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Research Article

## Regulatory Reforms and Institutional Performance: An Empirical Study of LIC in India's Life Insurance Sector

Jupinder Singh

Associate Professor, Mata Gujri College, Fatehgarh Sahib, Punjab, India

Corresponding Author: \*Jupinder Singh

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### Abstract

The liberalization and subsequent regulatory reforms in the Indian insurance sector have transformed it from a state-controlled monopoly into a dynamic, competitive, and well-regulated market. This study examines the impact of regulatory reforms on the institutional performance of the Life Insurance Corporation of India (LIC) in the post-liberalization period, using secondary data up to 2025–26. The analysis focuses on key performance indicators such as premium mobilization, policy issuance, market share, claim settlement performance, profitability, and digital transformation initiatives.

The study also evaluates the evolving market structure shaped by the entry and expansion of private life insurers, supported by reforms introduced by the Insurance Regulatory and Development Authority of India (IRDAI). Comparative trends between LIC and private insurers are analyzed to assess changes in competitive dynamics and operational efficiency.

The findings indicate that although LIC's market share has declined significantly from its pre-reform monopoly position, it continues to maintain a dominant presence in the industry due to its strong institutional legacy, widespread distribution network, high level of policyholder trust, and consistent claim settlement record. Furthermore, recent regulatory initiatives promoting digitalization, transparency, and customer-centric practices have compelled LIC to modernize its operations and improve service delivery.

The study concludes that regulatory reforms have enhanced overall sectoral efficiency, competitiveness, and innovation, while LIC has successfully adapted to the changing environment, retaining its systemic importance and leadership position in India's life insurance sector.

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**KEYWORDS:** Insurance Liberalisation, LIC of India, Private Insurers, Market Share, Insurance Reforms, Premium Growth, India.

## 1. INTRODUCTION

The life insurance sector plays a crucial role in mobilizing long-term savings, providing financial security, and supporting economic development. In India, the sector was nationalized in 1956 with the establishment of the Life Insurance Corporation of India (LIC), which enjoyed a monopoly for over four decades. While this monopoly ensured stability and trust, it also limited competition, innovation, and product diversity.

The enactment of insurance sector reforms in 1999 and the establishment of the Insurance Regulatory and Development Authority of India (IRDAI) paved the way for private participation from 2000 onwards. The post-reform period witnessed the entry of several domestic and foreign joint venture insurers, leading to intensified competition, new distribution channels, and product innovation.

This paper attempts to analyze how these reforms affected LIC's performance up to 2021–22 by examining policy issuance, premium collection, growth rates, and comparative performance with private insurers. The study also evaluates whether liberalization diluted LIC's dominance or compelled it to evolve into a more competitive and customer-centric institution.

## 2. REVIEW OF LITERATURE

Several studies have examined the impact of liberalization and subsequent regulatory reforms on India's insurance sector. Bhattacharya (2005) highlighted the challenges faced by the Life Insurance Corporation of India (LIC) in a competitive environment, emphasizing the need for operational efficiency and innovation. Kirubakaran (2012) analyzed insurance penetration and density, concluding that while liberalization improved outreach, overall penetration remained modest. Kumar and Kumari (2012) compared public and private insurers and found that private players exhibited faster growth, although LIC retained its dominant position. Kaliyamoorthy and Suresh (2013) observed that reforms contributed to improvements in service quality and consumer awareness. More recently, Tiwari and Yadav (2020) concluded that post-liberalization reforms significantly expanded policy volumes and premium income, although market concentration declined over time.

Recent developments up to 2025–26 further indicate that regulatory initiatives by the Insurance Regulatory and Development Authority of India (IRDAI), including digital transformation, enhanced solvency norms, customer-centric regulations, and the introduction of innovative products, have reshaped the competitive landscape. Studies and industry reports in the post-2021 period suggest that while private insurers continue to expand rapidly in terms of new business premiums and technological adoption, LIC has maintained its leadership through strong institutional trust, an extensive distribution network, and a high claim settlement ratio. Additionally, the growing emphasis on insurtech, online distribution channels, and financial inclusion has broadened market reach, though challenges related to insurance penetration and rural awareness persist.

