

Why global financial giants are rushing to buy Indian banks, and what's at stake

The banking sector was once considered as over-regulated and fragmented, but now it's emerging as one of the world's fastest-growing and most interesting destinations for long-term investment in financial services. Here is what has changed, and why.

Written by [George Mathew](#)

Mumbai | Updated: October 27, 2025 02:18 PM IST

🕒 9 min read

As Trusted
Source on 



A Rupee symbol installation outside the RBI HQ in Mumbai. (Express Photo: Amit Chakravarty)

At a time when India's net foreign direct investment has seen a sharp moderation, the country's financial landscape is in the midst of a transformation. Over the last 24 months, some of the world's biggest financial institutions — from Dubai's Emirates NBD to Japan's Sumitomo Mitsui Banking Corporation (SMBC), Blackstone, Zurich Insurance and Abu Dhabi's International Holding Company (IHC) — have lined up to acquire significant stakes in Indian banks, insurers and non-banking financial companies (NBFCs).

It was once a tightly protected sector, dominated by Indian promoters and conservative regulation. The sector is now witnessing a wave of global money flow. The latest in the series came on Friday, with Blackstone announcing the acquisition of a 9.99 per cent stake in Kerala-based Federal Bank.

Earlier in October, Dubai-based Emirates NBD announced a \$3 billion acquisition of a 60 per cent stake in RBL Bank, making it one of the largest foreign takeovers in India's financial sector. Just prior to this, Japan's SMBC acquired about 25 per cent in Yes Bank, investing over \$1.6 billion, and Zurich Insurance bought a 70 per cent majority stake in Kotak General Insurance for \$670 million. Abu Dhabi's International Holding Company also entered the fray with a nearly \$1 billion investment in Sammaan Capital (formerly Indiabulls Housing), an NBFC.

Blackstone Inc, the world's largest alternative asset manager, has acquired a minority stake of 9.99 per cent in Federal Bank Ltd for Rs 6,196 crore while Bain Capital will be investing Rs 4,385 crore to acquire an 18.0 per cent stake on a fully diluted basis via preferential allotment of equity & warrants in Manappuram Finance.

The Reserve Bank of India gave Canada-based Fairfax special approval to hold a majority stake in CSB Bank for five years, deviating from the normal 40 per cent foreign ownership cap, considering it a strategic revival investment.

While each of these deals is significant on its own, they signal something larger, like a global relook of India's financial sector and growth potential. The sector was once considered as over-regulated and fragmented, but now it's emerging as one of the world's fastest-growing and most interesting destinations for long-term investment in financial services. The regulator **RBI has also taken a positive, but cautious, stance** in allowing the entry of global entities.

According to McKinsey & Company, the banking industry is the largest sector in India by net income, generating \$46 billion in 2024, with a 31 per cent YoY growth. Higher profitability is

observed compared with the global average, with ample liquidity, strong capital levels and reduced credit risk.

India's revenue growth is expected to be healthy in both retail and wholesale banking as financial penetration deepens. "Despite strong performance, the banking sector is valued lower among industries, indicating market scepticism about long-term value creation," McKinsey said in its latest report on global banking.

Why foreign giants are diving in

India's financial services sector is expanding faster than major global economies with credit demand robust from small businesses, retail consumers and housing. On the other hand, the formal banking system is matching the country's economic growth. "Key factors that contribute to Indian banks' resilience include low exposure to tariff-hit sectors, deleveraging by companies and a focus on secured retail lending," S&P Global Ratings said.

India presents a vast, untapped and rapidly expanding financial market with over 400 million underbanked population, a vast informal credit system and a robust digital infrastructure enabling growth. Consumption is now expected to pick up following the GST rationalisation and reduction while credit offtake continues to grow.

India's economy is estimated to grow at 6.8 per cent, as per RBI estimates. "With several capital-easing measures taking effect in 2027, and the proposed materially easier offshore borrowing norms can further support total private sector credit growth over the next two years," Goldman Sachs said in a report.

