Union Budget 2025

100% FDI in insurance industry

February 2025

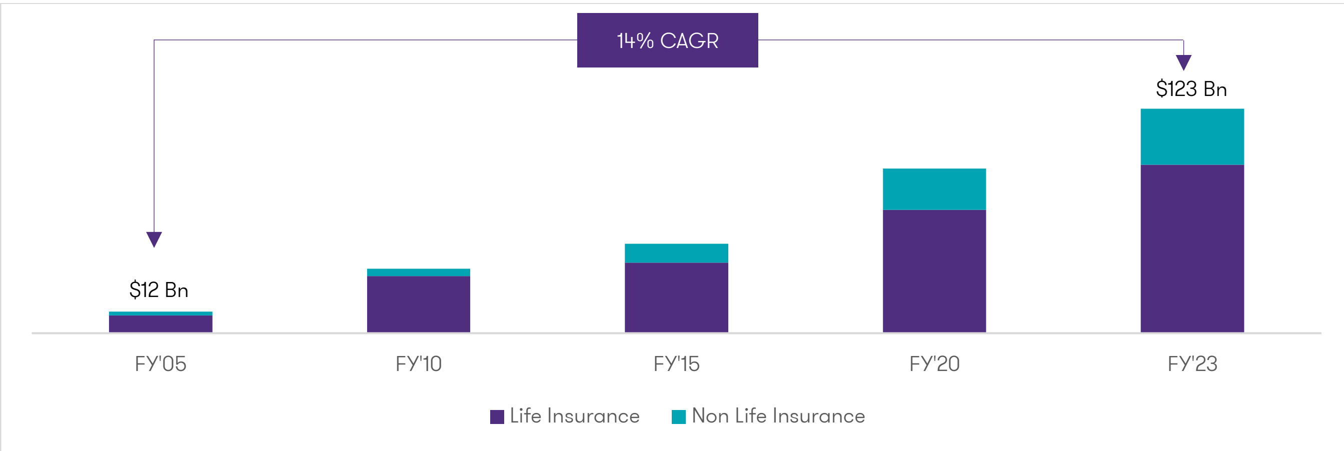
Recent announcement in India's Union Budget has brought about a landmark reform for the country's insurance sector. The government has announced to raise the FDI in insurance to 100%. This forward-looking move has the potential to bring in significant capital, global expertise, and innovative practices, which are vital for a capital-intensive industry like insurance. This may give insurers the wherewithal to digitally transform themselves and set off on the path to serve untapped markets. Industry leaders believe this reform could lead to a rise in the number of insurers, driving competition and, therefore, leading to the development of customer-centric and affordable insurance products, ultimately improving penetration and narrowing the protection gap.

The changing face of the Indian insurance landscape will be defined by digitally led, financially inclusive, and customer-focused market participants working towards the vision of 'Insurance for all by 2047.'

Looking for a head-start on the India insurance journey – what could your roadmap look like?

India is set to become the sixth largest insurance market by 2032, up from the 10th largest in 2021, as per the Swiss Re report*. Then, it would be only behind the US, China, the UK, Japan, and France. This confidence is driven by the sector's historical performance. From FY'05 to FY'23, the industry premiums have reflected a CAGR of 14% ^. The non-life insurance industry premiums have been growing at a higher CAGR of 16% during the same period, albeit the proportion to total premiums is 20%-25%. Balance, 75% premiums are contributed by the life insurance segment. Economic growth, an expanding middle class, innovation, and regulatory support are driving the insurance industry's growth in India.