Despite the expanding body of literature, comprehensive empirical assessments focusing on LIC's institutional performance in the extended reform period up to 2025–26 remain limited. This study attempts to bridge this gap by providing an updated and in-depth analysis of LIC's performance in the evolving regulatory and competitive environment.

## 3. Need for the Study

Despite over two decades of insurance reforms, LIC continues to dominate the Indian life insurance market. Understanding how reforms have influenced LIC's performance is essential for policymakers, regulators, and industry stakeholders. The study is needed to assess whether liberalization has weakened or strengthened LIC and to evaluate the balance between competition and financial stability in the insurance sector.

## 4. OBJECTIVES OF THE STUDY

1. To examine the impact of insurance sector reforms on the performance of the Life Insurance Corporation of India (LIC) in the post-liberalization period up to 2025–26.
2. To analyze growth trends in policy issuance, premium collection, and digital business expansion of LIC.
3. To compare the performance of LIC with private life insurers in terms of market growth, operational efficiency, and innovation in the post-reform period.
4. To evaluate changes in market share, competitive dynamics, and the evolving structure of the life insurance sector in India.
5. To assess the role of regulatory initiatives introduced by the Insurance Regulatory and Development Authority of India (IRDAI), including digitalization, customer-centric reforms, and solvency norms, in shaping LIC's institutional performance.

## 5. HYPOTHESES OF THE STUDY

- **H<sub>01</sub>:** Insurance sector reforms have not significantly affected LIC's performance.
- **H<sub>02</sub>:** There is no significant difference between the growth of LIC and private insurers after liberalisation.
- **H<sub>03</sub>:** Liberalisation has not reduced LIC's dominance in the Indian life insurance market.

## Data Analysis and Interpretation

### Market Share Analysis

Market share remains a critical indicator of competitiveness and structural transformation in the life insurance industry. Prior to liberalization, the Life Insurance Corporation of India (LIC) operated as a near-monopoly, accounting for approximately 97.46 percent of the total life insurance premium in India in 1999–2000. The opening of the sector to private players in 2000 marked a structural shift toward a competitive and regulated market.

By 2005–06, LIC's market share declined to around 85.75 percent, reflecting the early impact of private sector entry. This decline became more pronounced by 2010–11, when LIC's

share fell to 70.25 percent, coinciding with the rapid expansion of private insurers, product innovation, and aggressive marketing strategies. By 2021–22, LIC's market share further decreased to 62.58 percent, while private life insurers collectively accounted for nearly 37.42 percent of the market.

Recent trends up to 2025–26 indicate a continued, though gradual, shift in market dynamics. LIC's market share has moderated further to approximately 57–59 percent, whereas private life insurers have expanded their combined share to around 41–43 percent, reflecting sustained competitive pressure. This shift is driven by increased digital adoption, diversified product portfolios, improved customer engagement, and regulatory initiatives by the Insurance Regulatory and Development Authority of India (IRDAI) promoting transparency and innovation.

Major private insurers such as SBI Life Insurance, HDFC Life Insurance, ICICI Prudential Life Insurance, Max Life Insurance, and Bajaj Allianz Life Insurance have consistently strengthened their market presence, particularly in urban, semi-urban, and digitally connected segments. Their growth has been supported by bancassurance partnerships, insurtech integration, and targeted marketing strategies aimed at younger and higher-income customers.

Despite this relative decline, LIC continues to retain the largest individual market share, significantly exceeding that of any single private insurer. Its sustained leadership can be attributed to strong institutional trust, a vast branch and agency network, deeper penetration in rural and semi-urban areas, and a consistently high claim settlement ratio. Moreover, LIC's ongoing digital transformation initiatives and product diversification strategies indicate its adaptive response to the evolving competitive landscape.

Overall, the changing market share pattern reflects a transition from monopoly to oligopolistic competition, where both LIC and private insurers coexist, contributing to greater efficiency, innovation, and customer choice in India's life insurance sector.

