



INSURANCE

India Opens Insurance Sector to 100% Foreign Direct Investment: An Analysis of the Foreign Exchange Management (Non-Debt Instruments) (Second Amendment) Rules, 2026

AUTHOR Aditya Yuvaraj

PUBLISHED 6 May 2026

Background and Context

On 2 May 2026, the Ministry of Finance (Department of Economic Affairs) issued **Statutory Order No. 2186(E)** in the Gazette of India Extraordinary, effecting a landmark amendment to the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 (the “NDI Rules”). The amendment, formally titled the Foreign Exchange Management (Non-Debt Instruments) (Second Amendment) Rules, 2026, came into force on the date of its publication.

The revision substitutes Serial Number F.8 in Schedule I of the NDI Rules, the provision governing foreign investment in the insurance sector, with a comprehensively restructured entry. It raises the **foreign direct investment (“FDI”) ceiling** for Indian insurance companies to one hundred per cent via the automatic route, extends the same ceiling to insurance intermediaries, and establishes a separate and more limited framework for the Life Insurance Corporation of India (“LIC”).

This amendment represents the most significant liberalisation of the insurance sector’s FDI regime since the Insurance Laws (Amendment) Act, 2015, which had raised the permissible foreign investment limit from 26% to 49%, and the subsequent incremental increase to 74% effected in 2021. The full opening of the sector to foreign equity marks a **structural shift** in India’s policy orientation toward the insurance industry.

The Amended Regulatory Framework

Insurance Companies: 100% FDI via Automatic Route

Under the substituted Serial Number F.8.1, Indian insurance companies may now receive **foreign investment up to 100%** of their paid-up equity capital. Crucially, the entire ceiling is available through the automatic route, meaning no prior approval from the Foreign Investment Facilitation Portal or any other government authority is required subject to approval and verification by the Insurance Regulatory and Development Authority of India (“IRDAI”).

The practical significance of this distinction is considerable: investors retain the efficiency of the **automatic route** while IRDAI retains regulatory oversight, preserving institutional checks without creating approval bottlenecks for straightforward investments.

Life Insurance Corporation of India: Separate 20% Cap

LIC, as a statutory body constituted under the Life Insurance Corporation Act, 1956, is governed by a distinct provision under the amended Serial Number F.8.2 and F.8.3.2. The permissible **FDI limit for LIC remains at 20%**, consistent with the cap that applied at the time of its initial public offering in 2022.

Foreign investment in LIC is subject to compliance with both the LIC Act, 1956 and those provisions of the Insurance Act, 1938 that apply to LIC by virtue of Section 43 of the LIC Act. The pricing and portfolio investment norms that apply to Indian insurance companies are extended to LIC by cross-reference, providing coherence across the framework.

Insurance Intermediaries: 100% FDI via Automatic Route

The amendment consolidates the treatment of **insurance intermediaries** under a single 100% automatic route entry (Serial Number F.8.3). This category encompasses:

- Insurance brokers
- Reinsurance brokers
- Insurance consultants
- Corporate agents
- Third-party administrators
- Surveyors and loss assessors
- Managing general agents
- Insurance repositories
- Any other entities notified by IRDAI

This unification eliminates any prior ambiguity around differential treatment across intermediary categories and brings intermediary regulation broadly in line with the revised framework for direct insurers.

Key Conditions and Safeguards

While the headline liberalisation is substantial, the amendment introduces and codifies a range of conditions designed to **preserve regulatory integrity**, protect policyholders, and maintain domestic influence in the governance of insurance entities.

IRDAI Verification Requirement

Even where the automatic route applies, FDI proposals are subject to **verification by IRDAI**. This ensures that the sectoral regulator retains supervisory oversight of the composition and character of foreign investment, consistent with its mandate under the IRDAI Act, 1999 and the Insurance Act, 1938.

Licensing and Compliance

Companies receiving FDI must obtain all necessary **licences or approvals from IRDAI** to undertake insurance and related activities, and must comply with the Insurance Act, 1938 and the Indian Insurance Companies (Foreign Investment) Rules, 2015.

Resident Indian Citizen Requirement

In Indian insurance companies with foreign investment, at least one among the **Chairperson of the Board, the Managing Director, and the Chief Executive Officer** must be a Resident Indian Citizen. This condition, applicable at the most senior level of corporate governance, is designed to ensure meaningful domestic participation in strategic decision-making.

Governance Requirements for Majority Foreign-Owned Intermediaries

Insurance intermediaries in which foreign investors hold **majority shareholding** are required to:

- Incorporate as limited companies under the Companies Act, 2013
- Ensure that at least one of the Chairman, CEO, Principal Officer, or Managing Director is a Resident Indian Citizen
- Bring in current technological and managerial skills
- Disclose, in IRDAI-specified formats, all payments made to group, promoter, subsidiary, interconnected, or associate entities

This last requirement reflects a regulatory sensitivity to **transfer pricing and related-party transactions** in foreign-controlled entities.

Foreign Portfolio Investment

Foreign portfolio investment in Indian insurance companies continues to be governed by Chapter IV, Rules 10 and 11 of the NDI Rules read with Schedule II, and the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019. The amendment preserves this framework intact.

