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Foreign Investment In Insurance: Major Amendments Proposed

Introduction

On August 29, 2025, the Department of Financial Services, Ministry of Finance (“**DFS**”) circulated a draft of the Indian Insurance Companies (Foreign Investment) Amendment Rules, 2025 (“**Draft Rules**”) to amend the Indian Insurance Companies (Foreign Investment) Rules, 2015 (“**Foreign Investment Rules**”).

While the Draft Rules do not amend the current limit of foreign direct investment (“**FDI**”) in the insurance sector, they appear to be a pre-cursor to the highly anticipated proposal (currently pending introduction in the Parliament) to increase the FDI limit in insurance from 74% to 100%, which was proposed under the Insurance Laws (Amendment) Bill, 2024. The key changes proposed in the Draft Rules are summarised below.

The DFS has invited comments and objections from all concerned stakeholders on the Draft Rules for 15 days, after which they will be published in the Gazette of India.

Alignment of Foreign Investment Rules with 100% FDI proposal

- The Draft Rules remove the reference to the 74% foreign investment limit in Indian insurance companies and instead state that foreign investment shall be allowed up to the paid-up capital limits specified under the Insurance Act, 1938 (“**Insurance Act**”). This is in line with the amendment proposed to the Insurance Act to allow 100% FDI in insurance companies which would need to be passed by the Parliament (*the next session of which is expected to be held later this year in November*). Implementing this policy change would also require similar amendments to the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 (“**NDI Rules**”) as well as the FDI Policy of India issued by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry.

- Additionally, the Draft Rules introduce a number of consistency changes to align provisions with the NDI Rules.
- Interestingly, the Draft Rules state that FDI would include investment by Foreign Venture Capital Investors (“**FVCI**”) – whereas the NDI Rules treat FVCI as distinct and impose certain conditionalities for FVCI investment. The interplay between the Draft Rules and the NDI Rules in this context will need to be considered.

Relaxations in requirements for insurance companies

- The Draft Rules dispense with the residency requirements under which Indian insurance companies carrying any level of foreign investment must ensure that: (i) a majority of the members of their board of directors; and (ii) a majority of their key managerial personnel, are resident Indian citizens. Under the revised position, the only residency requirement is that at least one individual amongst: (a) chairperson of the board; (b) managing director (“**MD**”); or chief executive officer (“**CEO**”), must be a resident Indian citizen.

This recalibration of corporate governance norms is significant as it demonstrates the Government’s push to promote foreign investment in the sector by conferring greater managerial autonomy on foreign investors and allowing more flexibility in the strategic direction and day-to-day operations of Indian insurers.

- It is also proposed that an Indian insurance company with foreign investment exceeding 49% will no longer be required:
 - to have at least 50% of its directors as independent directors. Insurers now need to have a minimum of 3 independent directors – a requirement applicable uniformly to all insurers irrespective of their level of foreign investment; and
 - to retain net profit in the general reserve, where the insurer has paid dividend on its equity shares in a financial year and its solvency margin falls below 1.2 times the required control level during that year.



Policy Update

By rationalizing these requirements, the amendments would serve to allow more flexibility in matters of corporate governance and promote a more level playing field for insurers with significant foreign ownership, reducing compliance burdens and enhancing regulatory consistency for domestic and overseas players across the insurance sector.

Relaxations in requirements for insurance intermediaries

- The following requirements applicable to insurance intermediaries having majority shareholding of foreign investors are also proposed to be done away with, signalling movement towards a more liberalized and investor-friendly regulatory environment for insurance intermediaries as well:
 - requirement for at least one amongst the chairman of the board of directors or the CEO or principal officer or MD of the insurance intermediary to be a resident Indian citizen;
 - requirement for prior permission of the Insurance Regulatory and Development Authority of India (“**IRDAI**”) to repatriate dividend;
 - restriction on making payments to the foreign group or promoter or subsidiary or interconnected or associate entities beyond what is necessary or permitted by the IRDAI; and

- requirement for the composition of the board of directors and key management persons to be as specified by the concerned regulators.

Remarks

The proposals made in the Draft Rules are significant and it is currently contemplated that the Draft Rules would be published in the Gazette of India after 15 days. This underscores the Government’s intent to ensure the swift implementation of a 100% FDI regime in the insurance sector by streamlining and rationalizing the foreign investment framework, consistent with the policy changes announced by the Finance Minister earlier this year. Notably, the amendments proposed are not specific to new ventures meaning that they could result in restructuring of corporate governance frameworks in existing insurance joint ventures as well.

The approach of the Government is not only to create a clearer and more accessible regulatory environment for foreign entrants looking to establish operations in India, but also to provide greater clarity and operational flexibility for existing joint ventures.

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