FMDB Transactions on Sustainable Social Sciences Letters

FDI Liberalisation in India's Insurance Sector: Legal Architecture, Governance Redesign and Regulatory Implications

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Abstract: India's liberalisation of Foreign Direct Investment (FDI) has helped the state control ownership and regulate sensitive areas like insurance. The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025, is the latest development in India's insurance sector's FDI liberalisation. The unified FDI policy and Management Act (FEMA) resolves regulatory and operational complaints, while the Insurance Regulatory and Development Authority of India regulates the sector. The paper analyses compliance and risk modulation across different regulatory frameworks, and how the shift from capped foreign ownership to absolute foreign control affects them. It illuminates the governance transition, including changes to board composition, majority residency requirements, enhanced disclosure and transparency, reporting obligations, etc. The paper also discusses IRDAI's expansion of powers, the policyholder's Education Protection Fund, and the switch in the solvency framework from a fixed-margin to a risk-based capital (RBC) framework. These innovations are considered compensatory regulatory protections to protect policyholders and sustain the system in a fully liberalised ownership environment. India's efforts to integrate market conduct with governance capacity and regulatory framework are also noted. The paper finds that 100% FDI in insurance is a deliberate, measured endeavour within a specific regulatory context, with development goals, not deregulation.

Keywords: Corporate Governance; Risk Management; Foreign Direct Investment (FDI); Risk-Based Capital (RBC); Reporting Obligations; Majority Residency Requirements; Education Protection Fund.

Received on: 12/03/2025, **Revised on:** 15/06/2025, **Accepted on:** 28/08/2025, **Published on:** 12/03/2026

Journal Homepage: https://www.fmdbpub.com/user/journals/details/FTSSSL

DOI: https://doi.org/10.69888/FTSSSL.2026.000586

Cite as: R. K. Rajkhanna, G. M. Vidhyasagar, and M. Fatma, "FDI Liberalisation in India's Insurance Sector: Legal Architecture, Governance Redesign and Regulatory Implications," *FMDB Transactions on Sustainable Social Sciences Letters*, vol. 4, no. 1, pp. 42–51, 2026.

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1. Introduction

Foreign direct investment in India has never been a purely economic lever. It is a legal instrument that the State uses to calibrate ownership risk, technology inflows, and systemic stability across sectors that differ in regulatory sensitivity. When experts speak of "FDI liberalisation," they often mean a simple increase in sectoral caps. In practice, liberalisation in India is typically a two-track exercise: first, the Government expands or reshapes the permission to invest through policy changes, sectoral caps, and entry routes, and second, the legal ecosystem that governs control, compliance, and reporting is re-engineered so that the

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sector remains governable even when foreign participation deepens [11]. This second track is what makes FDI liberalisation legally interesting because it is where corporate governance standards are quietly rewritten. At the foundation, a split architecture sits. The Central Government drives the policy layer through the Consolidated FDI Policy issued by DPIIT and amendments issued through Press Notes and related instruments [6]. The exchange control layer is operationalised through the Foreign Exchange Management framework, including the Foreign Exchange Management (Non-debt Instruments) Rules, 2019, and the Reserve Bank of India's regulatory and reporting framework. In other words, "FDI permission" is not only about whether foreign capital may enter, but also about how it enters, on what pricing and reporting discipline, through this route, and with what downstream consequences [21]. RBI itself describes foreign investment as subject to compliance with the extant FDI policy and FEMA rules and regulations, which is a useful reminder that policy permission and FEMA compliance go hand in hand.

When a sector is liberalised, the Government typically relaxes caps or shifts investments from the Government route to the automatic route. However, the sector regulator and the foreign exchange regime will then insist on the implementation of compensatory guardrails [1]. These guardrails can sit in multiple places: in ownership and control tests, in board composition expectations, in fit-and-proper requirements, in asset maintenance, in restrictions on downstream investments, or in heightened reporting and supervision. The redesign, therefore, occurs across corporate law, sector regulation, and exchange control. A useful way to treat liberalisation is to treat FDI as a "controlled transaction" rather than a mere "capital transaction". Once you view it through the lens of control, governance questions become inevitable: who can appoint directors, who can drive strategy, who signs off on key risks, who owns the regulated cashflows, and how does the regulator preserve policy objectives when the shareholder profile becomes global [4]. The Indian legal system addresses these questions through two connected levers: entry conditions and ongoing compliance. Entry conditions include caps, entry routes, eligibility of investors, pricing guidelines, and instrument design [11]. The FEMA NDI Rules establish the operative language for "equity instruments" and their issuance and transfer, and they also shape the structures feasible in cross-border transactions. For instance, the 2024 amendment to the FEMA NDI Rules was presented as an ease-of-doing-business reform to simplify cross-border share swaps by enabling the issuance or transfer of equity instruments of an Indian company in exchange for equity instruments of a foreign company [21]. This is a governance change as much as a transaction change, because share swaps are frequently used in strategic acquisitions and can alter control without cash movement. Ongoing compliance includes reporting to the RBI and sector regulators, adherence to sector-specific conditions, and observance of corporate governance requirements imposed by regulation or by commercial necessity. The reporting system is central because it is how the State sees the transaction.

