Non-Life Insurance Industry Poised for Upward Growth Trajectory Over The Medium Term

January 27, 2026 | BFSI Research

Synopsis

- India's non-life insurance gross domestic premium grew from Rs 1.69 lakh crore in FY19 to Rs 3.07 lakh crore in FY25, registering a healthy Compound annual growth rate (CAGR) of 10.4%, broadly tracking nominal Gross Domestic Product (GDP) growth, which rose by 9.8% over the same period. In FY25, growth moderated to 6.2% from 12.8% in FY24 due to the implementation of the 1/n rule, weak crop performance, and slower commercial activity, while health insurance remained a key growth driver. The change in premium recognition under the 1/n framework1, led to an estimated ~2–3% moderation in reported industry growth in FY25, a trend consistently visible across leading insurers, as reflected in deferred gross written premiums (GWP).
- The loss ratio across segments is expected to remain broadly aligned with historical trends. In contrast, the overall loss ratio for FY26 is projected to decline slightly to around 78–82% as underwriting practices and price discipline improve. Expense of Management (EoM) rose in absolute terms by FY25, but efficiency improved materially, with opex as a percentage of Net Earned Premium (NEP) declining from 27.0% in FY19 to 16.6% in FY25.
- Distribution costs have risen structurally, as the net commission ratio for the industry increased to 24.9% in FY25 from a historical range of 5.0-12.0%, driven by a shift towards the 1/n rule, higher agent payouts, higher retail focus and reduced reinsurance commissions.
- The underwriting losses widened to Rs 0.30 lakh crore in FY25, up 6.0% y-o-y from Rs 0.28 lakh crore in FY24 and significantly higher than Rs 0.16 lakh crore in FY19, indicating persistent pressure on core underwriting profitability. Public sector insurers continued to account for the majority share, with Rs 0.18 crore, while private insurers reported losses of Rs 0.12 crore. Consequently, the combined ratio has consistently stayed above 100%.
- The medium-term outlook for India's non-life insurance industry remains stable, supported by regulatory reforms, improving underwriting discipline, and steady economic momentum. Growth, however, is expected to moderate from recent peaks, partly reflecting a higher base in FY25 and normalisation across select segments. **Accordingly, based on nominal GDP growth trends, historical premium growth patterns, segment-wise outlook, and industry interactions, CareEdge Ratings estimates premiums will grow at 8–11% over the medium term.** Meanwhile, unforeseen market disruptions could weigh on this growth. Health insurance (including personal accident) would continue to remain the largest segment, reaching Rs 1.40 lakh crore by FY27. In comparison, motor insurance is projected to cross Rs 1.06 lakh crore, aided by improving vehicle sales, digitisation, and deeper penetration in tier 2–3 cities. The recent reductions in Goods and Services Tax (GST) rates on insurance products are likely to further support premium growth across segments by lowering overall policy costs, improving affordability, and stimulating greater retail participation.

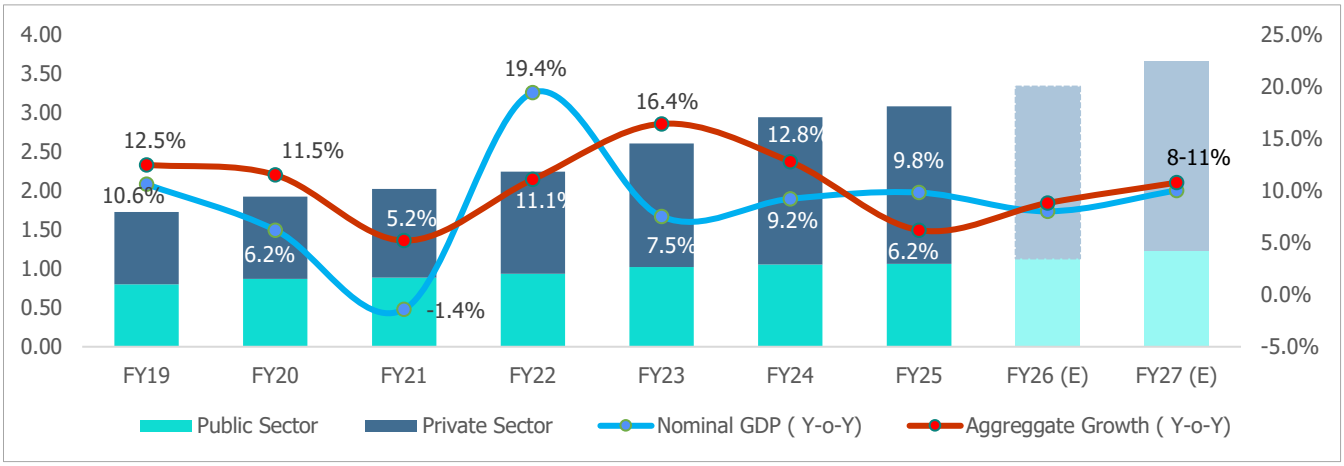
1 The non-life insurers premiums figures are not directly comparable to previous years due to the revision in premium accounting norms by the Insurance Regulatory and Development Authority of India (IRDAI). The new norms, effective from October 1, 2024, require long-term premiums to be reported based on 1/N, where N is the number of days of the policy. This change has led to a YoY drop in premiums for multi-line insurers, which affects the overall growth in premiums for the industry.

Overview

India's non-life insurance sector comprises 35 operating companies. The public sector comprises six companies, including two specialised insurers, ECGC Limited and Agriculture Insurance Company of India Limited (AIC), and four non-life insurance companies, and the remaining 29 companies are from the private sector, which include eight Standalone Health Insurers (SAHIs). Since opening to the private sector in 2001, the industry has seen major regulatory and structural shifts, such as increasing FDI limits from 26% to 74% (now up to 100% with the recent amendment), initiatives like Bima Sugam and digital onboarding leading to wider coverage, more distribution channels, and increased competition. The industry has also witnessed trends such as increased digital presence and the emergence of InsureTech, driving innovations in customer education & service/ products/ technology/ delivery systems for access. Going forward, the sector's growth will be driven by deeper digital integration, InsureTech collaborations, and product innovation. Increased use of AI in risk assessment, expansion of distribution through embedded models, and regulatory support for inclusion are expected to drive the industry toward a more technology-driven, customer-centric future.

Premium Growth to Strengthen in Line with GDP; Private Insurers to Outpace Public Sector Peers

Figure 1: Movement in Gross Domestic Premiums (Rs lakh crore)



Source: IRDAI, CareEdge Calculations, Note: Public Sector Includes Specialised Insurers, Private Sector Includes SAHIs.