### Interpretation:

The steady decline in LIC's market share clearly reflects the effectiveness of insurance sector reforms in promoting competition and reducing market concentration. However, LIC's continued dominance underscores its systemic importance in the Indian insurance landscape. Therefore, the null hypothesis  $H_{03}$  (Liberalization has not reduced LIC's dominance) is rejected.

### Growth in Policies Issued

The number of policies issued is a key indicator of outreach, customer acquisition, and the overall growth of the life insurance business. An analysis of policy issuance data reveals that the Life Insurance Corporation of India (LIC) has experienced substantial long-term expansion despite increasing competition from private insurers.

In 2001, LIC issued 19.68 million policies, marking the early phase of the post-liberalization period. During the initial reform years (2001–2005), growth remained moderate as private insurers focused on building distribution networks and targeting

specific market segments. By 2010, LIC's policy issuance increased to approximately 35 million, supported by rising income levels, improved financial awareness, and expanding insurance penetration.

The period from 2011 to 2016 witnessed accelerated growth, driven by product diversification, deeper rural outreach, and government-supported insurance initiatives. By 2016–17, LIC issued nearly 60 million policies annually, reflecting its strong distribution capabilities and extensive agent network. However, during 2020–21, policy issuance experienced a marginal decline due to the economic disruptions caused by the COVID-19 pandemic, reduced household savings, and mobility restrictions. Despite these temporary setbacks, LIC demonstrated resilience in the recovery phase. By 2021–22, the cumulative number of policies issued had reached approximately 198.75 million, representing a significant increase compared to the early reform period. Recent trends up to 2025–26 indicate a gradual stabilization and transformation in policy issuance patterns. While the volume of traditional policies has shown moderate growth, there has been a noticeable shift toward digital policy sales, term insurance products, and unit-linked insurance plans (ULIPs).

Furthermore, LIC has increasingly leveraged digital platforms, online servicing, and simplified policy processes to enhance customer reach and operational efficiency. Although private insurers have gained traction, particularly in urban and digitally active segments, LIC continues to maintain a strong presence in rural and semi-urban markets, ensuring broad-based inclusion.

By 2025–26, the cumulative number of policies issued by LIC is estimated to have crossed 230–240 million, reflecting sustained long-term growth, albeit at a moderated pace compared to earlier decades. This trend highlights a structural transition from volume-driven expansion to a more value-oriented and technology-driven growth model.

Overall, LIC's performance in policy issuance demonstrates its enduring capacity to adapt to changing market conditions while maintaining its leadership in customer outreach within India's life insurance sector.

### Interpretation:

The sustained increase in policy issuance confirms that competition did not adversely affect LIC's outreach. Instead, it compelled LIC to innovate, expand customer services, and strengthen distribution mechanisms. Hence, the null hypothesis  $H_{01}$  (Insurance reforms have not significantly affected LIC's performance) is rejected.

### Premium Collection Performance

Premium mobilization is a key indicator of financial strength and operational efficiency in the life insurance sector. The Life Insurance Corporation of India (LIC) has shown consistent growth in premium collection over the years, despite economic and competitive challenges. In 2001, LIC collected approximately ₹0.122 trillion in premiums, primarily from traditional policies. This figure increased steadily, crossing ₹1.0 trillion by 2010, reflecting rising incomes, improved savings habits, and expanding insurance awareness.

During the period 2011–2019, LIC maintained stable growth, supported by regulatory reforms, product rationalization, and improved persistency. Premium income reached around ₹1.77 trillion by 2018–19. Although growth slowed during 2020–21 due to the COVID-19 pandemic, LIC's premium collection recovered quickly, reaching nearly ₹2.0 trillion by 2021–22, aided by increased risk awareness among consumers.

Further developments up to 2025–26 indicate that LIC's premium income has grown to approximately ₹2.3–2.5 trillion, driven by product diversification, expansion of digital platforms, and regulatory support from the Insurance Regulatory and Development Authority of India (IRDAI). At the same time, private insurers have expanded rapidly, particularly in new business segments, and now account for nearly 48–50 percent of new business premium, reflecting intensified competition.

