

Life Insurance Premiums Poised for a Long-Term Growth Path



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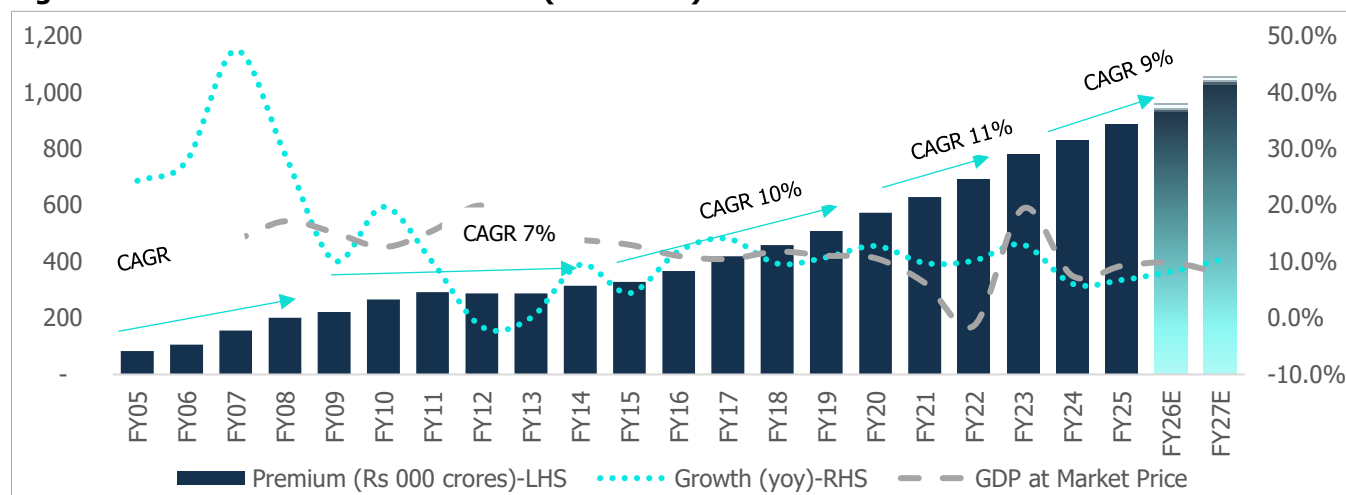
Synopsis

- The Indian life insurance sector has witnessed substantial growth, achieving a CAGR (Compound annual growth rate) of around 13% in the last two decades, aligned with GDP (Gross Domestic Product) growth at market prices, which averaged about 12.4% over the same period. This growth has been fuelled by an increase in group insurance products, alongside product innovation, personalised offerings, and the development of strong distribution channels in the individual insurance segment.
- India remains an underpenetrated insurance market, with an insurance penetration rate of 2.80% in 2023, as against the developed countries of 5.65%. Additionally, the country's insurance density stood at \$70 in 2023, significantly lower than that of developed and emerging-market economies.
- The number of lives covered by insurance in India has increased significantly, rising from about 15 crore in FY15 to nearly 40 crores in FY25, driven largely by group and credit-linked business. However, structural gaps such as low sum assured leave both mortality and longevity risks inadequately addressed. While policy renewals have improved in FY25, lasting benefits will come from offering adequate protection and reliable retirement income, rather than merely increasing the number of people covered.
- The life insurance sector has entered a phase of regulatory stability, with recent reforms aimed at expanding customer access, improving governance, and enhancing transparency. Key measures include GST exemption, revised surrender value norms, risk-based solvency, Bima Sugam and the upcoming IFRS 17 transition. While some changes may pressure margins in the near term, the overall impact is structurally positive for long-term growth and insurance penetration.
- The life insurance sector is quite concentrated, with the top five players maintaining over 85% of the total premium market share, with the remaining insurers forming a long tail. The gap between India's insurance density and penetration levels relative to Asian and global averages underscores substantial growth opportunities. Life insurance continues to dominate the Indian insurance market, accounting for nearly 74% of total premiums in FY25, significantly higher than the global average of 41%.
- The distribution landscape has evolved from an agency-dominated model to a diversified mix, with bancassurance gaining prominence and digital channels gaining in importance. In the group business segment, direct selling remains the largest distribution channel. Meanwhile, in the individual business, the agency channel continues to lead, and bancassurance, which has expanded, increasing its market share from 6% in FY07 to 32% in FY25.
- CareEdge expects the life insurance industry continue to grow between 8%-11% for FY26 and FY27, driven by group products, individual pension, and life cover products, along with supportive regulations, rapid digitalisation, effective distribution, and improving customer services.

Favourable Macroeconomic Set the Stage for Prolonged Growth Trajectory

In India, the life insurance segment continues to dominate the domestic insurance industry, accounting for 74% of total premiums in FY25, with total premiums reaching Rs 8.85 lakh crore. Over the last two decades (FY05-FY25), LIC's premiums grew at a CAGR of 9.8%, while private insurers grew faster at 21.7%.

Figure 1: Life Insurance Total Premium (000' crore)

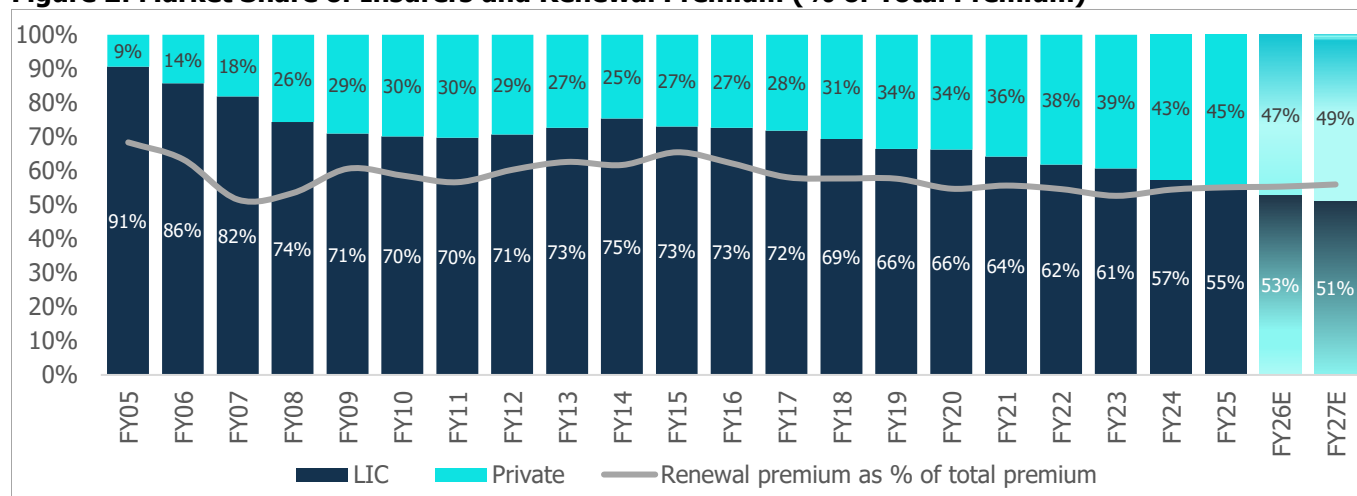


Source: IRDAI, Company filings, CMIE

India's life insurance penetration remains modest at 2.8% in FY23, compared with an average of 5.6% across developed economies, highlighting significant headroom for expansion. Based on the CareEdge base-case scenario, nominal GDP growth is projected at approximately 8% and 10.5% for FY26 and FY27, respectively. Using GDP at market prices, total life insurance premiums are projected to grow aligned with the GDP growth rate during FY26 and FY27, reflecting a positive long-term outlook for the sector, with incremental growth expected from the protection, non-participating (NPAR), and annuity segments. Furthermore, the waiver of GST on individual life insurance policies, the launch of the Bima Sugam platform, and a diversified product portfolio supported by a strong distribution network are expected to strengthen industry growth prospects.

