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A Study on the Financial Sustainability of Public and Private Life Insurance Companies in India

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Abstract: Life insurance occupies a central place in India's long-term savings and social security architecture, and the financial sustainability of the insurers that underwrite this promise is therefore a matter of public interest as much as of corporate performance. This paper undertakes an empirical, ratio-based comparison of the financial sustainability of the Life Insurance Corporation of India (LIC), the sole public sector insurer, with a purposive sample of five leading private life insurers, using secondary data published by the Insurance Regulatory and Development Authority of India (IRDAI) and company disclosures for the period 2020-21 to 2025-26. Sustainability is operationalised through four indicators that jointly capture capital adequacy, persistency of business, claims-paying reliability and market competitiveness: the solvency ratio, the thirteenth-month persistency ratio, the claim settlement ratio and new business premium (NBP) market share. The analysis finds that both ownership groups comfortably exceed the IRDAI-mandated minimum solvency margin of 1.50, though private insurers report a marginally higher average solvency ratio than LIC; LIC, however, retains a decisive lead in market share and claims volume while private insurers outperform on persistency and grievance intensity. The study concludes that public and private life insurers in India are pursuing financial sustainability through distinct strategic pathways rather than converging on a single model, and it offers policy and managerial implications for regulators, investors and insurer management.

Keywords: Life insurance, financial sustainability, solvency ratio, persistency ratio, claim settlement ratio, LIC, IRDAI, public and private insurers, India.

1. Introduction

India's life insurance industry has evolved from a nationalised monopoly to a competitive market of twenty-four registered insurers since the sector was reopened to private and foreign participation in 2000 under the Insurance Regulatory and Development Authority Act, 1999. The Life Insurance Corporation of India (LIC), established in 1956, remains the dominant public sector player, while twenty-three private companies-many structured as joint ventures with global insurance and banking groups-compete across product segments ranging from traditional endowment plans to unit-linked and protection-oriented products. Despite more than two decades of liberalisation, insurance penetration in India remains modest at roughly 2.7 to 3.7 per cent of GDP and insurance density at about USD 72, well below the global average, underscoring both the scale of unmet protection needs and the importance of insurer solvency in meeting long-duration policyholder obligations.

Financial sustainability, in the context of a life insurer, is the ability to meet current and future policyholder liabilities while maintaining adequate capital buffers, generating stable earnings and retaining the trust of policyholders over multi-decade contract horizons. Because life insurance liabilities can extend forty years or more, short-term profitability is an incomplete measure of institutional health; regulators, analysts and policyholders instead rely on a cluster of prudential and behavioural indicators, most notably the solvency margin, persistency of renewal premiums, and the claim settlement record. The coexistence of a government-owned insurer with an implicit sovereign backing and profit-oriented private insurers subject to identical prudential norms offers a natural setting in which to examine whether ownership structure is associated with differences in financial sustainability.

This paper is motivated by that question. It draws on regulator-published statistics to compare LIC and a sample of major private insurers on indicators of capital adequacy, persistency, claims reliability and competitive position, and it interprets the resulting pattern in light of the differing business models, distribution architectures and regulatory histories of the two ownership groups.

2. Review of Literature

A substantial body of Indian research has examined the comparative performance of public and private life insurers using financial ratio analysis and multivariate techniques. Several studies applying the CARAMEL framework-covering Capital adequacy, Asset quality, Reinsurance, Actuarial soundness, Management, Earnings and Liquidity-have found that private insurers such as SBI Life and Max Life tend to score well on asset quality, management efficiency and profitability ratios, while LIC's scale advantages manifest in capital position and underwriting volume, with recommendations directed at private insurers to strengthen liquidity for timely liability discharge.

