0%A4%86%E0%A4%B0%E0%A4%A1%E0%A5%80%E0%A4%8F%E0%A4%86%E0%A4%88+%E0%A4%B5%E0%A4%BE%E0%A4%B0%E0%A5%8D%E0%A4%B7%E0%A4%BF%E0%A4%95+%E0%A4%B0%E0%A4%BF%E0%A4%AA%E0%A5%8B%E0%A4%B0%E0%A5%8D%E0%A4%9F+ +IRDAI+Annual+Report+2024-25.pdf/06f02832-66a3-6308-a16f-f46a6640fc93?version=2.0&t=1767598639163&download=true>.

² IRDAI Press Note - Insuring India by 2047- New Landscape for Insurance Sector (25 November, 2022) <https://irdai.gov.in/document-detail?documentId=1624671>.

³ (n1), page 12.

⁴ Sabka Bima Sabki Raksha (Insurance for All, Protection for All) (Amendment of Insurance Laws) Act, 2025, [https://prsindia.org/files/bills_acts/bills_parliament/2025/Sabka_Bima_Sabki_Raksha_\(Amendment_of_Insurance_Laws\)_Act_2025.pdf](https://prsindia.org/files/bills_acts/bills_parliament/2025/Sabka_Bima_Sabki_Raksha_(Amendment_of_Insurance_Laws)_Act_2025.pdf).

⁵ Notification dated 03.02.2026 (Department of Financial Service, Ministry of Finance) <https://financialservices.gov.in/beta/sites/default/files/2026-02/Effective-date-SBSS.pdf>.

and the Life Insurance Corporation Act, 1956. Further, the Ministry of Finance notified the ***Indian Insurance Companies (Foreign Investment) Amendment Rules, 2025 on 30th December 2025 (the “Amendment Rules”)***, which entered into force on the date of the Notification.

- v. Prior to the passing of the Bill, the foreign direct investment (the “FDI”) in the insurance sector was capped at 74%, which was a result of steady growth and progressive liberalization in India’s insurance sector, starting from the Insurance Regulatory and Development Authority Act, 1999, which initially permitted the FDI up to 26%, which was then subsequently increased to 49% by the Insurance Laws (Amendment) Act, 2015.

2. A 100% FDI PERMIT IN THE INSURANCE SECTOR:

- i. According to the Act, insurance companies in India can now get up to 100% FDI through the automatic route. This is an increase from the previous limit of 74%.⁶ This relaxation has been aligned with the corresponding amendments to the Amendment Rules, including the following:
 - a. At least one of the chief executive officer, managing director, or chairperson of the board of such insurance company is required to be a resident Indian citizen, replacing the earlier requirement mandating a majority of resident directors or key managerial personnel (KMPs).⁷
 - b. The prior requirement mandating companies with foreign investment exceeding 49% to appoint independent directors constituting at least 50% of the board of directors has now been omitted.⁸
 - c. The provision requiring retention of at least 50% of net profits in the general reserve for a financial year in which dividends are declared, and at any time when the solvency margin falls below 1.8 times, has also been removed.⁹
- ii. This measure is crucial for the insurance sector, as it is expected to facilitate the infusion of capital and global expertise in the stagnant sector. More foreign participation is also expected to lower premiums and encourage fair competition between domestic and foreign insurers.
- iii. The rise in the FDI cap from 74% to 100% is most likely to make India a more attractive destination for global insurers and reinsurers to invest. This higher FDI cap will make more capital

⁶ Section 7, *Sabka Bima Sabki Raksha (Insurance for All, Protection for All) (Amendment of Insurance Laws) Act, 2025*.

⁷ Rule 4, *Indian Insurance Companies (Foreign Investment) Amendment Rules, 2025*.

⁸ *ibid.*

⁹ Rule 5, *Indian Insurance Companies (Foreign Investment) Amendment Rules, 2025*.

available, which could make generally underpenetrated areas like rural markets, MSMEs, and cybersecurity more commercially viable for the insurers. This would also allow inbound strategic investors to grow their portfolios.