Private Insurers Increase Their Market Share

Figure 2: Market Share of Insurers and Renewal Premium (% of Total Premium)

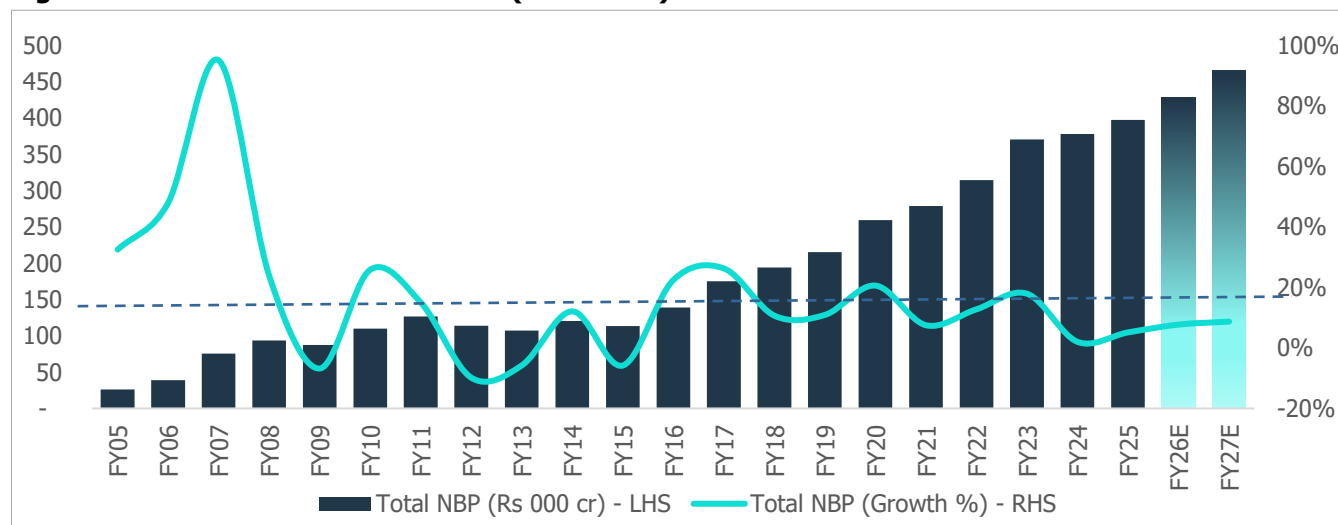


Source: IRDAI, Company filings

Over the past two decades, the share of renewal premiums in total premiums has declined from about 68% in FY05 to the low-50% range and has remained broadly stable at 53–55% for the last three years. This reflects a steady balance between new premium inflows and renewals. LIC continues to dominate renewal premiums, which accounted for 54% of its total premiums in FY25 and grew 10% y-o-y, while LIC alone contributes over half of industry renewal premiums. Excluding single premiums, recurring premiums have consistently accounted for approximately 78–80% of total premiums over the past decade.

New Business Performance Poised for Steady Growth as Regulatory Overhang Eases

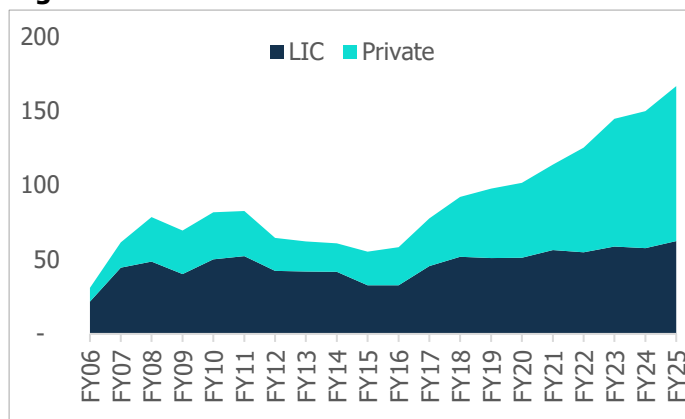
Figure 3: New Business Performance ('000 crore)



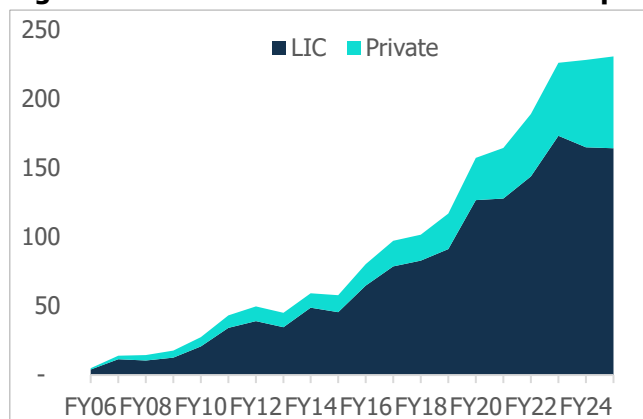
Source: IRDAI, Company filings

New Business Premium (NBP) has expanded sharply over the long term, rising from RS 0.26 lakh crore in FY05 to Rs 3.71 lakh crore in FY23, before moderating to low-single-digit growth in FY24–FY25 amid regulatory adjustments and a high base. LIC remains the central pillar of the life insurance market, given its scale and stability, while rising private-sector participation has supported overall industry growth. Going forward, NBP is expected to grow by approximately 7%–10% in FY26 and FY27. In the near term, premium growth may remain volatile, but it is projected to stabilise and recover in the medium term as recent regulatory changes become more favourable for customers. The key factors influencing NBP growth include revisions to policy structures governing sum assured and commission payouts under the new surrender value guidelines, market volatility, and intensifying competition.

Private Sector Growing Faster in Individual Businesses, while LIC Dominates the Group business

Figure 4: New Business Performance – Individual


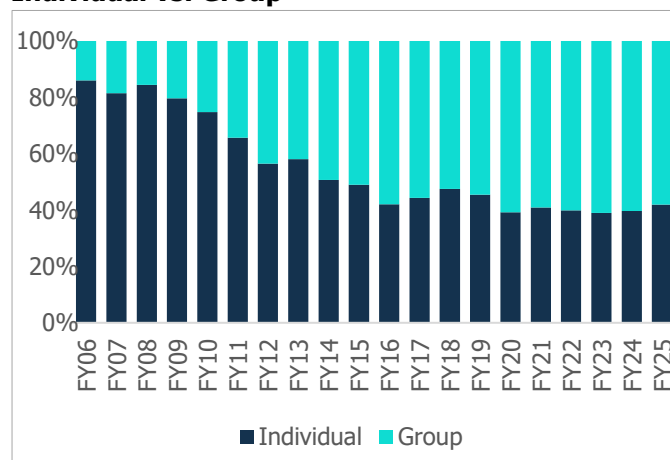
Source: IRDAI, Company filings

Figure 5: New Business Performance – Group


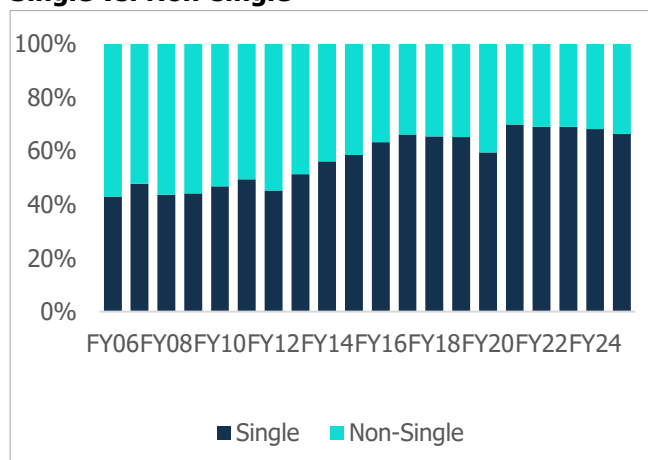
Aggregate individual premium reached Rs 1.66 lakh crore in FY25, up from Rs 0.31 lakh crore in FY06, with a CAGR of 9.3%. Within this, LIC's individual premium rose to Rs 0.62 lakh crore in FY25, reflecting steady growth at a 5.7% CAGR, anchored by its strong presence in traditional savings products. Private insurers, benefiting from a lower base, reported a significant increase to Rs 1.04 lakh crore (CAGR of 13.6%), driven by broader product diversification, increased use of alternative distribution channels, and more targeted customer-acquisition strategies.

Aggregate group premium reached Rs 2.30 lakh crore in FY25, up from Rs 0.05 lakh crore in FY06, with a CAGR of 22.3%. Of this, LIC accounted for Rs 1.64 lakh crore in FY25 (CAGR of 21.7%). Private companies had a premium of Rs 0.66 lakh crore in FY25 (CAGR of 24.3%). Both LIC and private insurers reported strong double-digit CAGR growth in the group segment, with private insurers outpacing LIC by a marginal margin.

Rising Dominance of Group and Single-Premium Policies with Gradual Individual Segment Recovery

Figure 6: New Business Performance – Individual vs. Group


Source: IRDAI, Company filings

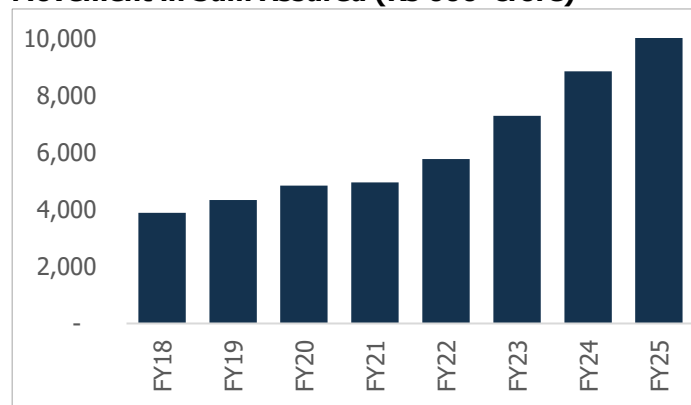
Figure 7: New Business Performance – Single vs. Non-single


In the early years of the period, individual policies accounted for a significant share of new business premiums, reflecting the dominance of traditional, retail-focused sales models. However, over time, the business mix has shifted markedly in favour of the group. While the group segment showed muted growth of just 1% in both FY24 and FY25, individual premiums improved to 11% growth in FY25 from 4% in FY24, enabling the segment to maintain its market share. However, it remains smaller than the group business.