Pricing Guidelines

Any increase in foreign investment in an Indian insurance company must conform to the **pricing guidelines** specified under the NDI Rules. This requirement guards against value dilution through underpriced share issuances to foreign acquirers.

Entities with Primary Business Outside Insurance

A specific proviso addresses entities such as banks that are permitted by IRDAI to function as insurance intermediaries while their **primary business lies outside the insurance sector**. For such entities, the FDI caps applicable to their primary sector continue to govern.

Revenues from the non-insurance business must remain above 50% of total revenues in any financial year. This condition prevents the insurance intermediary framework from being used as a back-door mechanism to circumvent lower FDI caps in other regulated sectors.

Bank-Promoted Insurance Companies

The amendment expressly provides that the additional conditions prescribed under the heading **“Banking — Private Sector”** in Serial Number F.2.1 of Schedule I shall apply to bank-promoted insurance companies. This ensures that the enhanced governance norms applicable to private banks flow through to insurance subsidiaries promoted by them.

Legislative and Regulatory Context

The amendment exercises powers conferred by clauses (aa) and (ab) of sub-section (2) of Section 46 of the **Foreign Exchange Management Act, 1999** (42 of 1999), which authorise the Central Government to prescribe the rules governing non-debt instrument transactions, including equity investment in Indian entities by persons resident outside India.

The NDI Rules, first notified on 17 October 2019 (S.O. 3732(E)), have been amended **sixteen times** in total as of this notification. The insurance-specific provisions have been the subject of prior revision, most recently in connection with the 74% FDI liberalisation in 2021 and subsequent adjustments. The present amendment represents the culmination of a policy trajectory that began with the sector's first cautious opening to foreign equity and has progressively converged toward full liberalisation.

The amendment is to be read alongside the broader regime governing insurance sector foreign investment, including the **Indian Insurance Companies (Foreign Investment) Rules, 2015**, which set out the detailed conditions applicable under Rules 7 and 8, and the IRDAI's own regulations on foreign investment in intermediaries.

Practical Implications for Stakeholders

Foreign Insurers and Investors

The removal of the 74% ceiling eliminates the structural barrier that prevented foreign insurers from **wholly owning their Indian operations**. Global insurers that have operated as minority or co-equal partners in joint ventures will now be able to explore full ownership, subject to negotiation with existing Indian partners and compliance with the conditions outlined above.

Greenfield entrants may establish wholly-owned subsidiaries through the automatic route, subject to IRDAI licensing.

Existing Joint Ventures

For existing insurance joint ventures in which the foreign partner holds less than 100%, any increase in foreign equity beyond the current holding will require adherence to the **NDI Rules' pricing guidelines**. Shareholders' agreements and joint venture arrangements should be reviewed to assess the impact of the new cap on pre-emption rights, tag-along provisions, and put/call mechanisms.

Insurance Intermediaries

The extension of 100% FDI to intermediaries, on terms broadly analogous to those applicable to insurers, opens the **distribution and advisory side** of the insurance value chain to full foreign ownership. This is of particular relevance to international brokerage groups, reinsurance intermediaries, and third-party administrators seeking to establish or expand their Indian presence.

Domestic Insurance Companies

Indian insurers with no existing foreign investment, including government-promoted entities other than LIC, will need to engage with the implications of a market in which **fully foreign-owned competitors** may now operate. The arrival of well-capitalised global players with greater product depth and technological capability may accelerate the pace of product and distribution innovation across the industry.

Policyholders and the IRDAI

The solvency, governance, and consumer protection frameworks administered by IRDAI will become more important as the sectoral ownership landscape diversifies. The **verification requirement** attached to the automatic route vests IRDAI with a meaningful supervisory role in the FDI approval process, which the regulator will likely exercise with heightened attention to the financial strength and track record of incoming foreign investors.

Concluding Observations

The Foreign Exchange Management (Non-Debt Instruments) (Second Amendment) Rules, 2026 represent a considered and consequential step in the evolution of India's insurance regulatory architecture. By permitting **100% foreign ownership** across both insurers and intermediaries through the automatic route, the Central Government has sent an unambiguous signal of openness to global capital in a sector that has historically been among the more protective of domestic ownership.

The accompanying governance conditions (including the Resident Indian Citizen requirement at senior leadership level, the verification mechanism administered by IRDAI, and the disclosure obligations imposed on majority foreign-owned intermediaries) reflect a **calibrated approach** that seeks to attract capital and expertise without ceding regulatory or supervisory control. Whether this balance proves sufficient in practice will depend substantially on IRDAI's administration of the verification framework and its willingness to engage proactively with new classes of entrant.

For entities operating in or seeking to enter the Indian insurance market, the amendment materially expands the range of **structuring options** available. A careful assessment of the transaction-specific implications (including the pricing guidelines, the LIC ring-fence, and the conditions applicable to bank-promoted entities and non-insurance-primary intermediaries) will be essential before any investment decision is finalised.

This article has been prepared for general informational purposes only and does not constitute legal advice. Readers should seek specific legal counsel in relation to their individual circumstances. The primary source for this analysis is Gazette of India Extraordinary Notification S.O. 2186(E) dated 2 May 2026, published by the Ministry of Finance (Department of Economic Affairs).

Related Practice Areas

- Insurance
- Foreign Exchange and FDI Compliance