RBI's framework for foreign investment reporting assigns responsibility for reporting to resident transferors or transferees, or to the non-resident holder, depending on the transaction context. Against this backdrop, "liberalisation" should be read as a deliberate attempt to widen the capital base while ensuring that the sector remains within a supervisory perimeter. Few sectors demonstrate this better than insurance. Insurance has historically been treated as a sensitive sector because it holds household savings and it performs a social risk-spreading function [4]. India's insurance pathway shows incremental liberalisation. In 2021, the Government raised the permissible foreign investment limit in insurance companies to 74% through policy and legislative changes, and it also examined the governance implications of that increased foreign participation [6]. A leading practical implication of the 74 per cent regime was that governance constraints tied to Indian ownership and control had to be reconsidered, as a higher foreign shareholding without a workable control framework can create a de facto disconnect between economic ownership and managerial authority [17]. The most recent step is materially bigger. In December 2025, Parliament passed the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025, which seeks amendments to the Insurance Act, 1938, the LIC Act, 1956, and the IRDAI Act, 1999, and a central feature is to permit up to 100% foreign direct investment in insurance companies [20]. This shift is being publicly framed as a measure to attract capital, technology, and global best practices while improving the insurance sector [22]. The Union Budget communication on the move also indicates that the enhanced limit is intended for companies that invest the entire premium in India and that the existing conditionalities associated with foreign investment will be reviewed and simplified [19].

2. Governance Transformation and Regulatory Architecture

2.1. From Capped Ownership to Complete Foreign Control: Implications for Board Governance

From a corporate law perspective, the move to 100% is not merely a cap increase. It effectively changes the default bargaining position in shareholder agreements, board composition negotiations, and exit structuring [1]. Under a Sub 100 per cent regime, governance often reflects a negotiated balance between local promoters and foreign partners, often with veto rights, reserved matters, and control-protective clauses. When a foreign investor can lawfully move to full ownership, the governance conversation shifts from "joint control design" to "regulatory compliance design" [5]. The key question becomes: what does IRDAI expect from a fully foreign-owned insurer in terms of management, solvency, governance processes, and policyholder protection? This recalibration of governance expectations reflects a broader international principle of insurance regulation. As the Insurance Regulatory and Development Authority recognises, when sectoral ownership concentration shifts towards foreign

entities, the regulator must upgrade its supervisory toolkit to ensure that regulatory outcomes do not become hostage to shareholder exit decisions or capital restructuring strategies [13].

The legislative package itself signals a stronger role for the regulator in operational matters, including references in public reporting to IRDAI powers related to commissions and to the recovery of gains obtained through regulatory breaches [24]. Previously, under the 74% FDI regime, governance constraints tied to Indian ownership and control created practical friction. Companies were required to maintain a majority of directors and key managerial personnel as resident Indian citizens, and at least one of the chairperson, managing director, or chief executive officer had to be a resident Indian [2]. For insurers with over 49 per cent foreign equity, additional requirements mandated a specific board composition and the retention of a portion of net profits in reserves if solvency margins fell below prescribed levels. Insurance intermediaries with majority foreign ownership faced even more stringent restrictions, including prior IRDAI approval for dividend repatriation and limits on payments to foreign-affiliated entities [5]. The August 2025 amendments to the Indian Insurance Companies (Foreign Investment) Rules, 2015, represent a deliberate simplification of this governance architecture. The revised framework retains only one overarching condition: at least one of the chairperson, managing director, or chief executive officer must be a resident Indian citizen. This single-point anchor preserves regulatory presence at the apex of the management hierarchy while eliminating the prescriptive majority-residency and board-composition requirements that characterised the earlier regime.