- iv. The entry of new investors into the insurance industry is expected to lower policy costs and make them more affordable for customers. This will lead to more competition in the market, which will subsequently lead to more innovation, thereby resulting in diversification in products with better coverage and benefits. Insurers may also improve customer service, make it easier to file digital claims, and speed up the process of getting a policy.

3. AMALGAMATION OF INSURANCE COMPANIES WITH NON-INSURANCE COMPANIES:

- i. The Act expressly permits the amalgamation or transfer of an insurance business between an insurer company and a non-insurance company, subject to the prior approval of the IRDAI.¹⁰ This clarification resolves the long-standing regulatory ambiguity regarding the permissibility of mergers between insurance entities and non-insurance entities in the absence of an explicit prohibition under the insurance regulatory framework.

4. APPROVAL REQUIREMENTS FOR SHARE TRANSFERS:

- v. The prior approval of the IRDAI is now required only for transfers exceeding five percent (5%) of an insurer's paid-up equity share capital, as opposed to the earlier threshold of one percent (1%). This relaxation is expected to facilitate routine secondary transfers, including investor sell-downs, by reducing the instances in which regulatory approval is triggered, while continuing to preserve IRDAI's oversight over significant or control-impacting changes in shareholding. The amendment is also expected to encourage investment in insurers by making sure that transfers happen on time and cutting down on the need for regulatory intervention in ordinary course transactions.

5. NET OWNED FUND:

- i. The Act reduces the minimum net owned fund requirement for foreign entities undertaking reinsurance business from INR 5,000 crore to INR 1,000 crore, while expressly prohibiting such foreign entities from carrying on direct insurance business.¹¹

¹⁰ Section 33, *Sabka Bima Sabki Raksha (Insurance for All, Protection for All) (Amendment of Insurance Laws) Act, 2025*

¹¹ Section 8, *Sabka Bima Sabki Raksha (Insurance for All, Protection for All) (Amendment of Insurance Laws) Act, 2025*.

This lowering of the minimum net owned fund requirement is a carefully planned change that will encourage more foreign companies to do business in India's reinsurance sector, which will thereby strengthen and encourage competition in India.

6. DEFINITION OF "INSURANCE BUSINESS":

- i. In the absence of a statutory definition of "*insurance business*" under the Insurance Act, 1938, the Act provides clarity by introducing a comprehensive definition covering the business of effecting insurance contracts and such other contracts as may be notified by the Central Government in consultation with the IRDAI.¹² This is a crucial step towards regulatory certainty, but there still remain certain questions about whether the provision lets insurers undertake non-insurance contractual activities or if it is only meant to cover services that are related or ancillary to core insurance operations.
- ii. Furthermore, the definition of "*insurance contracts*" as agreements that involve taking on risk in exchange for a premium, along with the suggested ability to add more types of insurance business, will likely make it easier for new insurance structures or products to emerge and for companies to work in specialized areas of insurance.

7. COMMON DIRECTORS:

- i. The Act has expanded the limitations on common directorships to encompass all types of insurance business, in contrast to the prior restrictions that were confined to life insurance companies. As a result, an insurance company is barred from appointing someone as a director or officer if that person is also a director or officer at: (i) another insurer engaged in the same class of business; (ii) any banking company; or (iii) any investment company.¹³
- ii. This amendment aims to reduce conflicts of interest and improve corporate governance, but it could also have an effect on the current board structures of insurance companies that are promoted by listed companies. In particular, listed companies that have to appoint an independent director to the board of a material subsidiary may face some issues following these changes.

8. REVISED PENALTY FRAMEWORK:

- i. The maximum penalty for contraventions under the Insurance

¹² Section 6(d), *Sabka Bima Sabki Raksha (Insurance for All, Protection for All) (Amendment of Insurance Laws) Act, 2025*.

¹³ Section 25, *Sabka Bima Sabki Raksha (Insurance for All, Protection for All) (Amendment of Insurance Laws) Act, 2025*.

Act, 1938, has been enhanced from INR 1 crore to INR 10 crore.¹⁴ This framework now requires that the penalties be reasonable and take into account, how serious and long the default was, repeat violations, any unfair advantage or disproportionate gain that was availed, and the loss that policyholders suffered.