The Indian non-life insurance gross domestic premium income (GDPI) grew from Rs. 1.72 lakh crore in FY19 to Rs. 3.07 lakh crore in FY25, a CAGR of nearly 10.1%, broadly in line with nominal GDP growth, which averaged around 9–10%. The overall growth was supported by rising consumption and insurance penetration across segments. Additionally, the growth can be attributed to continued momentum in health insurance driven by rising medical inflation and increased awareness post-pandemic.

For FY25, on y-o-y basis, the industry growth has moderated to 6.2%, compared to 12.8% in FY24, attributed to a higher base effect, implementation of 1/n rule, subdued performance in crop and the motor insurance segment (slower PVs sales and no revision in TP tariff) and weakness in the commercial sector due to combination of pricing pressure, slower industrial activity and trade related disruptions.

Private sector insurers have consistently gained market share over the last decade, rising from 44% in FY15 to 65% in FY25, with the private sector industry reaching Rs 2.01 lakh crore (incl. SAHIs) at a CAGR of 18%. This growth was supported by competitive pricing, diversified product offerings, improved service delivery, and rapid expansion of distribution networks. In contrast, public sector insurers have witnessed a decline in market share, falling from 56% in FY15 to 35% in FY25, largely attributed to their role in fulfilling government mandates aimed

at broader social objectives. These insurers are often tasked with providing coverage in high-risk and low-margin segments, such as crop insurance, which limits their ability to compete effectively with private players. Meanwhile, the share of specialised insurers remains stable. Private players have been more flexible in adopting technology, launching customer-centric products and building multi-channel distribution models. Additionally, recent amendments, initiatives such as Bima Sugam, regulatory push from IRDAI, easing of product approvals, expanding intermediary tie-ups, and digitising insurance are also expected to further lift the non-insurance industry in the upcoming years.

Figure 2: Insurance Density (2024: US$)

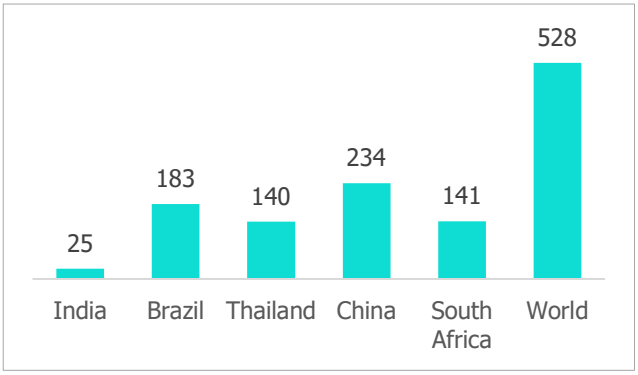
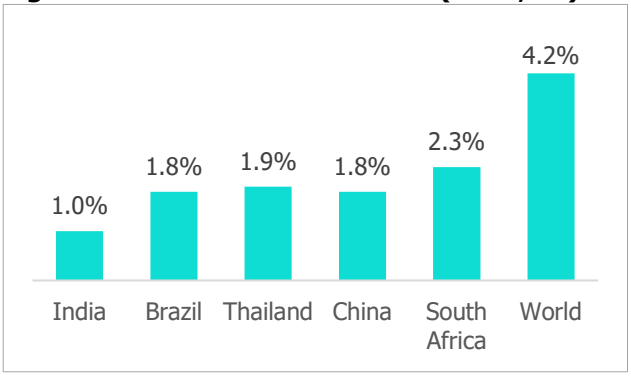


Figure 3: Insurance Penetration (2024; %)



Source: IRDAI

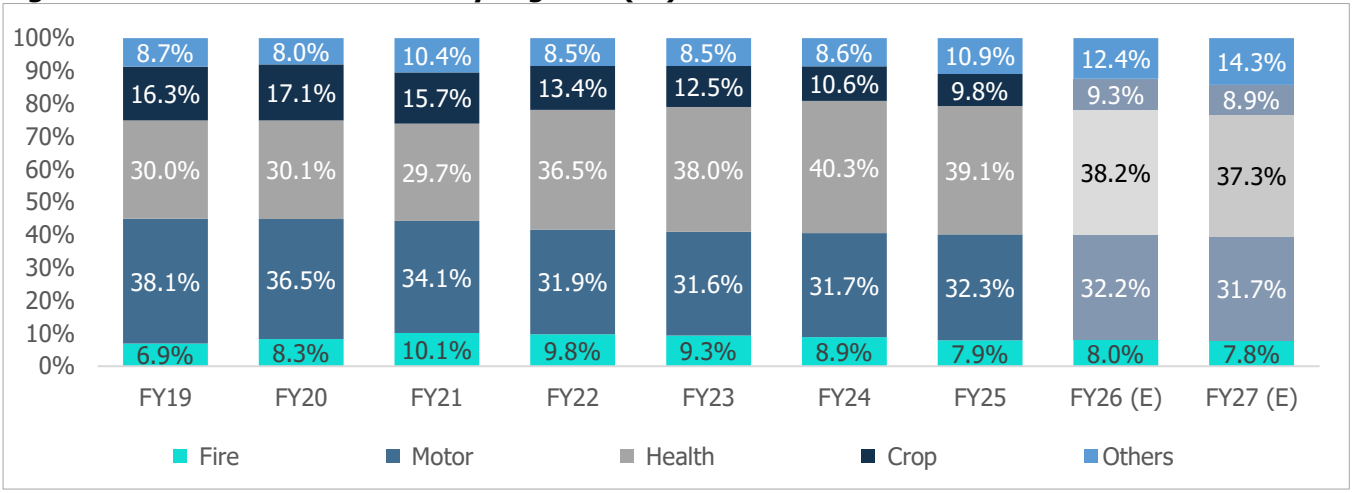
India's non-life insurance sector remains significantly underpenetrated, with premiums as a percentage of GDP stagnating at around 1.0% between 2020 and 2024, compared with a global average of 4.3%. Insurance density in India also lags, at just $25 per capita in 2024, compared with the global average of $555, underscoring a substantial growth opportunity.

Supported by strong GDP growth and rising household incomes, the market is well positioned for medium- to long-term expansion. Under its "Insurance for All by 2047" vision, IRDAI has introduced a series of forward-looking reforms to accelerate industry growth and accessibility. Key measures include streamlining registration processes for new insurers, adopting a 'Use and File' system for faster product launches, and expanding tie-up limits for intermediaries, enabling corporate agents to partner with up to nine insurers and IMFs with six. The regulator has also extended the experimentation period for innovative products under the Regulatory Sandbox from 6 to 36 months, while developing the Bima Sugam portal to provide a unified digital platform for affordable, accessible insurance solutions. Additionally, simplification of the regulatory framework from 78 regulations to 15 has eased compliance and enhanced operational flexibility. With these reforms, combined with a steady economic growth trajectory and increasing awareness of insurance needs, India's non-life sector is poised for accelerated premium growth, broader coverage penetration, and significant opportunities for both incumbents and new entrants.