Fig 1: Insurance market premiums from FY'05 to FY'23

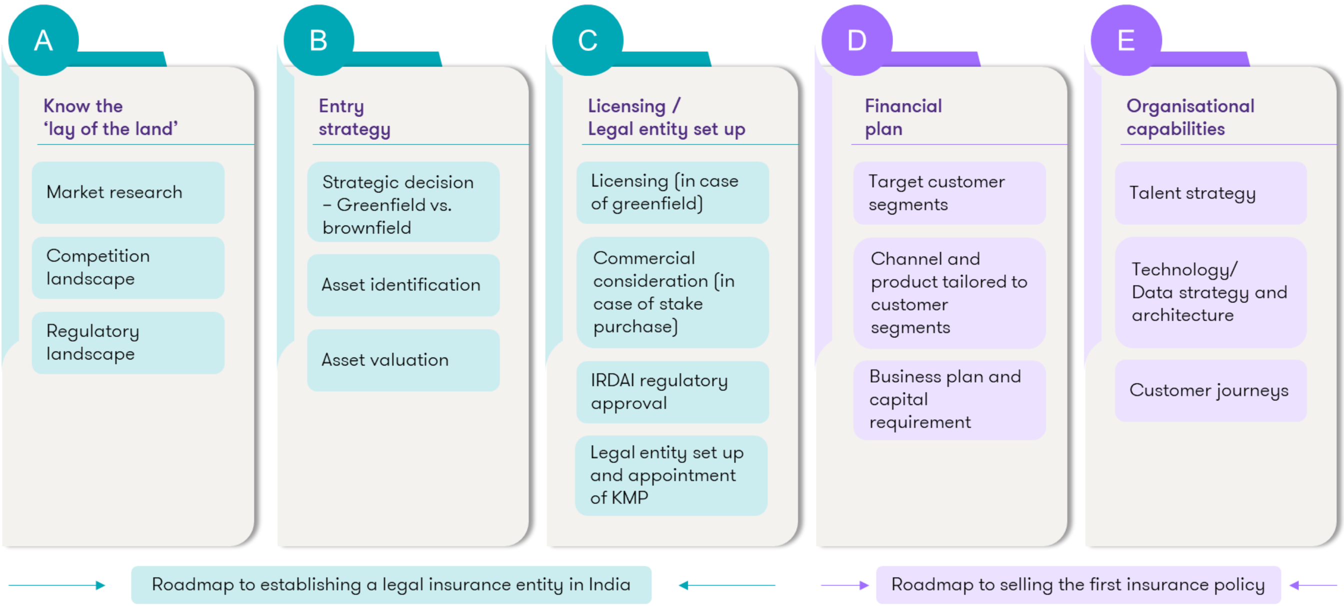


^ CAGR computed based on data available from the IRDAI Handbook and IRDAI Annual report. Premiums have been converted into dollars at $1= INR 85.

*India's Insurance market report by Swiss Re dated Jan 2023.

For those interested in exploring the Indian insurance market, there is no better time than now. Global investors keen to enter the market must lay down a plan to seize this opportunity presented by an increase in the FDI to 100%.

Fig 2: Illustrative roadmap to setting up an insurance organisation and selling the first policy



As global investors set out their strategic ambitions, one of the most critical decision points will be defining the entry strategy – whether greenfield or brownfield? A multitude of factors may influence this decision:

- Time to license vs. ease of acquisition
- Relevant asset availability vs. valuation
- Potential synergies vs. bespoke development of capabilities
- Scale of current revenue vs. investments for future growth, etc.

Market assessment, understanding of the competition landscape and regulatory environment will play a key role in facilitating the decision on the entry strategy for such investors. Those opting to enter the market with a fresh license will need to understand the requirements to register as an insurance company and, therefore, abide by the R1-R2 application process set out by the Insurance Regulatory and Development Authority of India (IRDAI). Global investors eager to enter the market by buying out an asset will need to thoroughly scan the market to decode various players' performance, geographic reach, target customer segments, technology, and data prowess, amongst other things that will influence the valuation.

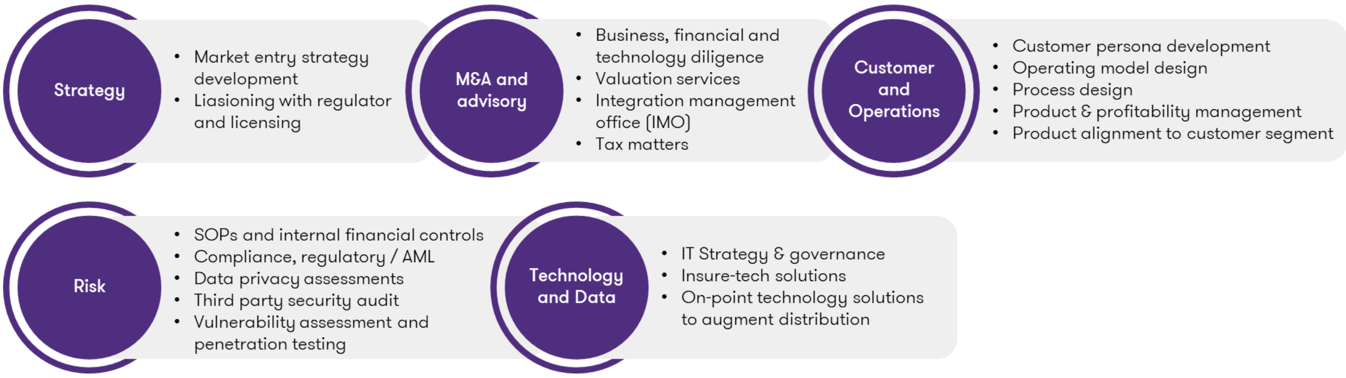
What are the distinctive features of the Indian insurance market that set it apart from global markets?

Indian distribution landscape is distinctive, given the regional variations across the country. India boasts of over 20 local languages used at scale, adding to the complexities of last-mile outreach. Cultural beliefs differ from region to region and are imperative to understanding customer sentiment and behaviour. India's middle class is steadily seeing an increase in its per capita income, thereby bulging the 'aspirers' category. With changes in tax slabs and exemptions, the disposable income of this class is set to get an impetus with a trickle effect on insurance sales.

Grant Thornton Bharat's role as your partner in this journey

Our professionals across various services have an insurance sector focus and have been working with market participants for the last two decades. Our A-Team is enabled to act as a strategic advisor to players interested in taking advantage of this budget announcement. Our ability to hand-hold and manage the implementation process sets us apart. Here is a view of our offerings: .

Fig 3: Key offerings of Grant Thornton Bharat that augment our capabilities to act as an end-to-end partner in your journey to setting up and starting in India



Conclusion

India's Insurance market is set to enter a new phase with this significant reform. This is an opportune time for strategic and financial investors looking to make a mark in the Indian insurance industry.

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