Despite this, LIC continues to lead in overall premium volume due to its strong institutional trust, extensive distribution network, and deeper reach in rural and semi-urban markets. Overall, premium trends highlight LIC's resilience and its ability to adapt to a competitive and evolving insurance landscape.

#### **Interpretation:**

The consistent growth in premium collection demonstrates LIC's ability to withstand economic shocks and maintain customer confidence. The data clearly shows that LIC adapted effectively to a competitive environment, reinforcing its financial stability and trustworthiness. The combined analysis of market share, policy issuance, and premium collection reveals that insurance sector reforms significantly transformed the Indian life insurance market up to 2021–22. While LIC's monopoly position declined, its absolute growth in policies and premiums remained robust. Liberalization fostered healthy competition without undermining LIC's role as the cornerstone of India's life insurance system.

#### **Findings of the Study**

The study reveals that liberalization and subsequent regulatory reforms have brought about a profound transformation in the structure and functioning of the Indian life insurance market. The dismantling of the monopoly of the Life Insurance Corporation of India (LIC) and the entry of private insurers significantly altered market dynamics by fostering competition, product innovation, digital transformation, and improved service delivery. The gradual decline in LIC's market share over time reflects the effectiveness of reforms in creating a more competitive and efficient environment. However, this structural shift has not diminished LIC's relevance; rather, it has encouraged operational efficiency, technological adoption, and modernization across the sector.

Despite intensifying competition from private life insurers, LIC has successfully retained its leadership position throughout the post-reform period and continues to do so up to 2025–26. Its sustained dominance is attributed to strong institutional trust, an extensive branch and agency network, sovereign backing, and a consistently high claim settlement ratio. While private insurers

have expanded rapidly particularly in urban, high-income, and digitally active segments—LIC remains the single largest insurer in terms of overall premium volume, policy base, and outreach, especially in rural and semi-urban regions.

The findings further indicate that private insurers have outpaced LIC in terms of growth rates, particularly in new business premium, digital sales, and customer acquisition strategies. This accelerated growth, however, continues to originate from a comparatively smaller base. In absolute terms, LIC maintains a significant lead, reflecting its scale of operations and deep market penetration. This dual trend—higher relative growth for private players alongside LIC's dominance in absolute terms—highlights the complementary and competitive coexistence of public and private insurers in the evolving insurance ecosystem. Additionally, the study finds that both policy issuance and premium mobilization have expanded substantially in the post-reform era and continue to grow up to 2025–26, though with a gradual shift from volume-driven to value-driven growth. Factors such as economic expansion, rising disposable incomes, financial literacy, urbanization, and increased awareness of risk particularly following the COVID-19 pandemic have significantly contributed to higher insurance adoption. Furthermore, regulatory initiatives by the Insurance Regulatory and Development Authority of India (IRDAI), including digitalization, customer-centric norms, and product standardization, have strengthened transparency, efficiency, and consumer confidence.

Overall, the reforms have not only led to quantitative expansion but also qualitative improvements in the life insurance sector. The industry has transitioned from a monopolistic structure to a competitive, innovation-driven, and customer-oriented market, where LIC continues to play a pivotal systemic role while adapting to the evolving regulatory and technological landscape.

#### **6. CONCLUSION**

The present study concludes that insurance sector reforms up to 2025–26 have significantly strengthened the Indian life insurance industry by promoting competition, operational efficiency, innovation, and enhanced consumer choice. The transition from a monopolistic to a competitive and regulated market structure has reshaped the industry without undermining financial stability. Although the monopoly position of the Life Insurance Corporation of India (LIC) ended with liberalization, its dominance has persisted due to strong financial fundamentals, extensive outreach, sovereign backing, and enduring public trust.

Rather than weakening LIC, regulatory reforms and competitive pressures have compelled the institution to modernize its operations, diversify its product portfolio, adopt digital and technology-driven processes, and improve customer service delivery. Simultaneously, private insurers have introduced innovation, efficiency, and alternative distribution channels such as bancassurance and digital platforms, thereby accelerating sectoral growth. The coexistence of LIC and private insurers has created a more balanced, resilient, and

dynamic insurance ecosystem capable of addressing diverse consumer needs across socio-economic segments.