The share of single-premium policies has consistently increased over the years, surpassing that of non-single-premium policies, which previously held a larger share in FY06. The share of single-premium policies increased from 43% in FY06 to 66% in FY25. The private sector holds a larger share in the non-single sub-segment (individual premiums), while LIC continues to dominate the single premium sub-segment, particularly in group business. Pension plans, General Annuities, and Group Gratuity Schemes constitute a significant portion of the group business, whereas General Annuity plans predominate in individual single-premium business.

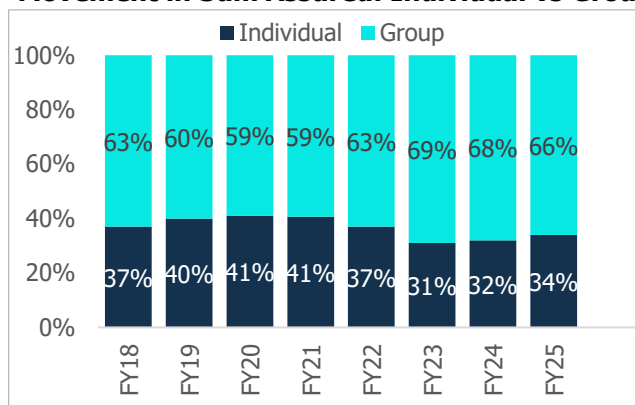
Dominance of Group Policies in Life Insurance Sum Assured Growth

Figure 8: New Business Performance – Movement in Sum Assured (Rs 000' crore)



Source: IRDAI, Company filings

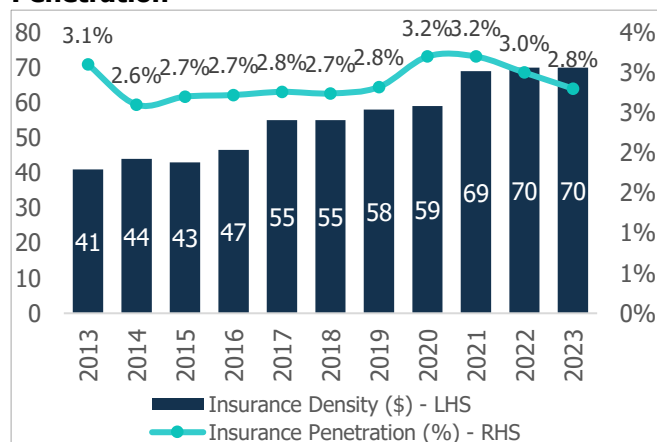
Figure 9: New Business Performance – Movement in Sum Assured: Individual vs Group



The life insurance sector has shown strong growth in new business sum assured, reaching Rs 102.6 lakh crore in FY25, a 16% increase over FY24. While group business continues to dominate, accounting for around two-thirds of the total sum assured in FY25, the share of individual business has increased modestly to 34% after dipping in FY23-24.

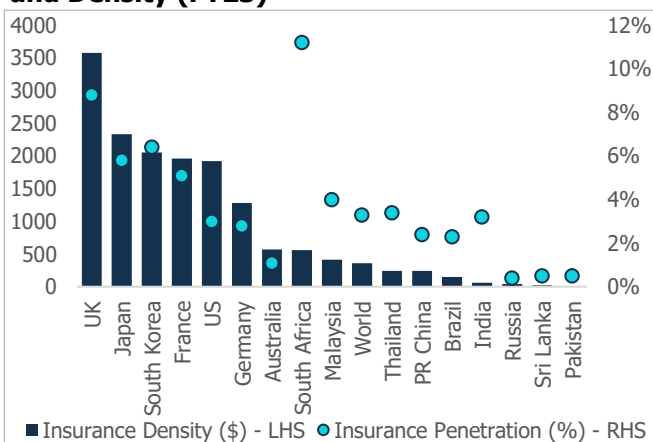
Long-Term Upside Supported by Macros

Figure 10: Life Insurance: Density and Penetration



Source: IRDAI

Figure 11: Global Life Insurance Penetration and Density (FY23)



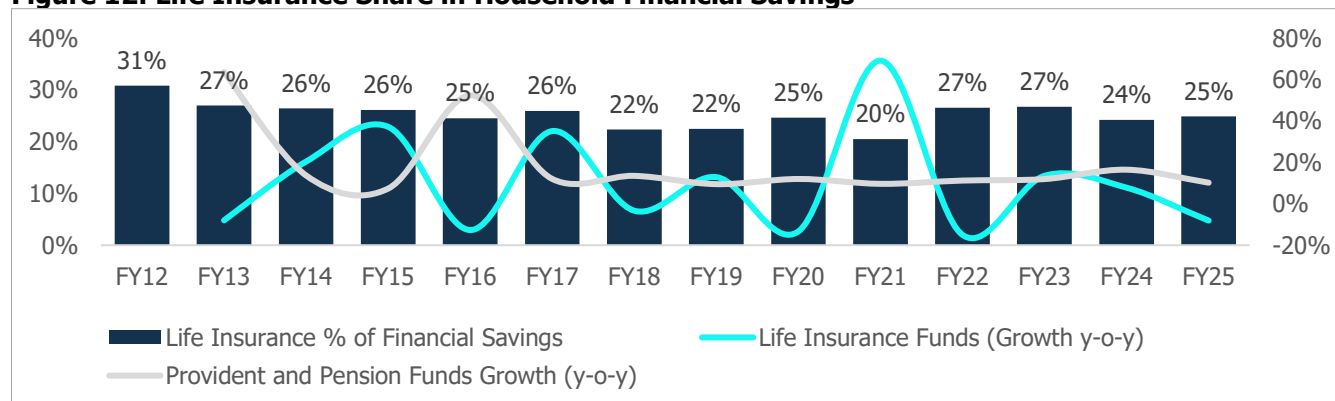
Life insurance penetration and density in India remain well below global benchmarks, at 2.8% and \$70 in FY2023, compared with averages of 5.6% and \$3,182 in developed markets. This wide gap underscores the substantial headroom for growth. As the regulatory environment becomes more conducive (the GST exemption is expected to support long-term growth), players are moving toward a more diversified product and distribution mix. Regulatory shifts have also impacted commission structures and operational flexibility, prompting insurers to recalibrate their strategies. However, some normalisation can be anticipated in FY26, which could restore stability and encourage further innovation in product offerings and distribution models.

India's Demographic Dividend: A Structural Growth Driver for Life Insurance

India's population pyramid, marked by a large and young working-age group, aligns well with the demographic dividend, creating a long period for steady income and savings growth. As more young individuals enter into formal employment, life insurance demand is likely to rise, driven by the need for basic protection and disciplined savings. Early adoption of life insurance helps first-time earners build financial security while familiarising them with long-term products. Over time, this expands insurance coverage across income groups and improves overall penetration. As the population ages, continued participation in pension and annuity products sustains engagement with life insurance across life stages.

Life Insurance Share Broadly Stable

Figure 12: Life Insurance Share in Household Financial Savings



Source: IRDAI, RBI, MOSPI

Household and financial savings have increased steadily over the period. Life insurance funds have grown over the long term, though with noticeable y-o-y variation, including a significant rise in FY21 followed by some moderation. Over time, life insurance's share of financial savings has stabilised at around 20%, following a slight increase in FY22–FY23. In contrast, provident and pension funds have expanded consistently, with relatively steady annual growth. Their rising balances indicate a growing preference for long-term retirement savings, while life insurance continues to play a steady but smaller role in overall household savings.

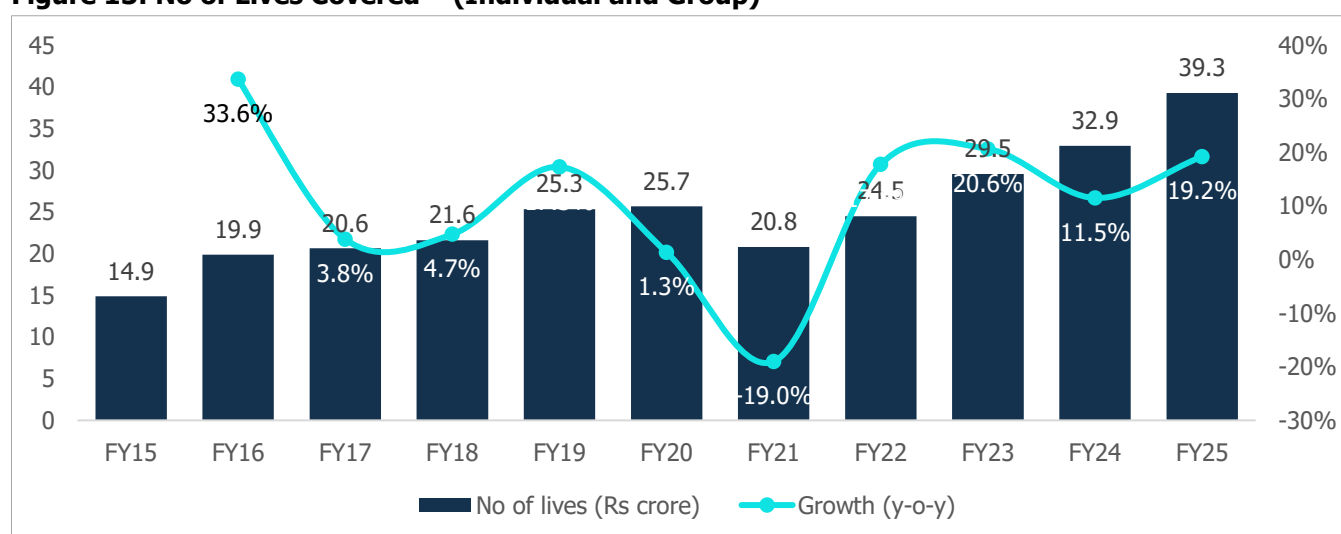
Non-Par Products Continue to Lead the Indian Life Insurance Market:

- Over the past five years, total life insurance premiums have been consistently split between par and non-participating (non-par) products, with par products consistently decreasing and accounting for approximately 40% in FY25, as against non-par, which stands at 60%.
- Private insurers have steadily increased their share in linked products, rising from 17% in FY15 to 34% in FY25. In comparison, LIC's share declined from 83% to 66% during the same period, attributed to the strong bancassurance channel and rising investor appetite for market-linked returns, while LIC's focus on traditional savings products limited its growth in this segment.
- In the non-linked segment, LIC's share fell from 5% in FY15 to 1% in FY20 before rebounding to 5% in FY25, with private players capturing the remaining 95%.
- Traditional life products, contributing nearly 65% of non-linked premiums for a decade, whereas pension plans gained traction from 17% in FY15 to 24% for the past 5 years, continue to offer guaranteed returns.

Unit-linked products, accounting for around 12% of total premiums, have remained broadly stable over the past five years. Steady growth in ULIPs reflects balanced investor sentiment, rising equity market participation, and inflows, while continued preference for guaranteed and traditional products during periods of uncertainty offsets major shifts. Additionally, ULIPs faced challenges from stock market volatility and lower margins.

Opportunity to Deepen Protection Across a Growing Insured Base

Figure 13: No of Lives Covered – (Individual and Group)



Source: IRDAI, Company filings, Note: The number of lives covered is computed based on business in force

The increase in lives covered from 14.9 crore in FY15 to 39.3 crore in FY25 underscores the steady broadening of insurance reach in India, driven largely by group insurance, credit-linked covers, and mass protection schemes. Following a strong expansion phase through FY20, the COVID-19-Induced disruption in FY21 exposed the industry's dependence on group business, resulting in a sharp contraction in covered lives. The subsequent recovery has been robust, with FY25 marking a new structural high, well above pre-pandemic levels. Much of the additional lives covered continue to carry low sum assureds and short-term protection, thereby limiting the absolute economic security provided.

Significant Headroom Remains for Life, Pension and Annuity Coverage

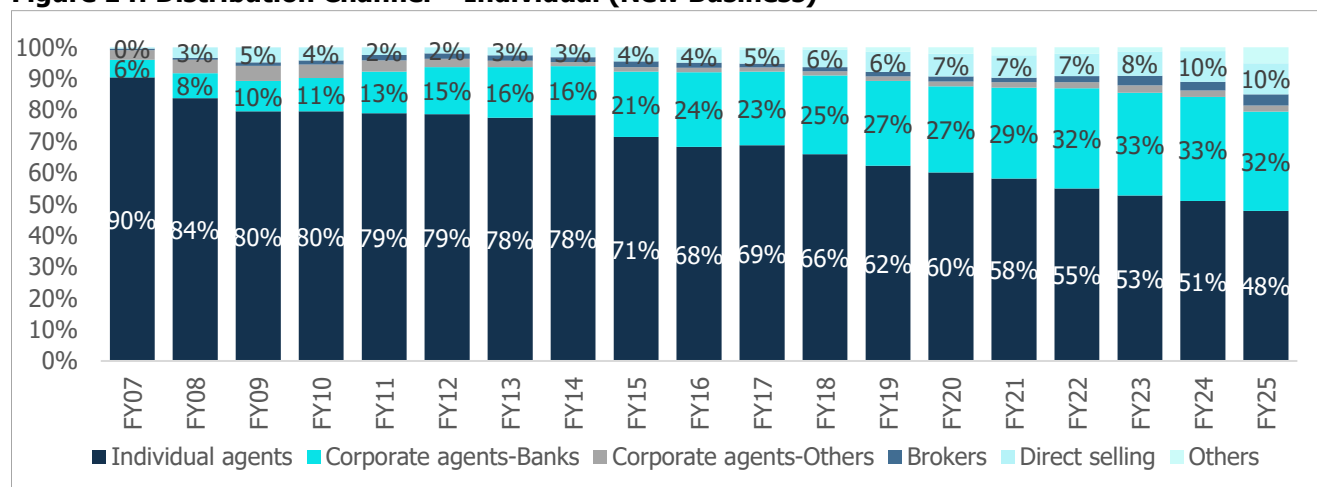
Despite covering nearly 40 crore lives, India remains significantly under-insured for old-age income security. Pension and annuity penetration is still low, with retirement products largely confined to organised-sector employees and higher-income self-employed individuals. Most insured lives lack a guaranteed post-retirement income stream, leaving longevity risk largely unaddressed. This gap is further accentuated by India's youthful demographic profile, in which a large proportion of the working-age population remains under-penetrated by long-term retirement products due to low awareness, delayed financial planning, and a preference for short-term savings. With rising life expectancy, limited social security, and a young workforce that has yet to plan for retirement adequately, life insurers are well-positioned to bridge both the mortality protection and retirement income gaps.

Additionally, although the number of lives covered has risen substantially, the mortality protection gap remains substantial, as many policies have low sum assured, often limited to short durations. Most insured lives lack guaranteed post-retirement income, highlighting a pension gap and unaddressed longevity risk. Group and term insurance have expanded coverage, but the quality of protection is limited. Low sum assured and lack of annuitisation mean retirees face income insecurity, even if insured. Achieving true insurance adequacy requires providing a higher sum assured during the working years and ensuring it translates into lifelong pension or annuity income. Going forward, the industry must prioritise bridging both mortality and retirement income gaps, rather than merely expanding the number of lives insured.

Bancassurance Strengthens Amid Digital Disruption Reshaping Distribution

Marketing insurance services is critical and complex due to their periodicity, claims, and brand-switching costs, which affect buying behaviour. Consequently, distribution is a key determinant of success for insurance companies. A variety of distribution channels are currently used to sell insurance products. The sector is shifting from predominantly agent-led sales to a multi-channel model, with digital platforms driving disruptive change in how customers purchase insurance. Initiatives such as Bima Sugam facilitate policy management, improve transparency and access, and help insurers reach more customers efficiently.

The Group's business is dominated by the direct selling channel, which accounts for approximately 85% of new business premiums. At the same time, individual businesses see a variety of channels.

Figure 14: Distribution Channel – Individual (New Business)

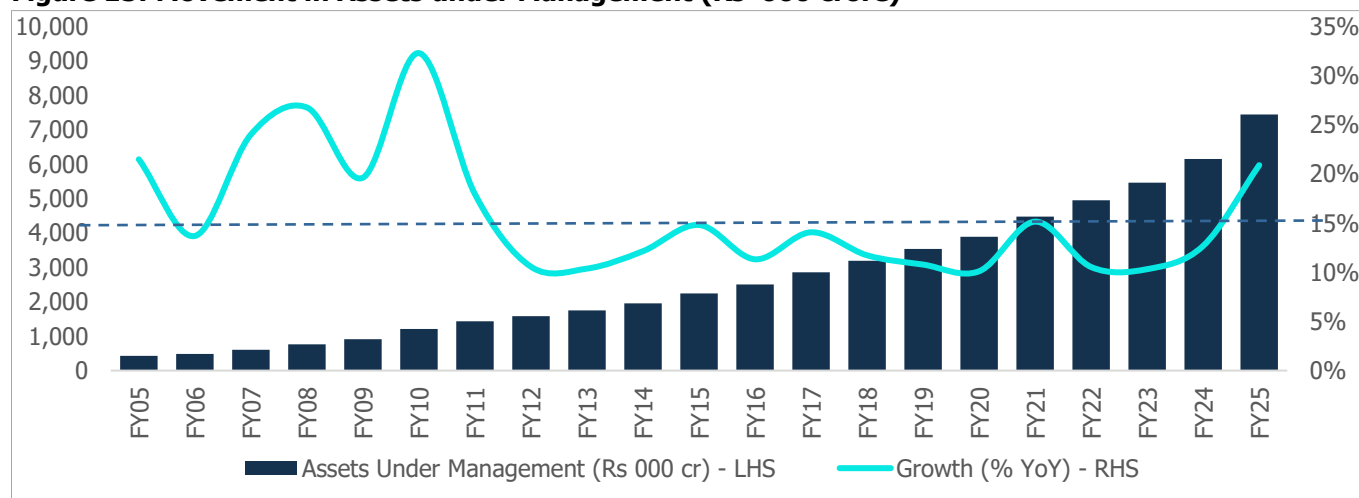
Source: IRDAI, Company filings

The bancassurance channel accounts for 32% of the individual distribution mix in FY25, with private insurers contributing the majority. This share has remained largely stable over the past five years. Among private players, insurers partnered with large banks have demonstrated higher growth by leveraging their partners' extensive distribution networks and strong brand presence. In contrast, LIC continues to rely predominantly on its individual agents for policy sales, with their premiums rising to Rs 0.58 lakh crore, a 6.0% y-o-y increase as of FY25. LIC's distribution remains heavily agent-led, at approximately 94%, in contrast to private insurers, where individual agents account for approximately 22% of business. Insurance companies are developing a multipronged distribution mix focusing on agents, banks, and direct business. The direct channel is being focused on as it directly reaches the customer via its own branches, website, mobile application or aggregators, as a strong direct channel results in better cost efficiencies (low-cost channel).