Studies using Data Envelopment Analysis (DEA) to evaluate LIC's cost efficiency and returns to scale have generally found LIC operating with economies of scale attributable to its vast distribution network, though efficiency gains have not always translated into proportionate profitability. Comparative work using Analytic Hierarchy Process (AHP) and TOPSIS methods to rank insurers on multi-criteria financial performance has similarly found no single insurer dominating across all dimensions, with rankings sensitive to the relative weight assigned to growth, solvency and profitability criteria. More recent factor-analytic and clustering studies of the top ten private life insurers, using solvency ratio, premium growth, claim settlement ratio, persistency ratio and expense ratio as inputs, have identified two latent performance dimensions explaining roughly three-quarters of total variance, suggesting that private insurer performance can be meaningfully summarised through a small number of underlying financial factors.

A separate strand of literature has focused specifically on LIC's transition following its 2022 initial public offering, comparing its solvency, persistency and value-of-new-business margins against the top three private insurers; this work has generally found LIC trailing private peers on persistency and new business margins while leading decisively on scale, premium volume and asset base. Taken together, the literature converges on the view that public and private insurers in India are not straightforwardly ranked as superior or inferior to one another but instead exhibit different strengths depending on the sustainability dimension examined-a conclusion this study revisits with updated post-pandemic and post-IPO data.

3. Research Gap

Much of the existing comparative literature is either dated (predating LIC's 2022 listing and the post-pandemic normalisation of persistency trends) or restricted to a single sustainability dimension, such as profitability or efficiency alone. Few recent studies simultaneously examine capital adequacy, persistency, claims reliability and competitive position for the same set of insurers over a common recent period using regulator-verified data. This study addresses that gap by assembling a multi-indicator, post-IPO dataset (FY 2020-21 to FY 2025-26) that allows a more current and rounded assessment of comparative financial sustainability.

4. Objectives of the Study

- To examine and compare the solvency position of LIC and selected private life insurers in India over the study period.
- To assess and compare persistency ratios as an indicator of policyholder retention and business quality across ownership groups.

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● To evaluate the claim settlement performance of public and private life insurers as a measure of policyholder trust and operational reliability.

● To analyse trends in new business premium market share and grievance intensity as indicators of competitive and service sustainability.

● To draw inferences on whether ownership structure (public versus private) is associated with a distinct pattern of financial sustainability in the Indian life insurance industry.

5. Research Methodology

5.1 Research Design

The study adopts a descriptive-analytical and comparative research design based entirely on secondary data. It is empirical in the sense that its conclusions are derived from observed, quantifiable regulatory and financial indicators rather than from theoretical reasoning alone.

5.2 Sample and Period of Study

The sample comprises the Life Insurance Corporation of India (public sector) and five leading private life insurers selected on the basis of market share and data availability: HDFC Life Insurance Company, SBI Life Insurance Company, ICICI Prudential Life Insurance Company, Bajaj Allianz Life Insurance Company and Max Life Insurance Company. The study period spans the financial years 2020-21 to 2025-26 (with the most recent figures corresponding to data available up to the December 2025 quarter), allowing the analysis to capture both the pandemic-recovery phase and the period following LIC's May 2022 stock market listing.

5.3 Sources of Data

Data have been compiled from secondary sources, principally the IRDAI Annual Report 2024-25, the IRDAI Handbook on Indian Insurance Statistics (editions 2022-23 to 2024-25), IRDAI's New Business Premium reports, and individual insurers' published annual reports and investor disclosures. No primary data collection was undertaken.

5.4 Tools of Analysis

The study relies on comparative ratio analysis and trend analysis of four indicators widely used in Indian insurance research and by the regulator itself to signal financial sustainability:

● Solvency Ratio - available solvency margin divided by required solvency margin; IRDAI mandates a minimum of 1.50.

● Persistency Ratio (13th month) - the proportion of policies (by premium) still in force one year after issuance, indicating retention quality.

● Claim Settlement Ratio - the proportion of individual death claims settled during the year, indicating claims-paying reliability.

● New Business Premium (NBP) Market Share and Grievance Ratio - indicating competitive position and service-quality sustainability.

5.5 Hypotheses

H01: There is no significant difference in the solvency position of public and private life insurers in India.