For insurance intermediaries, the transformation is even more pronounced—the draft amendments proposed eliminating most conditions on foreign ownership, removing dividend repatriation approval requirements, and replacing prescriptive board composition norms with cleaner disclosure obligations [11]. This is where the theme of sectoral governance becomes concrete. Liberalisation in a regulated sector typically requires the regulator to strengthen supervisory tools because ownership-based comfort is reduced [2]. The redesign, therefore, tends to include some combination of stricter disclosure expectations, sharper fit-and-proper enforcement, stronger governance codes, more intrusive inspection powers, and clearer accountability for mis-selling and claims practices [13]. Even where the statute does not list every micro-condition, the direction of travel is towards a more compliance-heavy governance model to offset the increased openness of the ownership regime. When regulators expand powers over commissions and the recovery of unlawful gains, and when statutory architecture is amended across multiple Acts, boards must treat regulatory compliance as a core governance agenda item rather than a back-office function [24]. A well-run insurer under the new regime will need board-level dashboards on distribution conduct, persistency, complaints, claim ratios, outsourcing risk, cyber hygiene, and filing timeliness [7]. This is not a generic recommendation. It is a governance response that aligns with the very reasons the State offers for liberalisation: growth through capital, plus trust through oversight.

2.2. Opening Up Ownership: Risk Modulation Through Regulatory Tools

If liberalisation is the front door, then governance is the lock system that gets upgraded immediately after. This is most visible when the sector is financially sensitive or politically salient because the regulator cannot rely on shareholder composition as a proxy for stability [18]. The policy shift from a capped foreign shareholding model to a fully open ownership model alters the assumptions underlying supervision. Once 100% foreign ownership is permissible in insurance, the compliance model shifts from local ownership being a comfort to regulatory supervision being the comfort [1]. The December 17, 2025, enactment is not only about the cap. It is an amendment set that touches the Insurance Act 1938, the LIC Act 1956, and the IRDAI Act 1999, which signals that the State is reworking the sector's legal perimeter at multiple points rather than merely turning a single FDI knob [20]. The policy narrative emphasises deeper coverage, capital augmentation, advanced technology, and global best practices [5]. Capital augmentation speaks about solvency and risk management. Technology speaks about distribution. Best practices speak to board supervision and market conduct. Coverage speaks to consumer outcomes. Each objective creates a corresponding compliance lever. A concrete illustration is the expansion of IRDAI's tools. The amended legislation grants the regulator authority to set agent commission limits and to recover gains obtained through regulatory breaches [22]. Those details matter for governance because they relocate discretion from shareholder bargains to regulator standards. Once IRDAI can cap commissions, the distribution engine becomes a regulated conduct topic rather than a pure commercial optimisation.

Once gains from breaches can be recovered, the enforcement changes for boards and senior management are different, as the downside is no longer limited to penalties but can include other outcomes [24]. The legislation also establishes a dedicated Policyholders' Education and Protection Fund, funded through IRDAI penalties and other prescribed sources, signalling that policyholder protection infrastructure has become a standalone institutional priority rather than a derivative of compliance [3]. Another notable feature is the allowance for insurance companies to merge with non-insurance firms if the combined entity focuses on insurance activities. This is governance redesign in a structural form. It reduces friction for consolidation and group-level restructuring. Still, it also raises classic corporate law questions: how will boards manage conflicts in group reorganisations, how will minority shareholders be treated in composite transactions, and how will policyholder interests be preserved through amalgamations [7]. Specifically, the amendments introduce provisions that restrict common directorships between an insurer and another insurer in the same line of business, thereby preventing potential conflicts of interest and

protecting competitive dynamics [4]. The point is to show that liberalisation triggers an ecosystem of transactional pathways that require stricter process discipline and sharper regulator supervision.

2.3. The Staged Liberalisation Pathway: Demonstrating Regulatory Comfort

The move to 100% in 2025 builds on the earlier 2021 move from 49% to 74% [6]. The policy move to 100% FDI reflects Finance Minister Nirmala Sitharaman's Budget 2025 announcement, which also noted that enhanced limits would be available to companies that invest the entire premium collected in India [19]. The legal significance of recalling the 2021 stage is that it demonstrates a pattern: India first widens the ownership opening, then tests supervisory comfort, and then widens further [1]. The analysis can therefore present 2025 as a culmination of a policy arc rather than a sudden disruption. By February 2025, when the Budget announcement was made, the regulatory ecosystem had matured considerably [11]. The 2021 transition to 74% FDI had been operational for four years, providing policymakers and regulators with empirical evidence of how foreign participation behaves when governance constraints are loosened but not eliminated. Market concentration patterns, the adequacy of solvency frameworks, the effectiveness of the fit-and-proper assessment process, and the responsiveness of boards to regulatory expectations all became data points informing the decision to move to 100% [15]. This staged approach contrasts sharply with a Big Bang liberalisation that would have opened the sector fully without intermediate testing periods. The policy discussion stated that the enhanced limit will be available for companies that invest the entire premium in India and that current conditionalities associated with foreign investment will be reviewed and simplified. Even if one sets aside the detail of how "invest the entire premium in India" will be operationalised, the policy intent is clear. The State is linking openness to an onshore economic outcome and is simultaneously promising simplification of conditions. That is a complete redesign [5]. In corporate governance language, it is a move from rule-heavy entry barriers to supervision of capital placement, conduct outcomes, and reporting compliance.