Accordingly, based on nominal GDP growth trends, historical premium growth patterns, segment-wise outlook, and industry interactions, CareEdge Ratings estimates that the Indian non-life insurance market will grow at 8–11% over the medium term. This growth will be driven by the rising popularity of health insurance, increased demand for motor insurance fuelled by higher disposable incomes, rising digital adoption and expansion in segments like fire, marine, export credit, and customised products. The overall outlook for the non-life insurance industry remains positive. However, intensifying competition and an uncertain geopolitical environment could negatively impact economic growth and, in turn, the non-life insurance sector.

Health and Motor Segments Continue to Dominate

Figure 4: Movement in Premiums by Segment (%)



Note: Health includes Personal accident, IRDAI, and CareEdge Calculations

The Health and Motor segments continue to dominate the non-life insurance sector, accounting for around 71% of gross direct premiums till FY25. Fire and crop each contribute around 8%-14% to the gross direct premium, while the other segments make up the balance.

Health Insurance to Remain the Largest Segment

- Between FY19 and FY25, India's health insurance segment expanded significantly, with total premiums rising from Rs 0.44 lakh crore to Rs 1.20 lakh crore, reflecting a CAGR of approximately 18.1%. While the pandemic has significantly increased awareness of the need for health insurance, a larger number of patients, rising medical inflation, government initiatives, and greater affordability have together boosted demand for health insurance policies. For FY25, the segment grew by 2.8% y-o-y, slower than the 19.4% growth observed a year ago. This slowdown can be attributed to rising medical inflation, with hospitalisation costs steadily increasing, offset by higher penetration. Meanwhile, IRDAI's 10% cap on premium hikes for senior citizens (effective January 2025) aims to boost affordability and retention in this high-risk, underpenetrated group, though it may impact insurer profitability. Additionally, the recent reductions in GST on health insurance premiums are expected to provide an incremental boost to demand by lowering effective policy costs, improving price sensitivity among retail consumers, and enhancing penetration.
- Further, health insurance segment premiums have grown primarily due to the increase in premium income of private companies and standalone health insurance companies (SAHIs). For FY25, SAHIs grew by 16.0% y-o-y as compared to 26.2% a year ago. Meanwhile, Growth moderated in the second half of the fiscal year following the implementation of the 1/n rule, which deferred recognition of acquisition costs. Nevertheless, SAHIs sustained double-digit premium growth well above the industry average, resulting in continued expansion of their market share, largely at the expense of public-sector multi-product insurers. The group health insurance segment has emerged as a key growth driver, supported by premium repricing.

Group Health Premiums Lead Growth, Outpacing Retail and Other Segments

Figure 5: Breakdown of Health Premiums (Rs. Lakh Cr)

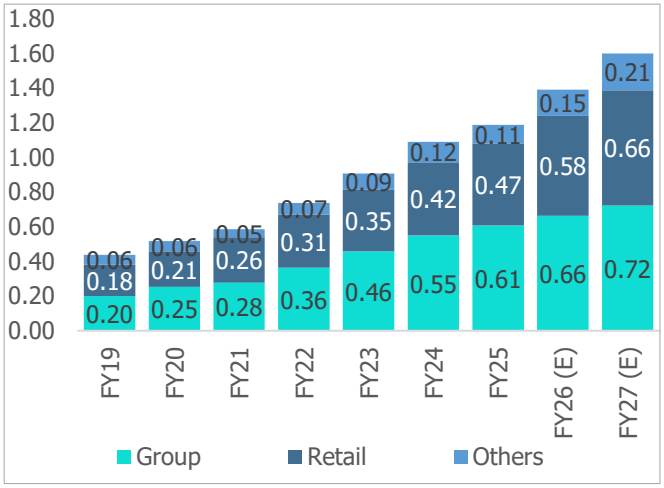
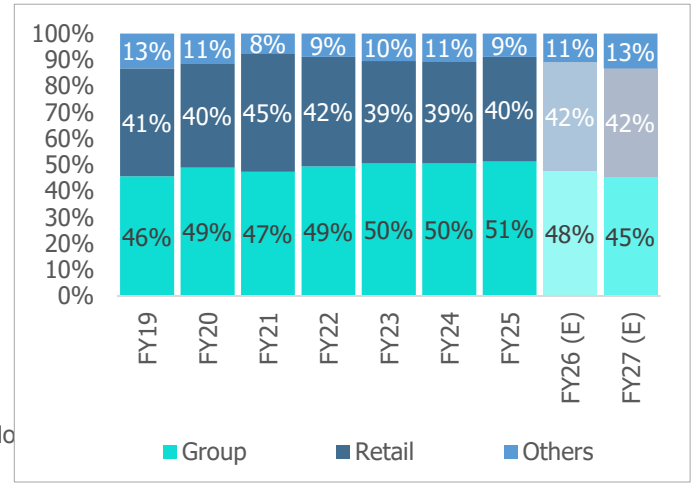


Figure 6: Market Share (% of Total Health)



A notable shift occurred in the segmental mix, with group health premiums increasing from Rs 0.20 lakh crore in FY19 to Rs 0.61 lakh crore in FY25, and their share in total health premiums rising from 46% to 51%. This was attributed to growing employer demand for post-COVID health coverage and to increased policy renewals and premium hikes. Retail health premiums also grew from Rs 0.18 lakh crore to Rs 0.47 lakh crore for the same period. However, its share in the overall health segment declined from 41% to 40%, reflecting slower relative growth. This was due to rising medical inflation and hospital pricing, as well as delays in reimbursements. The share of government schemes and overseas medical increased marginally to 8% and 1%, respectively, while premiums fluctuated due to policy changes.

SAHIs to grow faster than their multiline counterparts

- While SAHIs are monoline insurance companies within health, their key focus has been retail health (contributing 73% to SAHIs' GDPI till FY25), which has been a key driver in business growth. SAHIs' exclusive focus on health enables them to offer a range of specialised products for different population cohorts, as well as customer service and claims handling tailored to the healthcare market. Notably, SAHIs account for nearly 32% of the total health insurance premiums in FY25, underscoring their significant role in shaping the segment.
- SAHI companies led the non-life insurance growth in FY25, achieving a notable 10-year CAGR of 29.3%, outperforming both private and public players. Private insurers followed with a strong 10-year CAGR of 16.6%, twice the 7.8% growth posted by public insurers. With new SAHIs set to enter the market, competitive intensity is expected to rise over the medium term. CareEdge Ratings expects SAHIs to continue gaining market share in the health insurance segment, primarily driven by their strong presence in the retail health space and expanding participation in the group health segment despite the recent moderation in retail health's share.

