



September 2025

## Liberalisation of the insurance sector

The Ministry of Finance (Department of Financial Services), *vide* notification dated August 29, 2025, has issued Draft Rules (“**Draft Rules**”) to the Indian Insurance Companies (Foreign Investment) Rules, 2015 (“**Foreign Investment Rules**”). The Draft Rules were published on August 29, 2025 and will be notified within a period of 15 (fifteen) days from the date of the Draft Rules. Any objections or suggestions received from persons affected by the matter during the aforesaid period will be considered by the Central Government.

### Key proposals of the Draft Rules

#### Relaxation in compliance for insurance companies with foreign investment

**Current Law:** The Foreign Investment Rules prescribe that in an insurance company having foreign investment (which includes even 1% foreign investment) (a) the majority of its directors and Key Management Persons (“**KMPs**”), and (b) 1 (one) amongst the chairperson of the board of directors, its managing director/chief executive officer, in each case, will be resident Indian citizen.

**Proposed Amendment:** The Draft Rules propose to ease the compliance by removing the conditionality to appoint majority of the directors and KMPs as resident Indian citizens. The only requirement for insurance companies with foreign investment is to have 1 (one) amongst the chairperson of the board of directors, its managing director / chief executive officer as resident Indian citizen.

The proposal is a welcome move and aims to ease compliance for insurance companies with foreign investment. The aforesaid conditionality was imposed when the foreign investment limit was increased from 49% to 74% and the conditionality deterred many foreign investors from further investing in the Indian insurance sector. The proposal is in line with the directional guidance given by the Finance Minister, in her budget speech in February 2025, wherein she stated that the conditions in relation to the foreign investment will be simplified.

Additionally, the Draft Rules seem to indicate that the aforesaid proposal can be immediately enforced once the amendments are notified, thereby enabling the board of insurance companies to be revamped without a cooling off period.

#### Ease in compliance for insurance companies with more than 49% foreign investment

**Current Law:** In addition to the residency criteria set out above, the current law mandates insurance companies with more than 49% foreign investment to appoint 50% of its directors as independent directors. If, however, the chairman of the board is an independent director, one-third of the board is required to be independent directors.

**Proposed Amendment:** The Draft Rules propose to omit the conditionality with respect to 50% of the board of directors to be independent directors. The said condition, in addition to acting as a deterrent for further investment in an insurance company, imposed practical challenges to manage large-sized board and limited insurance companies from attracting global talent.

**Current Law:** Additionally, insurance company with more than 49% foreign investment must maintain at least 50% of the net profit for the financial year in the general reserve, if (a) dividend is paid; and (b) solvency margin is less than 1.2 times of the control level (150%) of solvency.

**Proposed Amendment:** The Draft Rules propose to omit the net profit requirement for insurance companies. The proposal is in line with the commitment of the Government to attract global investment and ensure ease of doing business.

## Increase in foreign investment in insurance companies

**Current Law:** Any increase in foreign investment in insurance companies would require an amendment to the Insurance Act, 1938 (“**Insurance Act**”) and the Foreign Investment Rules. The Government had issued a proposal in November 2024, that envisaged revamping the legislative framework for the Indian insurance sector by introducing amendments to the existing regulatory framework including increasing foreign investment limit in insurance companies from 74% to 100%. This commitment was reiterated by the Finance Minister in her budget speech as well in the Parliament session in July 2025.

**Proposed Amendment:** The Draft Rules propose to omit provisions which limit the foreign investment in insurance companies to 74% and provide that the foreign investment proposals for insurance companies will be allowed for the paid up equity capital as stipulated under the Insurance Act, subject to the verification by the insurance regulator - the Insurance Regulatory and Development Authority of India (“**IRDAI**”). The proposal is a pre-cursor to amendment to the Insurance Act which would enable increase in foreign investment in insurance companies from 74% to 100%.

The Government in its proposal of November 2024 had proposed incorporating a new provision to the Insurance Act which proposed foreign investment upto 100% in an insurance company, subject to prescribed conditions. Further, it was proposed that the foreign investment in insurance co-operative society will be capped to 26%.

It is imperative to note, that the Finance Minister, in her budget speech had emphasised that 100% foreign investment limit will be available to companies that invest the entire premium in India. Given that insurance companies are already restricted from investing policyholders' funds outside of India, it will be noteworthy to see if there are any amendments in this regard to the Insurance Act.

## Relaxation for insurance intermediaries

**Current Law:** When the foreign investment limit was increased to 100% for insurance intermediaries in 2019, special conditions were imposed on intermediaries with majority foreign investment, which included certain stipulations including but not limited to following: (a) majority of directors and KMPs of the insurance intermediaries to be resident Indian citizens, (b) one amongst the chairman of the board of directors or principal officer or managing director or chief executive officer to be resident Indian citizens; (c) prior approval of IRDAI to repatriate the dividends; and (d) related party transactions to be capped to 10% of the total expenses in a financial year.

**Proposed Amendment:** The Draft Rules suggest omitting the requirement for an insurance intermediary with majority foreign investment to have majority of directors and KMPs and one amongst the chairman of the board of directors or principal officer or managing director or chief executive officer as resident Indian citizen. The proposal completely removes any restriction on the residency status and is more liberal than for insurance companies. An insurance company will still be required to appoint one amongst the chairperson of the board of directors, its managing director/chief executive officer as resident Indian citizen.

An insurance intermediary with majority investment will be able to appoint board of directors and KMPs which are not resident Indian citizens, however, pursuant to other laws, such as Companies Act, 2013, it may still be required that at least 1 (one) director is a resident Indian citizen. Further, to maneuver the Indian insurance market, investors may have to assess if they would like to retain certain key positions with resident Indians with qualified experience.

Additionally, it is also proposed that the requirement to obtain prior approval of the IRDAI for repatriation of dividend and cap on related party expenses in a financial year will be omitted, providing operational flexibility to foreign investors.

### Ancillary amendments

In addition to the amendment to the Foreign Investment Rules and the Insurance Act (as applicable) to implement the proposals in the Draft Rules, the IRDAI will also be required to amend or repeal (as the case may be) certain regulations including but not limited to IRDAI (Insurance Brokers) Regulations, 2018, Guidelines on repatriation of dividends by insurance intermediaries having majority foreign investors issued on January 3, 2020, IRDAI (Registration, Capital Structure, Transfer of Shares and Amalgamation of Insurers) Regulations, 2024.

### Conclusion

The Draft Rules continue to maintain the momentum of a fully liberalised Indian insurance sector and provide much awaited relief on compliance for foreign investors. While 100% foreign investment in insurance companies is eagerly anticipated and can only be implemented after amendment to the Insurance Act, the Draft Rules reflect the Government's commitment to ease of doing business in India and truly set the stage to overhaul and completely liberalize the sector, while keeping national interests where required for a social welfare sector.

### Insurance Practice

JSA is a trusted advisor to leading insurers, reinsurers, brokers, underwriters and consultants on complex transactions, disputes, financing and regulatory and commercial matters. The team with domain-expertise in the sector has an unparalleled ability to assist insurance companies in their Indian operations. JSA has been engaged in advising the private players both in life and non-life Insurance sectors on diverse matters relating to regulatory approvals, compliances, corporate issues, and litigation relating to insurance claims. JSA has been keenly involved in advising private players both in life and non-life insurance sectors on diverse matters relating to: (a) Regulatory approvals; (b) Compliance requirements; (c) Corporate issues; (d) Litigation relating to insurance claims.

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41 Ranked Lawyers



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21 Ranked Lawyers



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