2.4. Solvency, Capital Adequacy and the Transition to Risk-Based Capital

The 100% FDI liberalisation occurs within the context of a broader regulatory modernisation happening in India's insurance sector [9]. The Insurance Regulatory and Development Authority is transitioning the solvency framework from a fixed-margin regime (currently mandating a 150% solvency ratio) to a risk-based capital (RBC) model aligned with international practices. This transition, planned for completion by 2025, represents another layer of governance intensification that will operate alongside ownership liberalisation [8]. Under the current fixed solvency margin regime, all insurance companies must maintain a minimum solvency ratio of 1.5 (expressed as 150%), meaning that the available solvency margin must equal at least 150% of the required solvency margin [10]. This is a one-size-fits-all approach that treats all insurers identically, regardless of their risk profile. The RBC framework, by contrast, aligns capital requirements with the specific risks each insurer faces—investment risk, underwriting risk, operational risk, and market risk. For foreign insurers entering India with substantial capital reserves, the RBC framework may enable more efficient capital deployment while requiring more granular risk reporting [23].

The implications for board governance are significant. Under a risk-based capital regime, boards must demonstrate understanding of their enterprise-wide risk profile, not merely compliance with a single numerical solvency metric. This requires sophisticated management information systems, quarterly quantitative impact studies, stress-testing protocols, and clear accountability chains for risk management. Foreign insurers accustomed to operating under European Solvency II or US RBC frameworks will find the Indian transition relatively familiar, but the period of dual-regime operation (before RBC becomes mandatory) will require careful transition planning [9]. The solvency framework also addresses the particular concern about capital adequacy when insurers face pressure to repatriate profits. While the Indian regulatory regime does not restrict profit repatriation to foreign shareholders once solvency ratios are maintained, the effective constraint is the requirement to maintain operational capital buffers above minimum thresholds [13]. This incentivises sustained capital deployment within India, aligning financial incentives with the policy objective of capital retention.

2.5. Insurance Intermediaries: From Restrictive Governance to Conduct-Based Supervision

A significant dimension of the 100% FDI reform extends to insurance intermediaries—including brokers, agents, managing general agents, and third-party administrators [11]. Under the pre-2025 regime, intermediaries with majority foreign ownership faced multiple restrictions. They had to obtain prior IRDAI approval for dividend repatriation, maintain prescribed board compositions, and file undertakings limiting payments to foreign affiliates [1]. These conditions created operational rigidity and discouraged many global intermediaries from entering the Indian market. The 2025 amendments fundamentally reorient the intermediary framework from structural restrictions to conduct-based supervision [5]. The Bill introduces mandatory registration with IRDAI for all intermediaries and proposes a "one-time registration" structure that reduces compliance friction while simultaneously enhancing transparency [3]. All intermediaries, regardless of foreign ownership, will be subject to uniform data protection standards, Know-Your-Customer protocols, and disclosure requirements regarding payments to group entities. However, the previously imposed conditional restrictions on foreign-owned intermediaries are no longer in place. This

shift reflects a regulatory philosophy that intermediaries should be governed by reference to their market conduct (whether they treat customers fairly, comply with solvency requirements, and handle claims appropriately) rather than by reference to ownership structure [24]. It also reflects practical recognition that global intermediaries bring distribution capabilities, technology platforms, and customer service standards that can raise baseline expectations across the sector [14]. By removing ownership-based conditionalities, the government signals that foreign intermediaries will be expected to self-regulate through professional standards and regulatory reporting rather than through statutory governance prescriptions.

2.6. FEMA Compliance and Reporting Obligations in Foreign-Owned Structures

Liberalisation increases deal volume and the complexity of structures, which increases the cost of poor reporting [11]. RBI's guidance on foreign investment reporting explicitly states that transfers between residents and non-residents are to be reported in Form FC-TRS within specified timelines, and that the onus of submission within the timeframe lies with the transferor or transferee resident in India [21]. That one line has governance consequences. It shapes transaction documentation because resident parties will push for covenants and indemnities that protect them from filing failures [2]. It shapes internal compliance by requiring companies to designate a responsible officer and maintain documents. It shapes board oversight because repeated filing lapses create regulatory exposure that can complicate future capital raising and approvals. FEMA rules have been modernised to accommodate new deal mechanisms. The August 16, 2024, amendments to the FEMA, Non-debt Instruments Rules were expressly intended to simplify cross-border share swaps and to enable the issue or transfer of Indian company equity instruments in exchange for foreign company equity instruments. It is a strong example of governance redesign that supports liberalisation.