Group Health Claims Ratios Improve, while 'Others' Segment Continues to Face Pressures

Figure 7: Segment-wise Claims Ratio Within Health

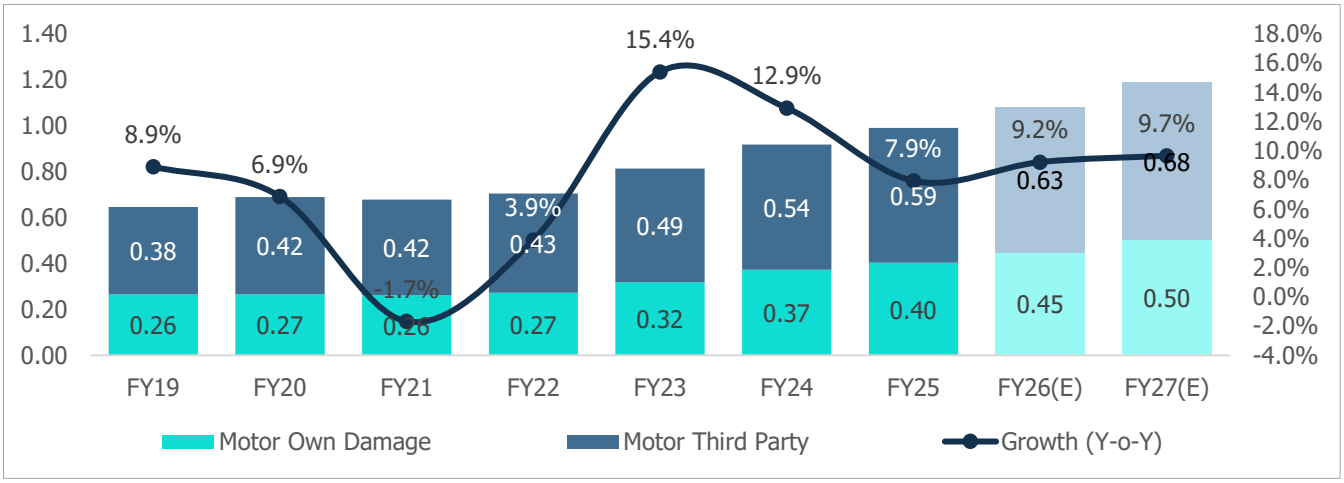
Segments	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Health	96.9	98.5	101.1	92.2	89.3	85.7	89.5	105.7	87.3	86.4
Group	116.3	120.4	125.3	107.4	105.0	98.8	97.9	118.6	95.9	93.7
Retail	80.8	76.9	76.0	71.5	72.3	73.9	84.2	97.4	77.4	76.2
Others	107.8	109.2	122.0	114.6	90.2	92.1	120.1	119.8	102.3	115.3

Source: IRDAI, CareEdge Calculations. Others include government-sponsored schemes.

- Claims ratios within health show a clear normalisation post-COVID, after peaking in FY22, the overall ratio declined in FY25 to 85.3%, reflecting tighter underwriting and pricing discipline. Retail remains structurally strongest (down to 76.2 in FY24 despite FY22 volatility), while Group has corrected materially (116–125 in FY15–FY17 to 93.7 in FY24) on better risk selection.

Increase in TP Tariffs and Vehicle Sales to Drive Motor Insurance Growth

Figure 8: Movement in Motor OD and TP Premiums (Rs lakh crore)



- The share of motor insurance in the overall non-life insurance market has declined from 38.1% in FY19 to 32.3% in FY25, with growth moderating to 7.9% in FY25. This moderation can largely be attributed to the withdrawal of mandatory long-term third-party (TP) premium bundling, which had earlier provided a one-time boost to premium inflows. Additionally, stronger growth in health and other segments has diluted the motor's overall contribution. Rising competition within the motor insurance space, coupled with pricing pressures and aggressive discounting in the own-damage segment, has further constrained premium expansion.
- Over the past decade, the composition of motor insurance has shifted markedly from Own-Damage (OD) to TP business. Previously, OD premiums accounted for about two-thirds of total motor premiums, but by FY25, TP premiums had risen to nearly 58%, surpassing OD premiums, which now account for about 42%. Meanwhile, stronger vehicle sales post-pandemic, and the continuation of long-term TP policies for new vehicles have further accelerated TP premium growth. Additionally, the Ministry of Road Transport and Highways (MoRTH) is evaluating a proposed upward revision of motor TP insurance premiums following IRDAI's recommendation, which could support growth in the motor TP segment.
- Furthermore, expectations of GST reductions on vehicles could stimulate demand, potentially boosting motor OD premiums over the medium term. Motor insurance is projected to cross Rs 1.17 lakh crore mark by FY27, supported by a recovery in vehicle sales (vehicle sales grew 37.2% to 2.4 crore units in FY25

from 1.8 crore units in FY21) rising EV adoption and product innovation, rising premiums, increased digitisation such as instant policy issuance and cashless claim services, and growing penetration in tier 2–3 markets.

- The recent uptick in vehicle registrations has driven a healthy expansion in Motor OD premiums, supported by strong new business volumes, particularly in two-wheelers and mid-segment passenger vehicles. While demand momentum is expected to remain robust in the near term, pricing conditions remain under pressure due to aggressive discounting, higher distributor commissions, and rising digital acquisition costs. Consequently, insurers remain focused on volume and market share growth, keeping premium yields and profitability subdued.

OD Claims Normalise Post-Pandemic, While TP Remains Structurally High

Figure 9: Segment-wise Claims Ratio Within Motor

Segments	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Motor	77.1	81.2	88.2	83.5	90.6	85.6	75.6	81.3	84.5	82.0
OD	60.8	69.4	72.5	67.0	73.0	78.0	69.8	80.3	88.7	83.9
TP	96.8	92.3	103.6	97.8	104.2	90.6	77.8	82.0	82.0	78.5

Source: IRDAI, CareEdge Calculations.

- For FY25, the OD segment reported a claims ratio of 85.5%, marking a deterioration over the past five years. This was attributed to structural and cyclical pressures, including rising vehicle repair and replacement costs, increased frequency and severity of claims amid higher vehicle usage. Meanwhile, TP remained elevated at 81.3% due to its long-tailed nature and limited regulatory pricing flexibility.