Furthermore, developments up to 2025–26 indicate an increasing shift toward digitalization, customer-centric regulations, and product innovation under the guidance of the Insurance Regulatory and Development Authority of India (IRDAI). These changes have enhanced transparency, accessibility, and efficiency within the sector. Despite these advancements, challenges such as relatively low insurance penetration, regional disparities, and limited awareness in rural areas continue to persist.

In essence, the reforms have achieved their core objective of strengthening the life insurance sector by fostering competition while preserving LIC's systemic importance as a cornerstone of India's financial architecture. However, sustained policy focus on financial inclusion, digital literacy, and innovative product design will be essential to ensure broader coverage and long-term, inclusive growth of the insurance sector in India.

### Recommendations

In light of the findings and conclusions of the study, several policy-oriented and managerial recommendations are proposed to strengthen the performance and inclusiveness of India's life insurance sector.

First, the Life Insurance Corporation of India (LIC) should further accelerate its digital transformation initiatives by integrating advanced technologies such as data analytics, artificial intelligence, and customer relationship management (CRM) systems. Leveraging digital platforms, mobile applications, and automated underwriting processes can enhance service delivery, improve persistency ratios, and deepen customer engagement. A stronger digital ecosystem will also help LIC remain competitive against technologically advanced private insurers while optimizing operational efficiency.

Second, private life insurers should expand their strategic focus toward rural and semi-urban markets to improve insurance penetration and promote financial inclusion. Despite rapid urban growth, a large segment of India's population remains underinsured. Insurers can tap this potential by offering simplified products, micro-insurance schemes, and vernacular-based digital interfaces, along with partnerships with local institutions such as banks, self-help groups, and cooperative societies.

Third, regulators such as the Insurance Regulatory and Development Authority of India (IRDAI) must continue to maintain a balance between fostering competition and ensuring financial stability. Strengthening regulatory oversight in areas such as solvency margins, corporate governance, data protection, and market conduct is essential. At the same time, a flexible regulatory environment that supports insurtech innovation, digital onboarding, and new product approvals will encourage sustainable growth.

Fourth, there is a need to promote product innovation tailored to diverse socio-economic segments. Affordable, flexible, and need-based insurance products particularly for low-income households, informal sector workers, gig economy participants,

and first-time policyholders should be prioritized. The development of hybrid products combining protection and savings, along with pension-oriented plans, can further enhance long-term financial security.

Fifth, insurance awareness and financial literacy initiatives should be significantly strengthened at the national level. Coordinated efforts involving government agencies, insurers, educational institutions, and media platforms are necessary to improve understanding of insurance products and their benefits. Digital campaigns, inclusion in academic curricula, and community-level outreach programs can play a crucial role in transforming insurance from a discretionary purchase into a fundamental component of financial planning.

Finally, with the growing importance of digital ecosystems up to 2025–26, emphasis should also be placed on cybersecurity, data privacy, and consumer protection. Building trust in digital insurance platforms will be essential for sustaining long-term growth and enhancing customer confidence.

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#### About the Corresponding Author



**Dr. Jupinder Singh** is a seasoned academician and economist currently serving as Associate Professor and Head of the Post Graduate Department of Economics at Mata Gujri College, Fatehgarh Sahib, Punjab, India. With over 25 years of extensive teaching experience in the field of Economics, he has made significant contributions to higher education and academic leadership, playing a pivotal role in shaping the academic environment of the institution.

He holds a Doctorate in Economics, along with a Master's degree in Economics, He is UGC-NET qualified, and also possesses an MBA, reflecting his strong academic foundation and interdisciplinary expertise. His areas of specialization include Advanced Economics, Managerial Economics, and the Political Economy of Development, followed by Development Economics, Public Finance, and Economic Policy. With this diverse and comprehensive academic background, he has made significant contributions to teaching, research, and academic development, and has guided and mentored numerous postgraduate students over the years, fostering strong analytical and research capabilities in the field of economics.