When sectors open up, strategic investors will prefer M&A-led entry as much as greenfield entry. Share swaps are a common mechanism in global deals [11]. If the legal framework makes swaps difficult, the sectoral cap may exist on paper, but practical entry remains constrained. By easing share swaps, the State indirectly strengthens the effectiveness of FDI liberalisation while also signalling that cross-border control transactions are expected to increase. The Government has repeatedly stated that the FDI policy remains under continuous review to maintain India's attractiveness as an investment destination [6]. That same communication style often lists sectoral openness as evidence of liberalisation, such as 100 per cent FDI under the automatic route in telecoms and higher automatic-route limits in defence. The governance implication is that not all sectors require the same compensating guardrails [1]. Telecom has both competition and security dimensions, but it is not a balance-sheet promise business like insurance. Defence has national security and licensing dimensions. Insurance involves consumer protection, systemic risk, and long-tail liabilities. Therefore, the intensity of redesign differs by sector, even when the headline "cap" appears similar.

3. Market Dynamics, Competitive Impacts, and Sectoral Transformation

3.1. Capital Inflows, Market Entry Structures and Consolidation Pathways

The removal of joint-venture requirements fundamentally alters entry dynamics for foreign investors [4]. Previously, investors seeking majority or full control were forced to partner with Indian entities, accepting governance compromises and shared decision-making. The 2025 reforms enable three distinct entry structures: greenfield subsidiaries (wholly new insurers), the acquisition of controlling stakes in existing insurers, and merger-based consolidation with non-insurance entities within the same corporate group [7]. Each pathway has different governance and competitive implications. Greenfield entry attracts investors seeking clean balance sheets and unencumbered operational design. They bring fully formed distribution models, underwriting platforms, and customer acquisition strategies from global operations [11]. The absence of joint venture friction accelerates capital deployment and enables operational alignment with group-wide practices. However, greenfield entrants face the challenge of building regulatory relationships from inception and investing substantially in local market knowledge. The capital requirement floor (₹100 crore, with IRDAI discretion to approve lower levels for niche insurers) is designed to filter out under-capitalised operators while permitting specialised entrants [19]. Acquisition structures offer faster market access through pre-existing distribution networks and regulatory relationships, but trigger intense governance questions [2]. The majority of acquirers inherit existing policyholder contracts, accumulated claims liabilities, and established compliance frameworks.

The Board of Directors and senior management's continuity decisions become critical—the acquirer must determine whether to retain existing management, replace it with global best-practice teams, or run integrated management structures that bridge local and foreign expertise [18]. These decisions influence employee relations, customer confidence, and regulator expectations. Consolidation with non-insurance entities within the same corporate group opens new strategic possibilities [3]. For example, a global financial services conglomerate might merge an Indian life insurer with its health services subsidiary or investment advisory business, creating integrated financial service offerings. The legislation's allowance for such mergers, coupled with restrictions on common directorships between competing insurers, creates an incentive structure that favours group-based

consolidation while protecting market competition between independent players [5]. This is governance redesign through structural incentives.

3.2. Competitive Dynamics and Market Impact Assessment

The impact of 100% FDI on market competition and consumer outcomes will unfold over two to three years as entry accelerates [15]. Historical experience from other jurisdictions offers instructive lessons. In Brazil, following post-2007 liberalisation that eliminated ownership caps, foreign insurers initially captured approximately 35-40% of market share in select segments (particularly in motor insurance and reinsurance), but domestic players maintained dominant positions in life insurance and health, where local brand recognition and distribution relationships provided competitive advantages [16]. In China, despite allowing 100% foreign ownership since 2020, foreign insurers control roughly 10-15% of market share, suggesting that ownership liberalisation does not automatically translate to market share capture [12]. Local insurers maintain competitive positions through scale, regulatory relationships, and deep customer understanding. India's insurance market is considerably less concentrated than China's state-dominated market, yet it offers significant scale advantages to established domestic players. Life Insurance Corporation (LIC), despite privatisation announcements, remains the largest life insurer with a substantial market share. General Insurance Corporation (GIC Re) maintains quasi-monopolistic dominance in reinsurance. New private insurers have grown since 2001 liberalisation, but operate as mid-tier competitors rather than market challengers [4].