Other key segments to maintain stable growth rates

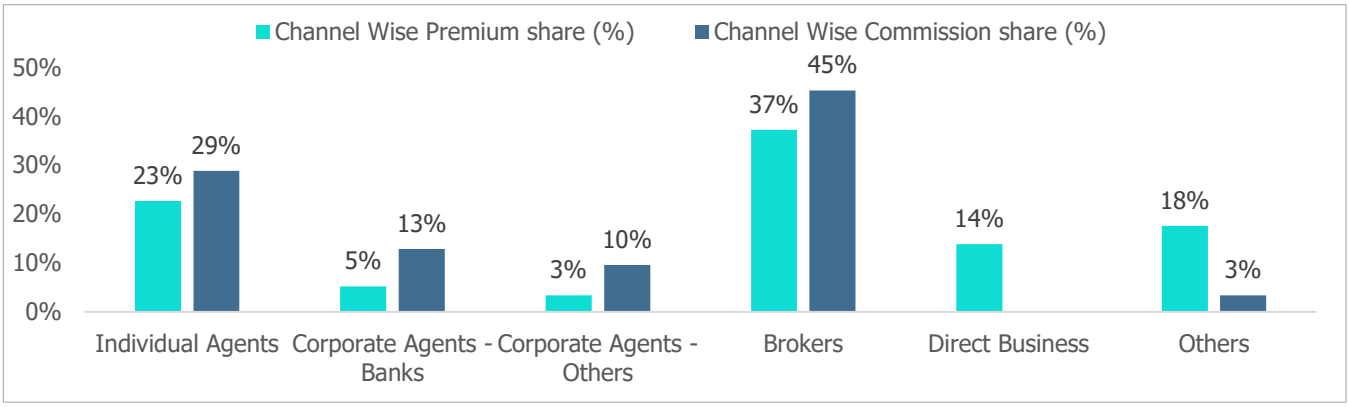
- Fire insurance premiums rose steadily from Rs 0.12 lakh crore in FY19 to Rs 0.24 lakh crore in FY25, growing at a CAGR of 12.3%, majorly due to steady renewals in commercial lines. In contrast, the fire insurance market share dropped slightly to 7.9% in FY25, due to a highly competitive pricing environment. Despite significant infrastructure growth over the years, the fire insurance segment accounts for only 7.9% of the overall non-life insurance market in FY25, underscoring the underutilisation of fire coverage and the vital need to strengthen protection against property-related risks. Going ahead, fire insurance premiums are projected to rise further to Rs 0.26 lakh crore in FY26, driven by a regulatory push for adequate coverage, shift toward risk-based pricing, and improved compliance.
- The crop insurance segment, which accounts for around 10% of total non-life insurance premiums in FY25, is witnessing a structural transition. A significant share of business is shifting away from the Agriculture Insurance Co. of India Ltd (AIC), reflecting increased participation by private insurers. However, growth in the segment has been constrained by reduced state participation under the Pradhan Mantri Fasal Bima Yojana (PMFBY) and uneven monsoon patterns. The segment continues to face inherent volatility due to its dependence on weather conditions and the execution timeline of government schemes.
- Looking ahead, crop insurance premiums are projected to cross around Rs 0.31 lakh crore in FY26, supported by continued implementation of PMFBY, government subsidies that sustain participation, higher sum assureds owing to rising input costs, and a gradual expansion in coverage across crops and regions.

Regulatory Changes to Drive Innovation and Strengthen Policyholder Confidence

- **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.
- Additionally, IRDAI has introduced the 1/n premium recognition rule effective October 2024, requiring insurers to recognise premium income evenly over the term of long-duration policies, thereby bringing consistency and transparency to financial reporting.
- Distribution reforms are also underway, including open architecture for agents allowing them to sell products from multiple insurers and the development of the digital marketplace "Bima Sugam" to simplify insurance purchase and servicing for consumers. The regulator has also mandated a 10% cap on annual premium increases for senior citizen health policies to enhance protection for vulnerable age groups.
- IRDAI has de-notified prevailing tariffs, thereby freeing non-motor lines (but motor third-party is still under specific rate setting) and enabling insurers greater pricing flexibility. Under the health-insurance regime, IRDAI requires insurers to settle or reject claims within 30 days (or pay interest above bank rate for delays) and is working with the government to standardise hospital billing formats. IFRS / accounting & reporting standards: IRDAI's exposure drafts signal movement toward alignment with global standards.
- **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 requirements, thereby enabling growth.

Brokers Continue to Dominate; Digital and Bancassurance Channels Gaining Traction

Figure 10: Overall Channel-wise Market share (FY25; %)



Source: IRDAI, CareEdge Calculations

Brokers remain the leading distribution channel, contributing 37% of premiums and 45% of commissions, indicating their dominance but also higher acquisition costs. Individual agents maintain a balanced share of 23% in premiums

and a bit higher 29% in commissions. Direct business stands out as the most cost-efficient channel with a 14% premium share but only 4% in commissions. As per the General Insurance Council of India, Brokers and Corporate Agents (including Bancassurance models) have established their credentials as Insurance Intermediaries. The authority has also enabled several other distribution channels, such as Government Common Service Centres (CSCs). In India, Insurance Marketing Firms (IMF), Banks as Brokers, and an open architecture for Agents and corporate Agents. Together, these channels are increasingly integrated into an omnichannel distribution framework that combines physical outreach with digital interfaces, expected to enhance the customer experience, improve cost efficiency, and drive insurance awareness and penetration, particularly in semi-urban and rural markets.

- Both public sector companies and private sector companies derive their largest share of their premiums from the broker's channel. Private companies have achieved nearly double-digit share in the Banca channel, while their public counterparts top out at just over 1%.
- In terms of market share of commissions, brokers remain the dominant distribution channel, contributing over 45% of total premiums, higher than 35% a year ago. Public insurers are highly reliant on individual agents (59%), while private insurers show greater diversification, with significant reliance on brokers (57%) and increasing traction in the banca (14%) and 'Others' (11%) channels. SAHIs display a more balanced distribution across brokers, individual agents, and corporate agents, highlighting a multi-channel approach.
- In the near term, GST reductions may marginally lower commission income per policy across intermediated channels like brokers and bancassurance. However, this is likely to be outweighed by stronger policy growth and improved affordability, especially in retail and MSME segments. Digital channels will gain the most from enhanced price competitiveness, while brokers should retain dominance through higher-volume-driven revenue. Overall, the GST cut should expand the market pie, even if it modestly compresses margins at the distribution level.