Going forward, shifts in customer behaviour, evolving product preferences, and digitised processes are expected to reshape distribution models further. While agency, bancassurance, and direct channels will remain the core pillars. Initiatives such as Bima Sugam aim to create a unified digital marketplace for insurance, thereby simplifying onboarding, servicing, and policy management. By strengthening direct and assisted-digital channels, improving cost efficiency, and expanding access to first-time and underpenetrated customers, it supports the industry's shift toward omni-channel distribution.

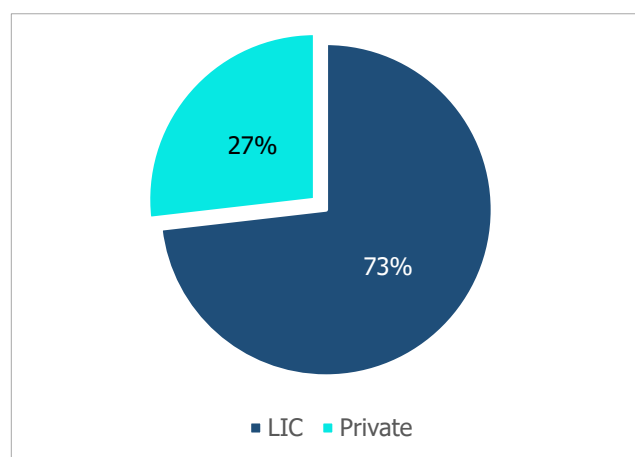
AuM Growth to Be Anchored by Rising Pension and Annuity with a Stable Investment Mix

Figure 15: Movement in Assets under Management (Rs '000 crore)



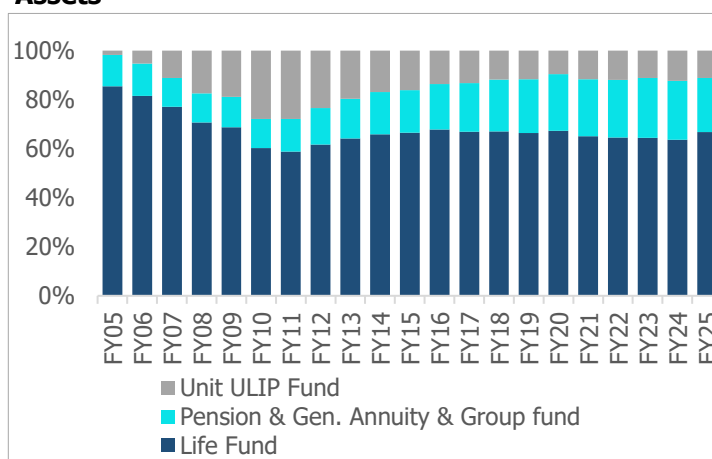
Source: IRDAI, Company filings

Figure 16: AuM Breakup as of FY25 – LIC vs Pvt.



Source: IRDAI, Company filings

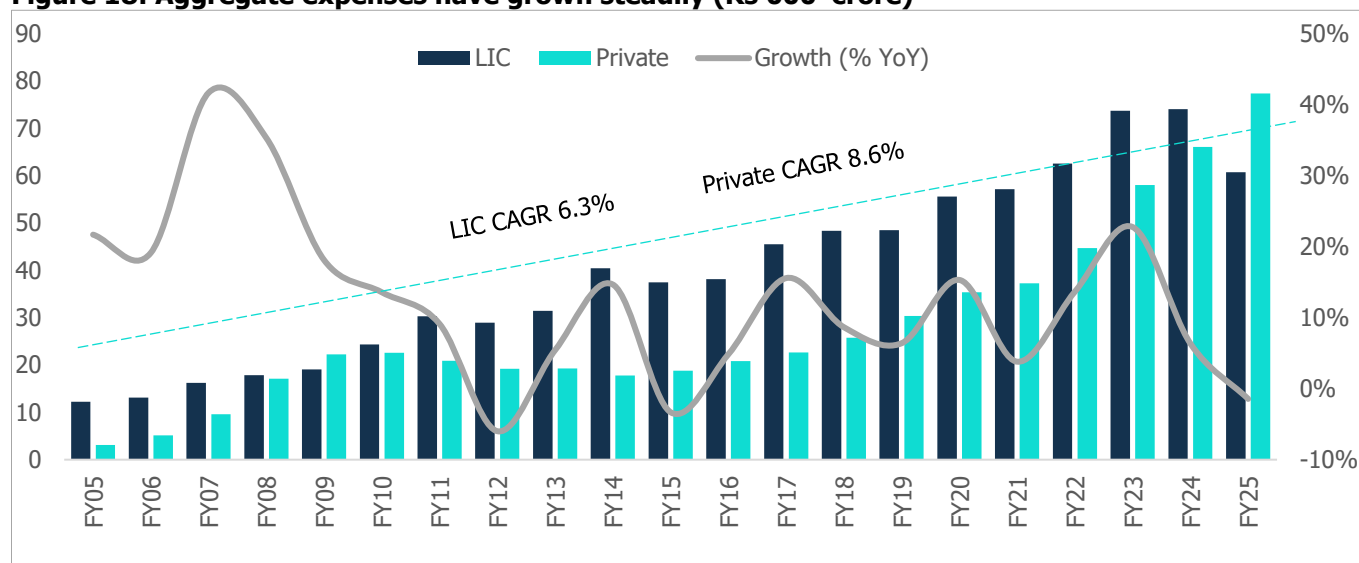
Figure 17: AuM (%): Rising Life and Pension Assets



Life insurers invest primarily in debt securities to mitigate downside risks and ensure stable returns. In accordance with IRDAI norms, at least 20–25% of investments must be in central government securities; the industry currently allocates approximately 60% to central and state government securities and other approved securities. The industry's assets under management (AuM) have increased by more than 15 times, from Rs 4.28 lakh crore in FY05 to Rs 74.44 lakh crore in FY25, at a CAGR of 15.3%. Life funds remain the largest share at 67%, though pension and annuity funds have risen steadily to 22%, reflecting growing retirement planning. ULIPs have stabilised after earlier volatility and now account for 11%. Going forward, AuM growth is expected to remain steady, supported by rising pension assets, continued demand for guaranteed products, and a largely debt-focused investment approach that provides stability.

Moderation in Benefit Disbursements Growth Indicates Portfolio Seasoning

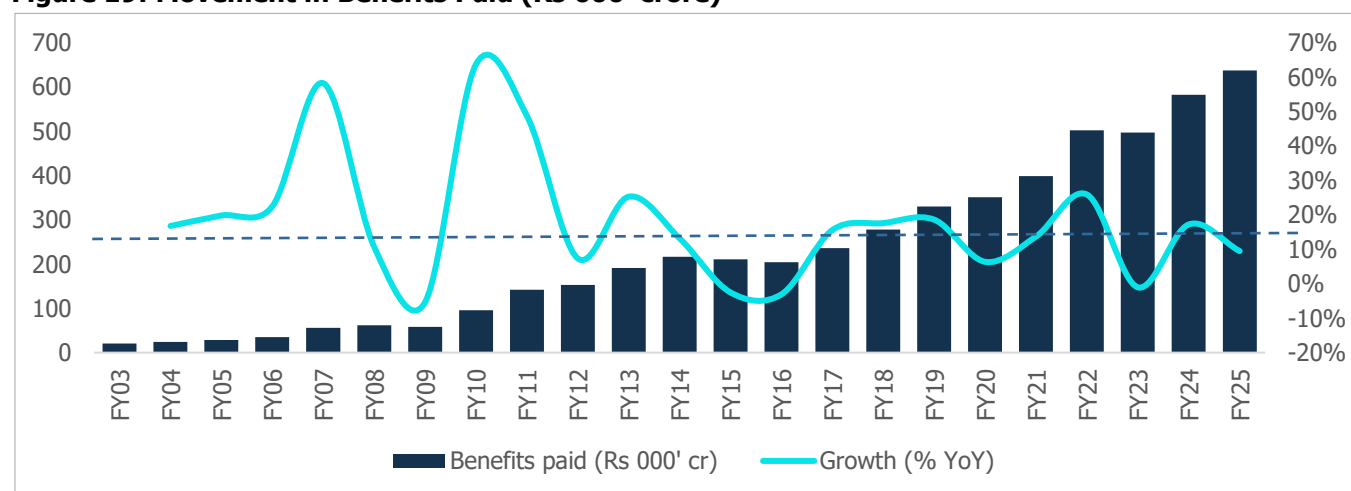
Figure 18: Aggregate expenses have grown steadily (Rs 000' crore)



Source: IRDAI, Company filings

Total opex, including commissions and other operating costs, grew at a CAGR of 11.1% over FY05-25, reaching Rs 1.38 lakh crore in FY25.