The 100% FDI opening is expected to accelerate consolidation activity, with three predicted patterns: (i) foreign acquisition of existing mid-tier domestic insurers for scale enhancement; (ii) greenfield entry in underserved segments (health insurance, speciality lines, micro-insurance); and (iii) emergence of insurtech-led distribution platforms combining foreign capital with local distribution expertise [11]. Consumer outcomes are anticipated to improve through three channels. First, competitive intensity will likely compress margins and reduce pricing power, particularly in commoditised products like motor insurance and term life [2]. Second, technology transfer will accelerate digital distribution, improving accessibility, particularly in Tier-2 and Tier-3 cities where branch networks are sparse [7]. Third, product innovation will expand the range of available offerings, with foreign entrants introducing parametric insurance, cyber coverage, and integrated health-insurance-plus-wellness products tailored to Indian consumer preferences [18]. However, risks exist that must be managed through regulatory vigilance. Foreign-owned insurers may engage in loss-leader pricing in profitable segments while withdrawing from lower-margin segments (particularly rural insurance and micro-finance-linked products), creating distribution gaps for vulnerable populations [24]. This would undermine the policy objective of "Insurance for All by 2047". Regulator enforcement of market conduct standards, pricing adequacy requirements, and solvency maintenance will therefore become more critical as ownership concentration shifts toward foreign entities [3].

3.3. The Insurance for All by 2047 Objective: Alignment of Ownership Liberalisation with Social Goals

The stated policy objective of "Insurance for All by 2047" provides the normative framework justifying the 100% FDI opening [19]. India's insurance penetration remains significantly below global averages. Life insurance premiums represent approximately 2.6% of GDP (compared to 3-5% in developed markets), and general insurance penetration is similarly low at under 1% of GDP [16]. The household savings rate, while elevated at approximately 18-20% of GDP, remains concentrated in bank deposits and physical gold rather than insurance products [11]. The policy presumption is that liberalised capital inflows, coupled with competitive intensity and innovation, will catalyse expansion into underserved market segments. This objective creates compliance imperatives that shape board governance. Insurers—whether domestic or foreign-owned—will be expected to balance profit maximisation with market development obligations [1]. The IRDAI has established frameworks for "Bima Vistaar" (insurance expansion) and "Bima Vaahak" (distribution through non-traditional channels), which essentially permit and encourage distribution through microfinance institutions, self-help groups, and village-level networks [13]. Foreign insurers entering India with technology platforms and capital resources will be expected to support these distribution architectures, rather than merely focusing on urban, high-income populations where margins are superior [5]. The creation of the Policyholders' Education and Protection Fund signals that consumer protection and market development are now institutional priorities, backed by dedicated funding streams rather than discretionary budgeting [3]. This reimagines the regulator's role from a passive licensing authority to an active market development agent, ensuring that liberalisation benefits reach populations that formal market mechanisms might ignore.

3.4. Risk-Based Capital Framework: Governance Alignment with International Standards

The transition to risk-based capital by 2025 will coincide with full FDI liberalisation, creating a dual governance challenge. Boards of insurance companies must simultaneously implement ownership restructuring (for M&A and consolidation transactions) and transitions to the solvency framework (from fixed to risk-based capital). This simultaneity creates implementation risks that will require careful project management and regulatory coordination. Under the RBC framework, capital requirements will be determined through sophisticated modelling of investment risk, underwriting risk, operational risk,

and market risk. Insurers will be required to conduct quantitative impact studies annually, calibrate their capital holdings to internal risk assessments, and report to IRDAI through standardised reporting formats [23]. For foreign insurers, this requirement aligns with international standards (Solvency II in Europe, the US RBC model), potentially enabling more efficient global capital management [8]. For domestic insurers, the transition will require investment in actuarial capacity, risk management systems, and compliance infrastructure. The governance implication is that the board's risk management and audit committees will assume heightened strategic importance [14]. The board cannot merely approve capital allocations; it must demonstrate an understanding of the risks that drive capital requirements, oversee the models used to calculate required capital, and ensure that senior management maintains effective controls over the risk factors embedded in the models [9]. This is a qualitative governance intensification that operates alongside the quantitative ownership liberalisation.