Improved Underwriting Discipline Drives Down Loss Ratios Across Key Segments

Figure 11: Segment-wise Claims Ratio (%)

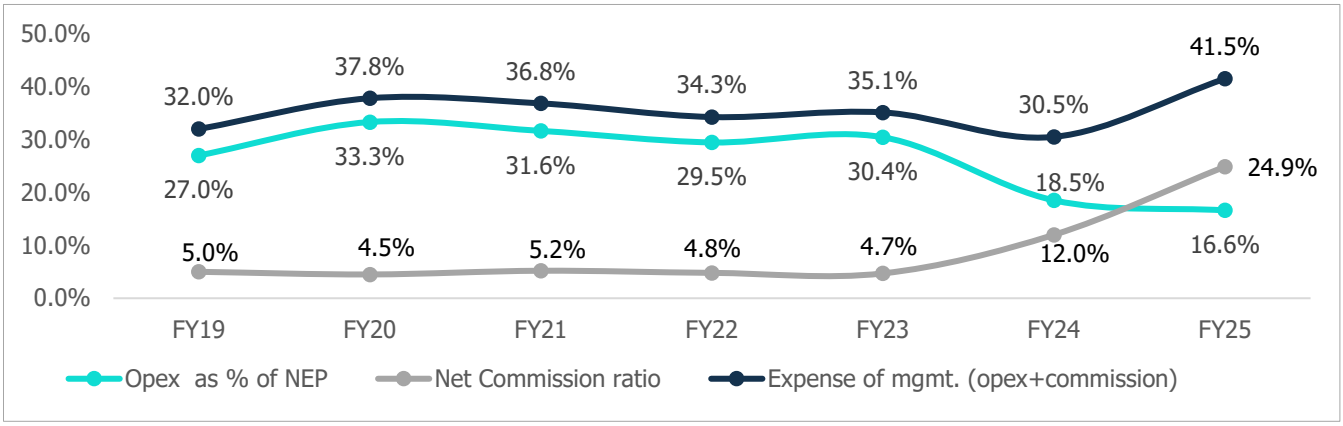
Segments	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Fire	73.8	74.4	84.4	82.4	90.5	78.1	65.1	60.3	58.0	78.3	73.1
Marine	67.4	72.0	75.0	65.3	84.5	71.3	75.1	85.9	75.1	72.4	78.8
Motor	77.1	81.2	88.2	83.5	90.6	85.6	75.6	81.3	84.5	82.0	78.3
Health	96.9	98.5	101.1	92.2	89.3	85.7	89.5	105.7	87.3	86.4	86.3
Others	73.9	75.9	81.9	78.9	82.9	93.4	83.5	72.7	73.1	72.8	77.2

Source: IRDAI, Company filings; Note, Claims Ratio = Net Incurred Claims/ Net Earned Premium, CareEdge Calculations

From FY19 to FY25, claims ratios across non-life insurance segments showed improvement. Segments like fire and marine saw improvements due to tariff reforms and better underwriting, while others like motor and health remained slightly elevated amid cost pressures. Looking ahead to FY27, claims ratios are expected to stay high across most segments, with some moderation likely in fire and health due to pricing corrections. In contrast, motor and others may continue to face pressure from rising costs and increased claim frequency.

Expenses of Management and Net Commission Ratios Tick Up

Figure 12: Movement in Expense of Management and Net Commission Ratio (%)



Source: IRDAI, CareEdge Calculations; Note: Movement of expense of mgmt. = (Operating expenses + Net commission expenses)/Net earned premium.

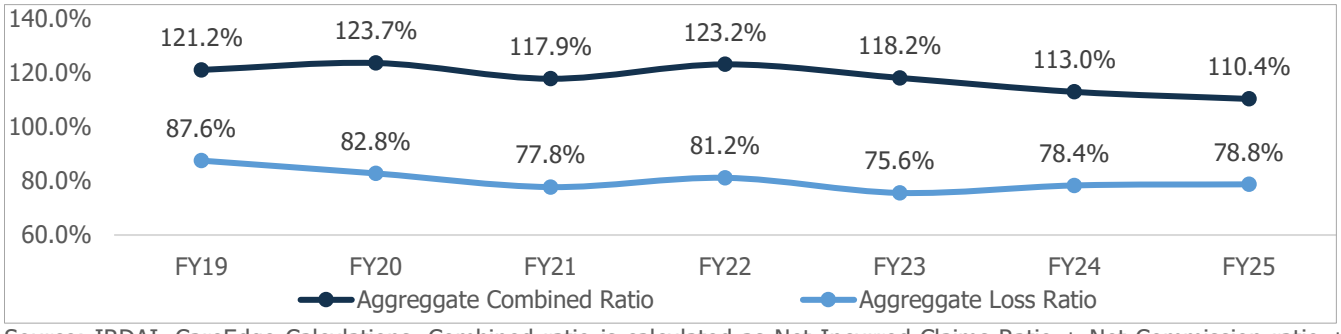
EoM has increased in absolute terms over the past five years up to FY25, largely in line with business scale-up and expansion across distribution channels, particularly in health insurance. However, this rise has been accompanied by significant efficiency gains, with operating expenses as a percentage of NEP declining sharply from 27.0% in FY19 to 16.6% in FY25, and EoM as a share of total premiums moderating from 18.0% to 12.3% over the same period. This improvement reflects operating leverage from strong premium growth, IRDAI's tighter expense monitoring and commission caps, and increasing digitisation and automation across underwriting, policy servicing, and claims management.

Within EoM, the share of operating and commission expenses increased to 41.5% in FY25 from 32.0% in FY19, driven by higher commission outgoes from agency- and bancassurance-led growth, alongside elevated operating expenses from investments in technology, compliance, and health insurance infrastructure.

The net commission ratio for India's non-life insurance industry remained stable between FY19 and FY23, reflecting controlled distribution costs and balanced reinsurance. However, it increased from FY24 onwards and surged to 24.9% in FY25, driven by higher agent commissions, greater retail focus (health and motor), and lower reinsurance income. This sustained rise signals mounting distribution costs that may strain underwriting profitability if not offset by premium growth or cost efficiencies.

Combined Ratio Shows Slight Improvement, Loss Ratio to Remain Range Bound

Figure 13: Movement in Combined Ratio (%)



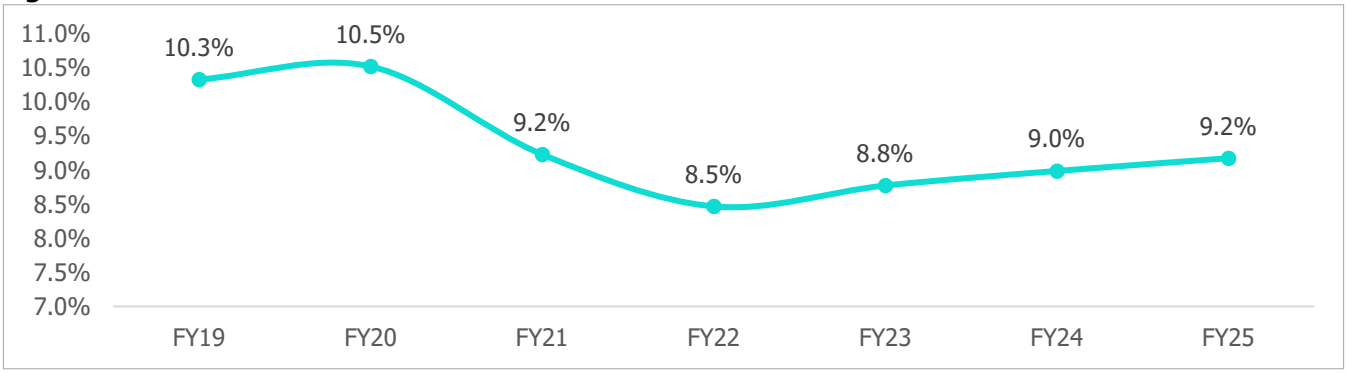
Source: IRDAI, CareEdge Calculations, Combined ratio is calculated as Net Incurred Claims Ratio + Net Commission ratio + Expenses of Management ratio; Note: Loss Ratio = Net incurred claims / Net earned premium.