H02: There is no significant difference in the persistency ratio of public and private life insurers in India.

H03: There is no significant difference in the claim settlement ratio of public and private life insurers in India.

5.6 Limitations

The study is based on secondary, insurer-reported and regulator-aggregated data rather than audited primary financial statements; it does not independently verify company disclosures. The private sector sample, while covering the largest players by premium, is not exhaustive of all twenty-three private insurers. Ratios are point-in-time or period-average figures and may not capture intra-year volatility.

6. Data Analysis and Interpretation

6.1 Solvency Ratio: Public versus Private

The solvency ratio is the primary regulatory gauge of an insurer's capacity to meet policyholder obligations. Table 1 presents the trend in LIC's solvency ratio alongside the most recent reported ratios of the sampled private insurers.

Insurer	Ownership	Solvency Ratio - Mar 2021	Solvency Ratio - Mar 2025	Latest Available (2025-26)
LIC	Public	1.76	2.11	2.19 (Dec 2025)
ICICI Prudential Life	Private	2.00*	2.15	2.27 (Dec 2025)
SBI Life	Private	2.12*	1.91	1.90 (Dec 2025)
HDFC Life	Private	1.90*	1.80	1.80 (9M FY26)
Bajaj Allianz Life	Private	-	-	5.16
Private sector average	Private	-	-	2.26
IRDAI minimum requirement	-	1.50	1.50	1.50

*Figures for Sep 2021 used as nearest available proxy for FY21 for these three private insurers.

Source: IRDAI Handbook on Indian Insurance Statistics (2022-23 to 2024-25); IRDAI Annual Report 2024-25; company quarterly disclosures; Gyansurance IRDAI-data compilation.

LIC's solvency ratio improved markedly from 1.76 in March 2021 to 2.19 by December 2025, a rise attributable in part to the capital infusion and reporting discipline that accompanied its 2022 listing. The private sector average solvency ratio of 2.26 is marginally higher than LIC's, but both ownership groups operate comfortably above the 1.50 regulatory floor, and no major insurer in the sample is within a material distance of the minimum requirement. This suggests that, on the capital-adequacy dimension, ownership structure does not translate into a meaningful sustainability gap: both public and private insurers appear prudently capitalised.

6.2 Persistency Ratio: Retention and Business Quality

Persistency reflects whether policyholders continue paying premiums after the first year, and is widely regarded as a proxy for the quality of underwriting and distribution.

Indicator	LIC (Public)	Private Sector
13th-month persistency ratio (FY 2024-25)	64.12%	76.31%
Typical dominant distribution channel	Tied agency network	Bancassurance / digital
Historical strength	Higher persistency in traditional, agent-serviced products	Auto-debit/bancassurance aids renewal discipline

Source: IRDAI Handbook FY 2024-25, as compiled in Gyansurance LIC-vs-private comparative analysis.

Private insurers report a persistency advantage of roughly twelve percentage points over LIC at the thirteenth month, a gap generally attributed to bancassurance-linked auto-debit renewal mechanisms and a more urban, salaried customer base with steadier repayment capacity. LIC's lower persistency is concentrated in agent-distributed policies sold in semi-urban and rural markets, where affordability constraints and product-suitability issues are more likely to disrupt renewal behaviour. This indicates that, unlike solvency, persistency is an area where private insurers currently demonstrate a measurable sustainability advantage.

6.3 Claim Settlement Ratio: Reliability of the Core Promise

Insurer	Ownership	Individual Death Claim Settlement Ratio (FY 2024-25/25-26)
LIC	Public	98.35% - 98.63%
HDFC Life	Private	99.71%
Bajaj Allianz Life	Private	99.29%
Aditya Birla Sun Life	Private	98.65%
Axis Max Life	Private	99.80%

Source: Company disclosures and industry compilations (Inventiva, Onsurity, Axis Max Life), based on IRDAI-reported claims data, FY 2024-26.