3.5. Implementation Challenges and Regulatory Sequencing

The full operationalisation of 100% FDI liberalisation requires completion of multiple regulatory steps. The Insurance Laws Amendment Bill, 2025, was passed by Parliament in December 2025 [22]. Still, the subsidiary rules—particularly the amended Indian Insurance Companies (Foreign Investment) Rules and the detailed governance guidelines—must still be notified in the Gazette of India [2]. The August 2025 draft amendments to the Foreign Investment Rules proposed eliminating most existing conditionalities. Still, the final rules (following statutory public comment periods and inter-ministerial coordination) will determine the precise form of the regulatory regime [11]. A secondary implementation challenge involves regulatory capacity. The IRDAI will need to enhance its supervisory frameworks to accommodate foreign insurers with complex group structures, offshore reinsurance arrangements, and sophisticated financial engineering [4]. The regulator's transition to risk-based supervision (from the current compliance-based model) requires investment in actuarial expertise, data analytics capability, and international regulatory coordination [8]. The regulator's recent statement that it is in "mid-development" of the RBC framework (as of late 2024) suggests that parallel implementation timelines may be necessary, with full RBC adoption potentially slipping beyond 2025 [9]. Applicant foreign insurers will face dual compliance pathways: submission of fit-and-proper documentation for IRDAI approval and compliance with Foreign Exchange Management framework requirements [19]. The fit-and-proper assessment for foreign insurance promoters/shareholders will evaluate financial strength, regulatory track record, integrity and reputation, competence and expertise, and commitment to India-focused operations [17]. IRDAI's approach to fit-and-proper assessment has historically been rigorous, and the increased ownership permission should not be read as a reduction in scrutiny of applicant credentials. If anything, the removal of ownership-based safeguards (such as joint-venture requirements) creates an incentive for more intensive fit-and-proper evaluation at entry [13].

4. Regulatory Safeguards and Policyholder Protection

4.1. Enhanced IRDAI Powers and Enforcement Mechanisms

The Insurance Laws Amendment Bill, 2025, substantially expands the IRDAI's enforcement toolkit, creating countervailing regulatory strength to match the ownership liberalisation [24]. The regulator is granted express authority to issue directions to insurance companies and intermediaries to disgorge gains obtained through regulatory breach—aligning it with SEBI's disgorgement powers [22]. This authority is significant because it means that enforcement outcomes are no longer limited to monetary penalties; they can also include the return of ill-got gains, thereby creating stronger ex ante deterrence against misconduct [4]. The Bill also enhances the regulator's investigative powers over intermediaries, expressly bringing brokers, agents, and managing general agents within the purview of IRDAI investigations [3]. This is particularly important given that intermediaries are often the most direct point of customer contact and the locus of mis-selling risk. By expanding supervisory reach, the Bill signals that customer protection will not be compromised by ownership liberalisation [7]. Importantly, the amended IRDAI Act includes a new provision establishing a formal Standard Operating Procedure for regulation-making, requiring that regulations be preceded by stakeholder consultation and that each regulatory requirement state clearly the rationale and expected impact [2]. This procedural innovation is designed to increase transparency and predictability in the regulator's rule-making, addressing long-standing industry complaints about opaque or retroactive regulatory changes. For boards of foreign-owned insurers, this means regulatory expectations will be clearer and more predictable, reducing the risk of surprise enforcement actions driven by unstated regulator preferences [11].

4.2. Solvency Safeguards and Capital Adequacy in a Liberalised Market

The solvency framework serves as the primary mechanism for policyholder protection in a fully open ownership environment [10]. The current 150% solvency ratio requirement is designed to ensure that insurance companies maintain substantial capital buffers above minimum claims-paying requirements. For foreign insurers, the solvency requirement serves as a constraint on dividend repatriation—boards cannot approve shareholder distributions if they would push the solvency ratio below the 150% threshold [13]. This effectively ties shareholder returns to operational success and policyholder protection. The transition to risk-based capital will refine solvency requirements by aligning capital needs with enterprise risk profiles. Insurers with

concentrated underwriting risk, significant asset concentration, or complex reinsurance structures will face higher RBC requirements than those with diversified portfolios [9]. This risk-sensitivity may particularly affect foreign insurers that initially enter India with concentrated product lines (e.g., motor insurance or corporate lines) and then gradually expand into diversified portfolios. The regulator's supervisory approach will monitor whether foreign insurers are managing capital accumulation strategically or instead maintaining minimal capital and extracting profits aggressively [8]. The IRDAI's statement that it will monitor solvency ratios quarterly and enforce corrective action plans if ratios fall below thresholds demonstrates that solvency supervision will remain actively enforced. An insurer operating at or near minimum solvency levels is subject to regulatory direction, potentially including restrictions on new business, mandated capital raises, and enhanced reporting requirements. This enforcement framework imposes practical constraints on shareholder-centric capital-allocation decisions.

4.3. The Policyholders' Education and Protection Fund

A significant innovation in the amended insurance laws is the establishment of a Policyholders' Education and Protection Fund dedicated to policyholder education, grievance-resolution support, and interest protection in defined circumstances [3]. The Fund is financed through:

- Annual allocations from the IRDAI's own revenue surplus (25% of annual surplus transferred to a Reserve Fund, from which the Policyholders' Fund is appropriated).
- Regulatory penalties imposed on insurance companies and intermediaries [24].
- Grants from the Central and State Governments as prescribed [19].