Figure 19: Movement in Benefits Paid (Rs 000' crore)



Source: IRDAI, Company filings

Between FY05-FY25, benefits paid by the life insurance industry grew at a CAGR of 16.7%. In FY25, total benefits disbursed stood at Rs 6.37 lakh crore, more than 22 times the FY05 level of Rs 0.28 lakh crore. This highlights growing policy experiences, higher claim settlements, and an expanding base of long-term in-force policies. Benefits paid accounted for 72% of the total premium, up from 35% in FY05, reflecting a shift in premium accumulation to a phase of higher benefit outgo. The overall growth in total benefits paid by insurers moderated to 9.5% in FY25, compared with 17.2% in FY24, of which LIC accounted for 65%.

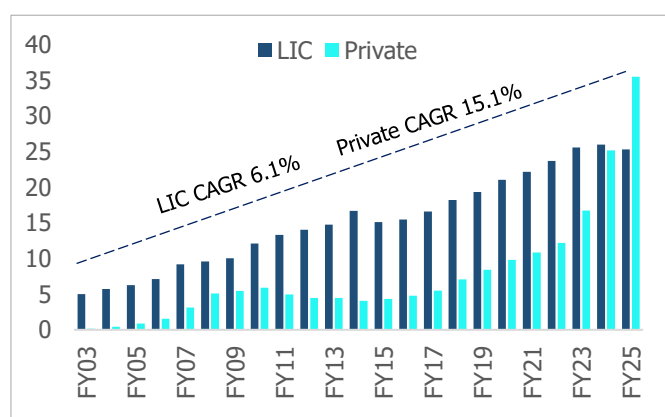
Benefit payouts are expected to remain elevated as the industry matures, driven by a growing stock of policies entering claim and maturity phases. While the growth in benefits paid is likely to moderate from recent highs, the

clearance of the Insurance Amendment Bill and the potential capping of commissions could further support more balanced outgo dynamics.

Expense of management (EoM) guidelines: EoM guidelines have forced insurers to cut expenses and pass on the benefits to customers. By removing the per-product cap on commissions, the EoM structure establishes a single budget that includes operating expenses and commissions. It has helped insurers streamline costs and make lower-cost products available to customers. Most life insurers operate within the prescribed EoM limits; some slightly exceed the cap, and the remaining companies that exceed it are primarily smaller players, including new entrants.

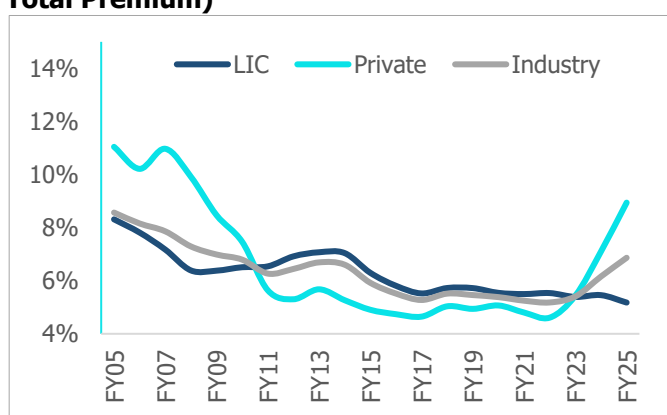
Gross Commission has increased...

Figure 20: Gross Commission (Rs 000' crore)



Source: IRDAI, Company filings

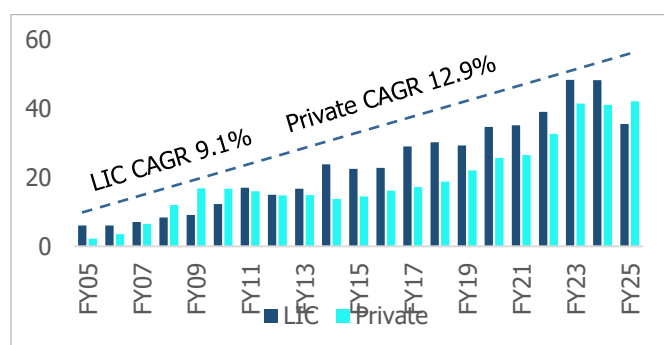
Figure 21: Commission Expense Ratio (% of Total Premium)



Gross commission expenses rose sharply, driven primarily by private insurers whose payouts accelerated post-FY23. The surge followed IRDAI's removal of commission caps in April 2023, which intensified competitive pressure for market share, particularly among private players and bancassurance partners, prompting insurers to increase distributor incentives and reprice channel economics to grow new business rapidly. While LIC's commission growth has stabilised, private players have raised payouts to strengthen agency and bancassurance channels. This shift reflects a competitive, distribution-led growth strategy, though it also adds pressure on profitability and margins.

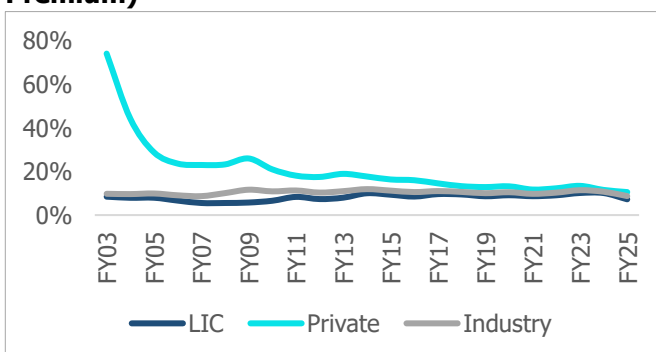
...While Operating Expenses Have Normalised

Figure 22: Operating Expenses (Rs 000' crore)



Source: IRDAI, Company filings

Figure 23: Operating Expense Ratio(% of Total Premium)



Industry operating expenses rose from Rs 0.08 lakh crore in FY05 to Rs 0.89 lakh crore in FY24 but declined significantly to Rs 0.77 lakh crore in FY25, signalling improved cost efficiency. This is reflected in the industry opex ratio falling to 8.7% from 10.7%, the lowest in over two decades, driven mainly by LIC's opex ratio dropping to 7.2%, while private insurers' costs remained stable at around Rs 0.42 lakh crore and their ratio moderated to 10.6% in FY25. The fall in LIC's opex reflects the non-recurrence of one-off items, i.e., wage revisions and pension and retirement liability provisioning in the prior two years, which had temporarily elevated operating expenses. Adjusted for these provisions, LIC's opex would have remained broadly steady. Additionally, digital adoption (ANANDA app, online issuance), higher agent productivity from larger-ticket policies, staff rationalisation, and a growing share of lower-cost channels such as bancassurance have also led to a decline in opex.

Aggregate Solvency Margin Remains Comfortable

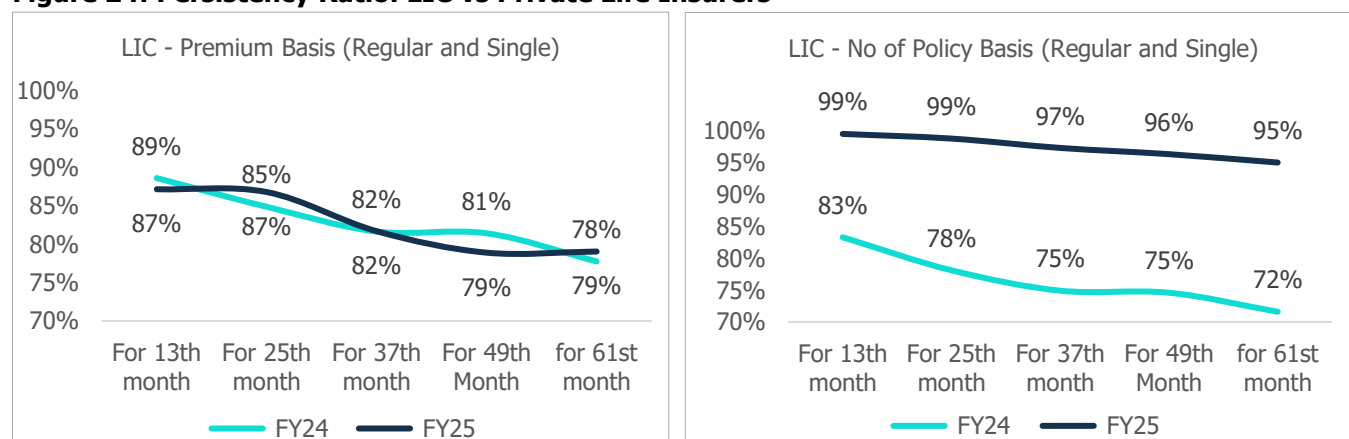
As of FY25, the average solvency margin for life insurers stands at approximately 2.20x. The LIC maintains a margin of 2.11x, whereas private insurers slightly outperform, with an average margin of 2.28x. Among private players, the range is broader: some insurers leverage higher solvency to support growth. In contrast, others operate closer to the regulatory minimum of 1.50x, reflecting varied business strategies and growth stages across the sector. Solvency margins are expected to remain comfortable, supported by steady profitability, capital buffers, and prudent risk management. While some insurers may optimise excess capital to support growth and product expansion, overall solvency levels should stay well above regulatory thresholds.