- ii. These steps are meant to make the rules stricter, encourage better compliance, protect policyholders' interests, and improve the overall integrity of the insurance industry.

9. IRDAI POWERS:

- i. The powers of search and seizure of IRDAI have been extended to apply not only to insurers but also to insurance intermediaries. The IRDAI has now been vested with the power to issue directions requiring disgorgement against an insurer or insurance intermediary of an amount equivalent to the wrongful gain made or loss averted.¹⁵ Furthermore, to uphold the best interests of policyholders, IRDAI can now set limits on the commission, pay, or other rewards that insurance agents or intermediaries can receive.¹⁶
- ii. Wider regulatory powers vested on the IRDAI demonstrate the strengthening of the supervisory framework in order to make the sector more open, accountable, and safe for policyholders.

10. PROTECTION OF THE POLICYHOLDERS:

- i. The Act provides for the establishment of a Policyholders' Education and Protection Fund (the "**Fund**"),¹⁷ and also introduces a framework governing the protection and handling of policyholder data. The provisions relating to confidentiality, data governance, and consent-based sharing of policyholder information appears to aligned with India's data protection framework, including the principles underlying the Digital Personal Data Protection Act, 2023 (the "**DPDP Act**") and further strengthen the regulatory powers of the IRDAI.
- ii. The newly introduced Fund shall be utilised for the protection of interests of policyholders and for promoting policyholder awareness and education. The Fund shall be financed through:
(a) donations or grants received from the Central Government, state governments, IRDAI, companies, or other institutions; (b)

¹⁴ Section 59, *Sabka Bima Sabki Raksha (Insurance for All, Protection for All) (Amendment of Insurance Laws) Act, 2025*.

¹⁵ Section 30, *Sabka Bima Sabki Raksha (Insurance for All, Protection for All) (Amendment of Insurance Laws) Act, 2025*.

¹⁶ Section 36, *Sabka Bima Sabki Raksha (Insurance for All, Protection for All) (Amendment of Insurance Laws) Act, 2025*.

¹⁷ Section 93, *Sabka Bima Sabki Raksha (Insurance for All, Protection for All) (Amendment of Insurance Laws) Act, 2025*.

amounts collected by IRDAI as penalties; and (c) such other sums as may be prescribed under applicable regulations.

- iii. The Act adds Sections 14A, 14B, and 14C to the Insurance Act of 1938, creating a complete framework for data governance, thereby imposing statutory obligations on insurers, intermediaries, and other regulated entities.¹⁸ IRDAI now has been vested with the power to process KYC data only for regulatory and operational reasons, and it also requires that policyholder information be kept safe and confidential through adequate safeguards. Further, Section 14C states that policyholder data can only be shared with third parties if the policyholder gives their explicit consent, in line with the DPDP Act's consent based framework.

11. CHALLENGES FOR THE INSURANCE SECTOR:

- i. The positive impacts of the Act are quite evident, however, this increase in the FDI cap to 100% will also pose certain challenges for India's insurance sector, such as; (i) significant risk of market/sector dominance by international players, which could potentially sideline the domestic insurers; (ii) prominent surge in cross-border data transfers which imposes a potential risk of breach or theft of personal data of policyholders; and (iii) prominent risk of market saturation and reduction in profitability for domestic insurers.

12. CONCLUSION:

- i. The Act brings transformative reforms in the heavily regulated sector, opening the same to foreign opportunities. 100% FDI in the sector promotes higher capital formation, and increase competition within the Indian insurance sector. The Act also introduces reforms that uphold the interests of the policyholder such as establishment of the Fund and data governance in consonance with the DPDP Act. These reforms highlight the shift in policy towards market liberalization and protection of the interests of the policyholder. However, there still remain certain challenges which shall be focused upon to ensure that the objective of the Act is not restricted due to such negative impact.
- ii. Therefore, in light of the above observations, it is evident that the Act represents a progressive and forward-looking regulatory approach that aims to make India a competitive market in the global insurance market while simultaneously progressing toward the national goal of "***Insurance for All by 2047.***"