Both LIC and the sampled private insurers report claim settlement ratios above the 98 per cent threshold generally regarded in the industry as indicative of high reliability, with several private insurers marginally ahead of LIC. Because LIC settles a substantially larger absolute volume of claims than any private insurer, its slightly lower percentage still represents strong operational performance at scale; when grievance data are considered on a per-claim basis, LIC's complaint intensity is in fact lower than the private sector's despite handling roughly five times the claims volume, and LIC closed FY 2024-25 with a zero unresolved-grievance balance compared with 554 unresolved complaints outstanding across the private sector.

6.4 Market Share and Competitive Sustainability

Period	LIC NBP Market Share	Private Sector NBP Market Share
Q3 FY23 (peak for LIC)	68.25%	31.75%
Q1 FY24	61.42%	38.58%
Q4 FY24	59.59%	40.41%
Q1 FY25	64.02%	35.98%
FY 2025-26 (approx.)	~68.6%	~31.4%

Source: IRDAI New Business Premium data as reported by Business Standard (2024) and Inventiva (2026).

LIC's new business premium market share has fluctuated in a band of roughly 59 to 68 per cent over the study period, dipping when private insurers-particularly SBI Life and HDFC Life-gained ground following regulatory changes, and recovering thereafter on the strength of group business. This volatility indicates that LIC's dominant market position, while durable, is contestable at the margin, and that private insurers' competitive gains have been real rather than merely nominal.

7. Findings

- Both LIC and the sampled private insurers maintain solvency ratios well above the IRDAI-mandated minimum of 1.50, with the private sector average (2.26) marginally exceeding LIC's latest ratio (2.19); capital adequacy is therefore not a meaningful point of differentiation between the two ownership groups.
- Private insurers exhibit materially higher 13th-month persistency (76.31%) than LIC (64.12%), pointing to a retention advantage linked to bancassurance and digital distribution.
- Claim settlement ratios are high (98%+) across both groups, with private insurers marginally ahead on percentage terms but LIC demonstrating strong reliability at a much larger claims volume and a superior grievance-resolution record.
- LIC retains a dominant but fluctuating share of new business premium, indicating durable but contestable market leadership.
- On balance, the evidence does not support rejecting sustainability for either ownership group; rather, it points to a differentiated model in which LIC's sustainability rests on scale, capital strength and reach, while private insurers' sustainability rests on retention quality, distribution efficiency and marginal profitability metrics.

8. Suggestions

- LIC should continue to strengthen persistency, particularly in agency-distributed rural and semi-urban segments, through improved product suitability assessment and renewal-payment digitisation.

- Private insurers, several of which report solvency ratios closer to the regulatory floor than LIC's post-IPO position, should continue to build capital buffers ahead of the transition to India's new Risk-Based Capital (RBC) framework effective April 2026.
- Regulators may consider persistency-linked disclosure norms and continued monitoring of grievance-to-claims ratios as complementary indicators of sustainability alongside solvency.
- Future empirical work should incorporate insurer-level primary financial statements and apply multivariate techniques (e.g., DEA, CARAMEL, or panel regression) to a broader private-insurer sample as RBC-era data becomes available.

9. Conclusion

This empirical comparison of LIC and leading private life insurers in India across solvency, persistency, claim settlement and market-share indicators for the period 2020-21 to 2025-26 finds no evidence that either ownership structure is systematically more financially sustainable than the other. Both public and private insurers operate with solvency margins comfortably above regulatory minimums, and both report high claim settlement reliability. Where differences do emerge, they are dimension-specific: private insurers currently lead on persistency and marginally on solvency and claim percentages, while LIC leads on absolute scale, market share and grievance-resolution efficiency. The Indian life insurance industry, over two decades after liberalisation, therefore appears to support two financially sustainable but structurally distinct models of insurance provision, and continued regulatory convergence under the forthcoming Risk-Based Capital regime is likely to narrow rather than widen this gap in the years ahead.

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