Rising Sum Assured Driving Higher Capital Needs

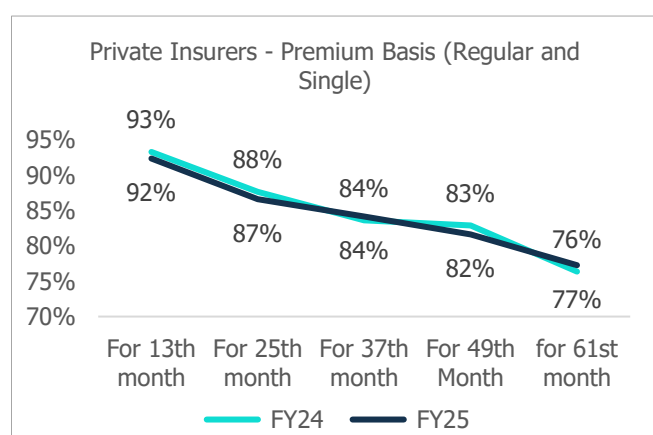
Additionally, growth in sum assured in India's life insurance sector is outpacing the rise in NBP, thereby increasing insurers' capital intensity. A notable shift from high-value non-par products to lower-margin ULIPs is putting pressure on value of new business (VNB) margins, prompting insurers to raise sum assured to maintain profitability. This trend is driving up capital requirements, as a higher in-force sum assured necessitates larger financial reserves to meet policy obligations. On the policy front, the recently proposed increase in foreign direct investment (FDI) limits to 100% could provide a significant capital boost, strengthening insurers' capacity to expand coverage and deepen market penetration. Further, rising ticket sizes and the increasing popularity of term insurance plans are contributing to the overall growth in sum assured.

Persistency Improvement to Reinforce Long-Term Profitability

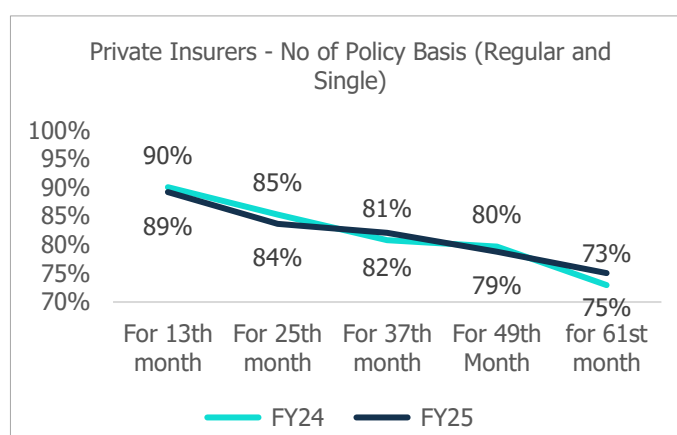
Figure 24: Persistency Ratio: LIC vs Private Life Insurers



Source: IRDAI, Company filings



Source: IRDAI, Company filings



Overall, FY25 trends indicate stable to improving persistency across the sector, with private insurers demonstrating superior consistency in premium retention, while LIC benefits from scale and legacy portfolio characteristics.

On a premium basis, both LIC and private insurers exhibit a gradual decline in persistency with policy age. LIC's premium-based persistency remains broadly stable between FY24 and FY25, with marginal improvement at longer durations, indicating improving long-term customer retention. Private insurers continue to maintain higher premium persistency across cohorts, though FY25 shows slight moderation at later durations.

On a policy-count basis, the divergence is more pronounced. LIC reports significantly higher policy-based persistency in FY25, driven largely by its legacy book and fully paid-up policies, though the ratios gradually taper with duration. In contrast, private insurers exhibit lower but more evenly distributed policy persistency, with FY25 showing a marginal improvement at mid and long durations.

Going forward, persistence trends are likely to remain on a gradual upward trajectory, supported by improved product suitability and increased use of digital renewal and engagement tools. Private insurers are expected to strengthen mid- to long-term persistency further as their portfolios mature. In contrast, LIC's persistency should remain stable, benefiting from its large legacy base and increasing focus on customer retention.

Evolving Regulatory Framework to Support Insurance Expansion

The industry has been facing a series of regulatory changes (GST exemption, surrender value guidelines, and proposed amendments to the Insurance Bill) to ensure universal insurance coverage and strengthen regulatory oversight of the sector. These changes include:

- GST exemption without ITC:** The GST Council's recent decision to exempt individual life insurance policies from GST effective September 22, 2025 (reducing the rate from 18% to 0%) is a major positive for policyholders, as it will make premiums more affordable. However, insurers will not be permitted to claim Input Tax Credit (ITC) under the new framework. Consequently, companies will be unable to offset GST paid on inputs and services, creating a cost drag on existing businesses. To cushion the impact, insurers are expected to adjust by rationalising commissions or revising prices for new policies.
- Revised surrender value norms:** A key reform introduced higher surrender payouts, allowing policyholders to receive refunds even after the first policy year, provided they have paid at least one full year's premium. This change enhances customer flexibility and liquidity but has also placed significant pressure on insurers'

margins. To mitigate the financial impact of increased surrender payouts, insurers are prioritising the sale of higher-value policies, revising the channel payout structure, and focusing on improving policy persistency.

- **Bima Sugam platform:** Launched as a single-window digital solution for policyholders, IRDAI's Bima Sugam initiative is set to transform India's insurance landscape. Envisioned as a unified, regulator-backed marketplace, it will bring together insurers, intermediaries, repositories, and customers on a single digital platform, streamlining the entire process from policy purchase to claims settlement. By offering seamless access across life, health, and general insurance products, Bima Sugam aims to enhance transparency, efficiency, and customer convenience. With its unprecedented scale and design, the platform is expected to accelerate digital adoption, deepen financial inclusion, and reshape distribution models across the insurance sector.
- **Life Insurance Master Circular:** The master circular on life insurance strengthens product governance, enhances consumer protection, and promotes transparency. Key provisions include stricter product oversight, a simplified Customer Information Sheet (CIS), mandatory policy loan facilities for savings-linked products, partial withdrawals for pension plans, an extended 30-day free-look period, improved grievance redressal, and measures to curb mis-selling and ensure fair pricing. These reforms aim to boost insurance penetration and consumer confidence.

Proposed changes

- **Insurance Law Reforms: Strengthening Capital, Governance and Policyholder Protection**
The Insurance Laws (Amendment) Bill, 2025, enhances capital, governance, and market efficiency. FDI limits are raised to 100%, providing small and mid-sized insurers with additional capital and supporting solvency. Net-owned fund requirements for foreign reinsurers are lowered from Rs 5,000 crore to Rs 1,000 crore, boosting competition and domestic reinsurance capacity. Share transfer approvals are simplified, and minimum capital rules for co-operatives are removed, promoting financial inclusion. IRDAI is empowered to oversee mergers, demergers, and corporate restructuring, and regulatory flexibility is extended to SEZs and IFSCs. The definition of intermediaries now includes MGAs, while IRDAI's supervisory powers are strengthened. A Policyholders' Education and Protection Fund is established to safeguard consumers. Operational improvements, such as online premium recognition and clarified benefit calculations, improve transparency, compliance, and service delivery.
- **Risk-based solvency:** Transitioning from a factor-based approach solvency ratio (1.5x) to a risk-based capital framework will require insurers to hold capital proportional to the risk of business written. Transitioning to a risk-based solvency framework is likely to increase solvency capital, thereby enabling growth.
- **Implementation of IFRS 17:** With India transitioning to IFRS 17 by April 2028, insurers will adopt new accounting standards for premiums and costs, potentially enhancing return on equity (RoE).
- **Others:** Other envisaged reforms include open architecture in bancassurance and agency models, enabling partnerships with multiple insurers to boost customer choice and competition and a listing roadmap is expected to encourage insurers to adopt stricter governance standards and move toward public listings.

Certain changes, such as the GST exemption and surrender value rules, may have short-term effects on profitability. Overall, these regulatory measures aim to sustain profitability while ensuring compliance with the evolving regulatory landscape, to provide insurance for all by 2047.

Challenges

The companies face a host of risks ranging from operational (related to persistency, mortality, expense management, and claims fraud) to economic (equity market, interest rates, credit risks), regulation, and competition. Key challenges about the insurance industry:

- **Competition from other financial saving instruments:** Insurance faces competition from different modes of financial savings, such as mutual funds, bank deposits and small-savings instruments, besides physical savings.
- **Persistency:** The cost of new customer acquisition is high; maintaining the persistency ratio is imperative for players. With increasing competition, rapid product engineering and development, and other factors at play, maintaining a similar level of improvement in persistency will remain a key challenge and a monitorable for the life insurance industry.
- **Rising Sum Assured and Capital Requirements:** Increasing sum assured per policy raises the capital insurers must hold to meet potential claims. This makes risk management and capital allocation more critical, particularly as more high-value, long-term policies are issued.
- **Mortality Risk:** Unexpected increases in mortality or claims frequency can affect insurer profitability and solvency. Precise underwriting and risk assessment remain key to managing these uncertainties.
- **Protection Gap:** A large portion of the population remains underinsured, highlighting a protection gap. Expanding coverage while balancing affordability and profitability is an ongoing challenge for the industry.
- **GST exemption to impact profitability in FY26:** Under GST, insurers used to offset taxable liability and claim credits to the extent of GST they have paid on expenses (such as commission to agents, sales-related expenses). With the benefit of ITC no longer available to insurers, the GST liability is expected to increase. Additionally, a complete GST exemption would increase GST liability, as insurers would not receive GST from customers on the renewal of a significant portion of existing policies. Companies are likely to mitigate the drag through commission cuts and price hikes; a GST exemption would negatively impact profitability in FY26 across players.