This structural innovation is significant because it creates an institutional mechanism for policyholder advocacy and protection that is independent of market forces [2]. In a competitive market where some insurers may exit or face financial distress, the Policyholders' Fund provides a safety net for education and grievance resolution. This is particularly important in a 100% FDI environment, where foreign-owned insurers may pursue short-term strategies or exit markets, potentially leaving policyholders without adequate support structures [5]. The Fund represents a regulatory acknowledgement that ownership liberalisation requires institutional innovation in consumer protection infrastructure. Rather than relying on domestic promoters to maintain reputational interest in policyholder service, the Fund establishes an independent institutional counterweight ensuring that consumer interests receive dedicated resources and institutional attention [7].

5. Conclusion: Synthesis and Implications for Stakeholders

The 100% FDI opening in India's insurance sector represents a comprehensive redesign of regulatory and corporate governance frameworks, not merely a quantitative increase in permitted ownership. The reform operates on multiple simultaneous tracks: it expands capital access, simplifies entry barriers for foreign investors, strengthens regulatory supervisory capacity, clarifies governance expectations, and establishes new institutional mechanisms for policyholder protection. For foreign investors, the elimination of joint-venture requirements and the simplification of ownership-related governance conditionalities substantially reduce entry friction and operational complexity. Greenfield entry is now possible without domestic partners, acquisition structures have clearer regulatory pathways, and consolidation with non-insurance entities offers strategic flexibility. However, the opening is contingent on compliance with an intensified regulatory framework that emphasises solvency adequacy, conduct standards, and market development obligations. Boards of foreign-owned insurers will operate under heightened supervision and must demonstrate alignment with India-specific regulatory expectations. For domestic insurers, the 100% FDI opening creates both a competitive challenge and a consolidation opportunity. Mid-tier domestic insurers face intensified competition from well-capitalised foreign entrants, but may find acquisition pathways attractive as foreign investors seek scale. The most successful domestic insurers will be those that leverage local market knowledge, distribution relationships, and regulatory relationships to compete on differentiation rather than price.

For policyholders and consumers, the reform offers the prospect of improved product choices, competitive pricing, and enhanced technological service delivery. However, realising these benefits requires active regulatory enforcement to ensure that liberalisation translates to broader market development rather than merely market concentration among foreign players. The Policyholders' Education and Protection Fund and enhanced IRDAI powers create an institutional infrastructure for managing these risks. For the regulator, the 100% FDI opening requires enhanced supervisory capacity, clearer regulatory frameworks, and more intensive monitoring of foreign insurers' compliance with governance expectations and market development obligations. The transition to risk-based capital frameworks and risk-based supervisory approaches will provide more sophisticated tools for monitoring foreign insurers' risk profiles. However, the regulator's success will depend on adequate resourcing, retention of actuarial expertise, and international coordination with foreign regulators overseeing the parent companies of foreign insurers operating in India. India's insurance sector's journey from 26% FDI (2001) through 49% (2015) to 74% (2021) and now to 100% (2025) demonstrates a carefully calibrated approach to liberalisation. Each stage has been accompanied by governance redesign, regulatory capacity building, and institutional innovation. This staged approach

reflects recognition that ownership liberalisation in a regulated financial sector cannot be divorced from governance architecture and supervisory capacity. The 100% FDI opening should therefore be read not as a sudden opening of the sector, but as the culmination of a two-decade process of deliberate, measured liberalisation calibrated to India's specific regulatory context and developmental objectives.

Acknowledgement: The authors gratefully acknowledge SRM Institute of Science and Technology at Kattankullatur for fostering a supportive research environment and providing essential resources for this work.

Data Availability Statement: The data supporting the findings of this study are available from the corresponding author upon reasonable request, subject to applicable ethical guidelines and confidentiality obligations.

Funding Statement: The authors collectively affirm that this research was conducted independently and did not receive any specific funding or financial support from public institutions, private organisations, or non-profit agencies.

Conflicts of Interest Statement: The authors declare that there are no competing interests, financial or otherwise, that could have affected the design, execution, or reporting of this study. All contributors have approved the final manuscript and agree with its submission.

Ethics and Consent Statement: The study was performed in accordance with recognised ethical principles. All participants were clearly informed about the nature and objectives of the research, and their participation was entirely voluntary. Informed consent was obtained from all participants, and strict measures were taken to maintain confidentiality and protect personal information.

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