The aggregate combined ratio for the Indian non-life insurance industry has consistently remained above 100% since FY19 and has moderated since then, reaching 110.4% till FY25, indicating persistent underwriting losses. In the health insurance segment, the loss ratio peaked at 89% in FY22 due to Covid-related claims. However, it has now moderated to 83.4% in FY25 with the easing impact of the pandemic. This, along with higher pricing, especially in group health insurance, and rising awareness, has helped insurers improve the top line, benefiting the loss ratio. The motor insurance segment reported a steep decline in the loss ratio in FY21 due to the Covid-induced lockdown; however, the ratio has normalised over the subsequent years as restrictions on movement eased. While pricing in third-party motor insurance is largely regulated, intense competition in its own damage segment puts pressure on overall pricing in the motor insurance industry. Going forward, the loss ratio across segments is expected to remain broadly aligned with historical trends, barring any unforeseen events. For other segments, it is likely to hold steady, while the overall loss ratio for FY26 is projected to decline slightly to around 78–82% as underwriting practices and price discipline improve.

Technology-intensive vehicles, elevated labour costs, and higher claim incidence in dense urban markets are exerting upward pressure on the loss component, while persistently rising acquisition and servicing expenses are inflating the expense component, together keeping the combined ratio under sustained pressure. Additionally, these losses are primarily on account of intense competition (which has impacted pricing, though not in segments where regulations mandate pricing, e.g., TP in motor), the frequency of natural catastrophes/calamities, and incurred claims (especially in the motor and health segments), which continue to remain elevated. Further, the combined ratio of the public sector players is generally more than that of their private sector peers. Additionally, these underwriting losses do not indicate an overall loss, as they are often offset by earnings from investment income, which stood at Rs 0.41 lakh crores for FY25.

Easing Interest Rates to Temper Investment Returns

Figure 14: Yield on Investments



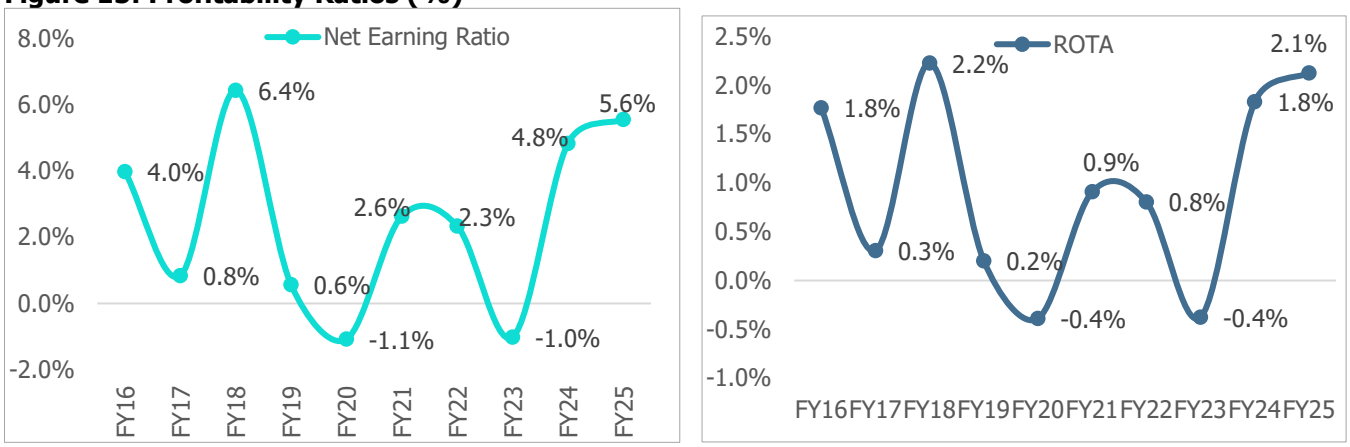
Source: Filings of 29 private sector insurers (incl. SAHIs) Note: Yield on Investments = Total Income from Investments / Average Total Investments

The overall return on investment for insurers stood at 9.2% in FY25, reflecting a slight 20 bps increase from the previous year. However, with four consecutive repo rate cuts, reducing the repo rate to 5.25%, signals easing inflationary pressures. Still, it could moderate future yields on incremental debt investments, especially for insurers with a relatively short-duration portfolio. Meanwhile, insurers with a well-structured long-duration book may still lock in past higher yields for some time, cushioning the immediate impact. In the medium to long term, the overall yield on investments may stabilise or decline slightly, depending on the pace and magnitude of further rate cuts. With the rate cuts, insurers' future yields are expected to compress, given their large exposure to fixed-income

instruments. While existing long-duration holdings may cushion short-term impact, returns on reinvested funds and new inflows could decline, potentially moderating overall investment income growth if low rates persist.

Profitability Rebounds in FY25 After a Volatile Decade

Figure 15: Profitability Ratios (%)

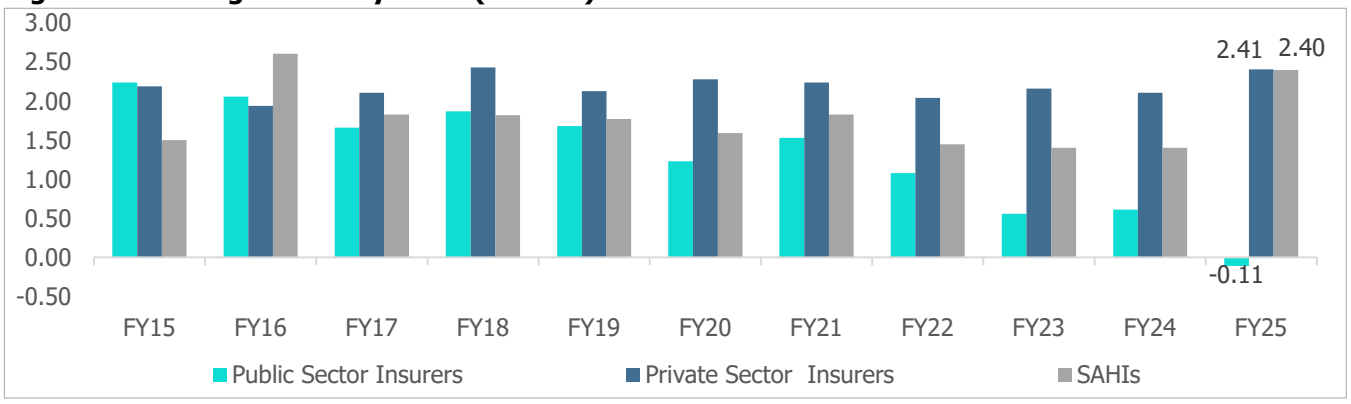


Source: IRDAI, CareEdge Calculations; Net Earnings Ratio = Profit After Tax / Net Written Premium and Return on Total Assets = Profit After Tax/ Average Total Assets