Concluding Remarks

According to Sanjay Agarwal, Senior Director, CareEdge Ratings, "India's life insurance industry continues to demonstrate strong long-term potential, with penetration and density levels still well below global averages. Following the pandemic recovery, the sector has maintained a moderate 9% CAGR during FY21–FY25, supported by rising financial literacy, growing household incomes, and increasing demand for protection-oriented and annuity products. With the FDI limit increased to 100%, insurers already operating near the previous 74% cap now have additional headroom for incremental capital infusion by existing foreign promoters, thereby supporting both growth prospects and solvency. Over the next two years, CareEdge expects the life insurance industry to expand at a steady 8%–11% CAGR, underpinned by sustained regulatory support, product innovation, rapid digital integration, and improving service delivery. However, downside risks include a mass cat event, higher death claims, and impacts from interest rate or equity market changes on profitability."

According to Saurabh Bhalerao, Associate Director, CareEdge Ratings, "Insurance coverage has grown to nearly 40 crore lives by FY25, yet low sum assured and shallow pension penetration leave mortality and longevity risks largely unaddressed. In the near term, life insurance premium growth may remain uneven, reflecting the sector's transition to a new regulatory and taxation environment. However, medium-term prospects appear strong as customer-

centric reforms and digitisation initiatives start to take effect. FY26 is expected to mark a period of gradual recovery, supported by private insurers' deeper geographical expansion and the rollout of the Bima Trinity, especially the Bima Sugam digital platform. While the GST exemption on insurance premiums could compress margins temporarily, it is expected to enhance affordability, stimulate policy demand, and improve persistency over time."

According to Ankush Pathrabe, Analyst, CareEdge Ratings, "Over the past two decades, the Indian life insurance sector has seen a structural transformation driven by private participation and regulatory reforms. While LIC remains dominant, private insurers have grown faster through diversified products, digital adoption, and expanding bancassurance. With private players now holding approximately 47% of the individual bancassurance channel, compared with LIC's 4%, strategic partnerships with parent banks enable broader reach, efficient cross-selling, and recurring premiums. Looking ahead to FY26–FY27, these factors, along with cost efficiencies and upcoming regulatory changes, are expected to boost market share, persistency, and competitiveness."

Annexure

Phase-wise Evolution of the Indian Life Insurance Industry

The life insurance industry in India underwent a substantial transformation following its opening to the private sector in 2001. Over the past two decades, it has undergone notable regulatory and structural changes. During this period, aggregate life insurance premiums in India increased from Rs 1.05 lakh crore in FY05 to Rs 8.85 lakh crore in FY25, reflecting a CAGR of 12.6% over the two decades. This robust growth can be attributed to various factors, including the entry of the private sector in the life insurance space, rise in household savings, increased income levels, growing education and awareness, the emergence of the middle class, tax benefits, innovative products introduced by insurance companies and the advent of multiple distribution channels like bancassurance.

While the state-owned LIC exhibited a CAGR of 9.8%, the private sector outpaced significantly, growing at an impressive rate of 21.7% during FY05-FY25. Notably, the dynamics of premium distribution shifted, with the share of renewal premiums remaining constant despite significant growth at a 11.4% CAGR over the two-decade span. New business premiums have slowed, with a CAGR of 14.6% during the same period. Consequently, the share of renewal premiums decreased from 68% in FY05 to 55% in FY25.

Despite this shift, the life insurance segment maintained its dominance in overall domestic insurance premiums. Globally, the share of life insurance in total premiums hovers around 50%, whereas in India it stands at approximately 70%. It is worth noting that India's share has gradually declined from a peak of 85.8% in FY07.

Figure A1: Movement in Life Insurance Premium

	Phase I (FY03–FY08)	Phase II (FY09–FY14)	Phase III (FY15–FY20)	Phase IV (FY20 - till FY25)
Total Premium (CAGR)				
LIC	22.4%	8.5%	9.6%	5.2%
Private	115.1%	3.7%	17.0%	15.5%
Aggregate	29.3%	7.2%	11.8%	9.1%
New Business Premium (CAGR)				
LIC	30.3%	11.3%	17.8%	4.9%
Private	103.5%	-2.9%	18.4%	16.1%
Aggregate	40.8%	6.6%	18.0%	8.9%

Source: IRDAI, Company filings

The industry can be segregated into the following phases:

- Phase I (FY03–FY08):** Before 2000, the Life Insurance Corporation of India (LIC) was the only player operating in the industry. Post-liberalisation, several private companies entered the market and experienced significant growth. Total premium rose sharply, driven by ULIPs, which experienced sustained capital-market appreciation and high upfront commissions, particularly for linked products.
- Phase II (FY09–FY14):** Private insurers faced a larger impact of regulatory changes. Based on total individual first-year premium income, LIC's market share increased from FY10 to FY14, whereas private players' market share declined over the same period. The bulk of the decline occurred during years of major regulatory changes, which required insurers to make significant adaptations. Several products (predominantly ULIPs) were rendered ineligible, and insurers had to redesign them to comply with the new regulations, resulting in a sharp decline in product offerings. Subdued stock markets also reduced customers' appetite for linked products.

- **Phase III (FY15-FY20):** After the slowdown in the earlier period, from FY15, the industry began showing signs of revival, primarily due to the improvement in the performance of private players. LIC's first-year premium growth has been marginally lower at 17.8% compared with 18.4% for private companies for the FY15-FY20 period, primarily due to expectations of improved economic growth and the rise in distribution channels (bank and digital) of private players.
- **Phase IV (FY20 onwards):** The pandemic heightened awareness about financial protection, prompting more individuals to consider life insurance. In response, companies implemented prudent risk management strategies and pursued mergers & acquisitions to strengthen their market position and premium growth. From FY23, the industry's focus then shifted towards expanding its customer base, prompting insurers to make strategic investments in distribution, technology, and manpower to capitalise on long-term opportunities. There was a notable demand for ULIPs, influenced by a thriving stock market. However, the higher proportion of ULIPs, which typically offer lower profit margins, led to slight declines in the value of new business (VNB) margins for some insurers. Additionally, distribution commercials were realigned with minimal relative impact.

The transition to the new tax system further contributed to industry evolution, leading to larger ticket sizes, reduced seasonality in business, and the introduction of innovative, customer-centric solutions. The IRDAI has introduced reforms to enhance the surrender values of life insurance policies, effective from October 1, 2024. These changes aim to provide policyholders with higher refunds upon early termination of their policies, thereby offering greater flexibility and liquidity. Although the increased surrender payouts may initially reduce insurers' per-policy profit margins, they are expected to drive higher insurance penetration, ultimately strengthening long-term profitability. To manage the additional costs, insurers are reassessing their financial strategies, exploring measures such as revising premium rates, reducing agent commissions, and restructuring commission models (e.g., shifting from upfront payments to a trail-based system). Furthermore, the exemption from GST will reduce policy costs, thereby boosting affordability, penetration, and persistency. However, the loss of ITC increases insurers' operating costs, pressuring margins in the near term and prompting commission or pricing adjustments.

Methodology, Formulas & Definitions

The Appendix section is intended to provide clarity on the key terms, ratios, formulas, and abbreviations used throughout this report. It serves as a reference tool to help understand the financial metrics, industry-specific terminology, and analytical methods employed in the report, ensuring consistency and ease of interpretation of the findings and forecasts presented.

Term/ Ratio	Definition/ Formula
Life Insurance Share in Household Financial Savings	Total life insurance premium/Financial Savings
Aggregate Expenses	Gross commission expenses + Operating expenses

Data Source: IRDAI, Company filings

Assumptions

- The estimates for FY26 and FY27 are indicative in nature. They are based on GDP at market prices, the life insurance multiplier, historical trends, management discussions of the overall industry, expert opinions, and analyses of multiple variables relevant to forecasting.
- Forecasts incorporate median, average, and growth rate patterns from previous years, along with plausible assumptions regarding financial indicators covered.

- These projections are subject to change in the event of significant external developments, including macroeconomic shifts, regulatory changes, market disruptions, or unforeseen events affecting the insurance industry.

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91 - 22 - 6754 3582 / +91-81080 07676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careedge.in	+91 - 22 - 6754 3519 / +91-90049 52514
Ankush Pathrabe	Analyst – BFSI Research	ankush.pathrabe@careedge.in	+91 - 22 - 6754 1629 / +91-90399 84978
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect:



Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

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