What has helped is the fact that the Reserve Bank and the government have been gradually relaxing restrictions on foreign ownership in insurance and private banks. Insurance companies can now go up to 100 per cent foreign ownership, and private banks up to 74 per cent levels with approval from the respective regulators. Foreign portfolio investors (FPIs) hold 48.39 per cent stake in [HDFC Bank](#), the second largest bank in the country. On the other hand, there are no promoters in many private sector banks like Federal Bank and South Indian Bank.

The message is unmistakable, say analysts: that the financial sector welcomes capital, provided control and compliance stay under Indian regulation and it remains largely insulated from

global shocks. This measured liberalisation offers an ideal entry point for global banks and insurers facing stagnant growth in developed markets like Europe and the US.

Also, the past decade has seen significant stress in India's banking and NBFC sectors — from the collapse of IL&FS and DHFL to Yes Bank's rescue and a series of bad-loan cleanups.

The scenario has changed now with the clean-up in the financial sector initiated by the RBI and resolutions under the insolvency and bankruptcy code making headway. Many mid-sized private banks and NBFCs have been showing reasonable growth of late, making them potential takeover targets. "Our scenario analysis suggests that Indian banks can easily absorb potential slippages, making them primed for growth," said S&P Global Ratings credit analyst Geeta Chugh.

For global investors, this is an ideal scenario. While India's macroeconomic fundamentals remain strong, many entities are available at attractive valuation and acquiring them provides global players with immediate access to customers, licenses and branch networks. These things would take decades to build from scratch in a normal course. This is what has led to acquisitions by foreign players in the last two or three years.

Analysts say in Asia, India is the only large economy offering scale, political stability, vast consumer base and credible regulatory oversight. For overseas investors, India provides both geographic diversification and future profit potential in one package. There's no wonder sovereign wealth funds, pension funds, private equity funds and multinational banks are tempted to deploy capital in high-growth economies like India.

With China's financial system tightening and geopolitical risks like border conflicts and tariff tensions rising, India has emerged as the natural alternative for global capital.

"Indian banks are making a significant impact in the global banking industry, leveraging favourable macroeconomic conditions and digital transformation to drive innovation. However, despite their strong performance, India's financial penetration remains much lower than that of most other markets, indicating significant room for expansion," Renny Thomas, Senior Partner, McKinsey & Company said in the report.

What's at stake

While this inflow of foreign ownership reflects confidence in India, there are also risks involving trade and border conflicts. When a foreign institution takes a majority stake in an Indian bank or

insurer, control over strategic decisions gradually is likely to shift offshore. Even if regulation remains Indian, what the new owners bring in, especially in crisis situations, may not always align with domestic policy goals and regulations. This means Indian regulators like the RBI will have to put checks and balances to keep the system stable and liquid.

No doubt, foreign ownership can also make India's financial system vulnerable to global shocks. If global interest rates rise or liquidity dries up or trade tensions increase, these foreign entities might take decisions which are not favourable to Indian entities and regulators, putting strain on domestic credit flows. The fall of Lehman Brothers triggered the global financial crisis in 2008-09 with tremors reaching India though the country was largely insulated.

Further, domestic private banks and NBFCs already operate under tight capital and compliance norms and foreign-owned entities often have access to cheaper global funding and sophisticated risk management systems. This scenario could distort the playing field.

The RBI and the SEBI have so far been cautious, demanding fit-and-proper clearances, ownership disclosures and compliance with domestic capital adequacy norms. But as deals become larger and more complex, India will need a clearer framework on how much foreign control is adequate, though the RBI's word is now final in banking and financial sector acquisitions and mergers.

The need for capital in banking, insurance and credit delivery will only increase as the country's economy races toward a \$7 trillion GDP by early 2030. Foreign banks and financial giants like Blackstone view India as one of the few markets offering unparalleled advantages: vast population scale, extensive digital penetration, rising consumption and relative political stability. For these players, acquiring stakes in Indian banks is more than an investment. It's a long-term strategic bet on the world's most promising emerging financial powerhouse.

The test for India will be to ensure that this inflow strengthens its financial independence and stability.