The non-life insurance industry's profitability has experienced notable fluctuations over FY16–FY25. During FY16–FY18, NER improved from 0.8% to 6.4%, and ROTA peaked at 2.2%, supported by stable claims and strong investment returns. The pandemic period (FY19–FY20) saw a sharp decline in NER to -1.1%, driven by elevated motor and crop losses and weak capital markets. FY21–FY22 marked a moderate recovery, with NER at 2.6% and 2.3%, aided by pandemic-induced cost savings and investment gains. FY23 faced a setback (NER -1.0%) as health and motor claims normalised and pricing pressures persisted. By FY24, the industry rebounded strongly, with NER at 4.8% and ROTA at 1.8%, supported by improved underwriting, better portfolio mix, and favourable investment income. In FY25, NER further rose to 5.6%, while ROTA improved to 2.1% due to increased profitability.

Increased availability of resources to underwrite more risk: Private Players and SAHIs remain well-capitalised

Figure 16: Average Solvency Ratio (x times)



Source: Filings of 6 public sector insurers and 28 private sector insurers (incl. SAHI)

Private insurers and SAHIs, with solvency levels exceeding 2x, are generally well-capitalised to pursue their growth targets. In contrast, average solvency levels for public insurers fell to -0.11% in FY25, primarily due to three major public sector insurers posting negative solvency levels amid prolonged underwriting losses, insufficient capital infusions, and weaker investment returns. While regulatory forbearance has provided temporary relief, substantial

capital support is essential for these insurers to meet solvency requirements and ensure long-term financial health. Additionally, IRDAI has permitted the inclusion of the Fair Value Change Account (FVCA) in solvency calculations. While this provides temporary relief, it does not address the underlying capital shortfall.

To enhance overall capital availability and support industry expansion, particularly for public sector insurers, IRDAI has introduced a series of regulatory reforms. Key measures include raising the cap on subordinated debt and preference shares from 25% to 50% of paid-up capital and removing the prior approval requirement for their issuance. Equity-raising norms have also been eased, now permitting up to 25% investment by a single investor and up to 50% collectively. Additionally, the solvency margin requirement for crop insurance has been lowered from 0.70 to 0.50, and the admissibility period for government premium dues has been extended to 365 days. Over the next two years, the industry-wide transition to the RBC framework would affect capital adequacy metrics.

Challenges to India's Non-Life Insurance Industry

- As per CareEdge Ratings, from a retail standpoint, only 4% of the population is covered under health insurance. Geographically, too, health insurance is not widespread, with lives covered highly concentrated in the top 5 states (Maharashtra, Tamil Nadu, Rajasthan, Gujarat, and Karnataka together accounted for 71% of the total lives covered). Therefore, a significant and uneven penetration gap persists.
- Despite rapid growth, the sector suffers from structural underinsurance, particularly outside motor and health. A disproportionate reliance on these two segments exposes the industry to adverse concentration risk, making the entire non-life portfolio vulnerable to regulatory shocks or systemic claim events in these segments.
- The industry faces irrational pricing practices in a bid to gain market share, especially among newer players, which leads to pricing that does not reflect underlying risk. This undermines long-term solvency and creates systemic instability, especially in loss-heavy segments such as group health, crop, and fire.
- The upcoming adoption of IFRS-17 and potential movement towards a risk-based capital (RBC) framework will force insurers to revalue liabilities, which may expose capital inadequacy, especially for segments with long-tail risks and high underwriting losses.
- Rising fraud remains a structural challenge for India's general insurance sector, particularly in health and motor lines, where inflated hospital bills, unnecessary procedures, and collusion between service providers and intermediaries increase claims leakage, push up loss ratios, and ultimately lead to higher premiums for genuine policyholders.
- Claims repudiation, especially in health insurance, continues to be a reputational and operational risk, as complex policy wordings, non-disclosure issues, and documentation gaps often result in disputes, regulatory scrutiny, and consumer dissatisfaction.

Concluding Remarks

- According to Sanjay Agarwal, Senior Director of CareEdge Ratings, "India's non-life insurance industry remains on a stable footing, with premium growth expected to normalise to a sustainable 8–11% over the medium term after registering a CAGR of ~10.4% during FY19–FY25, broadly in line with nominal GDP growth. Health insurance will continue to anchor growth, supported by rising healthcare costs, improving awareness, and deeper retail penetration. In contrast, motor insurance premiums are expected to cross ~Rs 1.06 lakh crore by FY27, aided by improving vehicle sales and expanding reach in tier 2–3 markets, notwithstanding competitive pressures. Although underwriting losses remained elevated and combined ratios stayed above 100%, improving pricing discipline, better risk selection, and normalising loss experience are expected to support a gradual

improvement in the overall loss ratio. Furthermore, strengthening of distribution networks, including digital and online channels, along with better investment yields and an enabling regulatory environment, could support this upward trajectory"

- According to Saurabh Bhalerao, Associate Director of CareEdge Ratings, "FY25 marked a significant milestone for India's non-life insurance industry, with premiums surpassing Rs 3 lakh crore, driven by supportive regulations, rising Insurtech adoption, accelerating digitalisation, and an expanding middle class. The government's Bima Trinity initiative is expected to further bolster industry growth. SAHIs will likely maintain their lead in the retail health segment, while motor insurance growth will hinge on vehicle sales momentum and the upcoming revision of third-party (TP) tariffs. However, intensified competition and uncertainties in the international geopolitical environment would remain key monitorables for the non-life insurance sector."
- According to Sarthak Hirekhan, Analyst of CareEdge Ratings, "Operating efficiency for insurers has strengthened, with management expenses declining to 16.6% of NEP in FY25 from 27.0% in FY19, partially offsetting structurally higher distribution costs reflected in a net commission ratio of ~24.9%. Supported by ongoing regulatory reforms, rationalisation of GST rates, and increasing adoption of digital distribution, the sector's growth and profitability prospects remain stable, contingent on insurers' ability to maintain underwriting discipline and cost efficiency amid evolving competitive and operating conditions. "

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