

Why LIC Policies Generally Offer Lower Returns

-GIRISH GAUR

LIC is a trusted and iconic institution in India, especially valued for safety and long-term stability. However, when returns are compared with private life insurers like Axis Max Life, LIC products often appear less rewarding. The reasons are structural rather than accidental.

1. Conservative Investment Approach: LIC follows an extremely cautious investment strategy. A very large portion of its funds is invested in:

- Government securities
- PSU bonds
- Low-yield fixed-income instruments

These are safe, but they generate modest returns, which directly impacts the bonuses and maturity values paid to policyholders.

2. Higher Exposure to Government & PSU Obligations: As a government-owned entity, LIC often plays a strategic role in:

- Supporting disinvestment programs
- Investing in stressed or underperforming PSUs
- Acting as a long-term stabilizer in capital markets
- While this helps the economy, it can dilute policyholder returns, as such investments are not always return-optimised.

3. Traditional “With-Profit” Product Dominance: Most LIC policies are:

- Endowment or money-back plans
- Heavily bonus-driven
- Based on traditional actuarial assumptions

Bonuses are declared conservatively and are not revised frequently, which limits upside even when markets perform well.

4. **Lower Transparency in Return Communication:** LIC usually highlights: **“Sum Assured + Bonus”** rather than clearly communicating IRR (Internal Rate of Return).

In many cases, when IRR is calculated, net returns fall in the range of 4–5% per annum, which is only marginally higher than long-term fixed deposits and often below inflation.

5. **High Operating Scale & Legacy Costs :** Being a massive, legacy organisation, LIC carries:
- Large employee and pension obligations
 - Traditional operating systems
 - Slower product innovation cycles
 - These factors reduce overall efficiency and impact distributable surplus.
6. **‘Safety First’ Philosophy Over Wealth Creation:** LIC’s core promise has always been:
“Capital protection with guaranteed stability”
Not: ***“Maximised long-term wealth creation”*** > ***“Capital protection with guaranteed stability”***
So while risk is minimal, return potential is also capped.

How Private Insurers Differ (e.g., Axis Max Life)

Private insurers generally:

- **Invest more dynamically (within IRDAI norms)**
- **Offer ULIPs, PAR & Non-PAR products with higher efficiency**
- **Focus on IRR-based return visibility**

Align surplus distribution more directly with policyholder benefit. This often results in better long-term outcomes, especially for financially aware clients

LIC vs Axis Max Life comparison

Returns & Investment Performance Growth Fund (Equity + Balanced mix)	Axis Max Life ULIP / Growth Funds (2025 figures). These reflect market-linked funds inside Axis Max Life ULIP <ul style="list-style-type: none"> • 1-year: ~6.4% • 3-year CAGR: ~11% • 5-year CAGR: ~11.2% • 7-year CAGR: ~10.75% • 10-year CAGR: ~10.03% Return Since Inception: ~12.1% CAGR
Balanced Fund	<ul style="list-style-type: none"> • 1-year: ~6.0% • 3-year CAGR: ~10.16% • 5-year CAGR: ~8.89% • 7-year CAGR: ~9.51% • 10-year CAGR: ~8.93%
Pension Growth Super (more equity-oriented)	<ul style="list-style-type: none"> • 3-year CAGR: ~17.27% • 5-year CAGR: ~24.77% • 7-year CAGR: ~17% • 10-year CAGR: ~14.41%

These figures show clear long-term growth trends in return-seeking components of Axis Max Life portfolios.

LIC With-Profit Plans (Traditional Bonus)

- LIC participating policies do not publish standard market returns like ULIP funds. Instead they declare simple reversionary bonuses + FAB annually.

- Latest **bonus structure shows higher bonus slabs for larger sum assured but actual IRR is not formally published** centrally. Bonus rates are declared annually and depend on surplus from LIC's investment and actuarial results.
- Independent return calculators suggest that traditional **LIC participating plans often generate effective annualised returns around ~4–6% over long terms** (varies by plan and term length) — lower than equity-linked or balanced ULIP fund returns.

LIC bonus rates are per ₹1,000 sum assured and depend on future surplus. Past bonus charts show for example typical bonus rates of ~Rs.40–50 per ₹1,000 SA for long-term plans — but this is only part of the final matured value.

	Metric	LIC	Axis Max Life
	CSR (Claims settled in 30 days, number of policies)	96.42%	99.79%
	CSR (By amount paid within 30 days)	~95.23%	~99.97%
<p>1. Axis Max Life is consistently above industry CSR benchmarks.</p> <p>2. LIC still settles large volumes (800k+ claims) but comparatively lower CSR on speed metrics.</p>			
Bonus & Participating Policy Allocation	<ul style="list-style-type: none"> • Bonus rates are declared annually, but no central IRDAI report publishes a comparable “total bonus quantum” like a private insurer’s PAR disclosure. • LIC’s bonus structure now has enhanced slabs for sum assured ≥₹5 L to improve long-term benefits. 	Axis Max Life (Participating / PAR): <ul style="list-style-type: none"> • Declared ₹2,135 Cr PAR bonus for FY24-25, covering 21 lakh+ policies. • PAR Fund grew from ~₹67,722 Cr to ~₹74,119 Cr, a strong growth trend. 	
What This Means in Practice Return Context	Typical LIC participating IRRs calculated by independent tools often fall below balanced market returns, especially in inflation-adjusted terms.	Axis Max Life market-linked returns (ULIP funds) typically show higher CAGR over long terms vs LIC traditional participating returns which are shaped mostly by bonus declarations and interest rates.	

Metric	LIC	Axis Max Life
Risk & Stability	LIC: Very conservative, guarantees + participation → less volatile but lower upside potential.	Axis Max Life ULIPs/participating plans: Market-linked growth + disciplined PAR bonus strategy aiming for balance between upside and stability.
Claims & Service	LIC has high absolute volume but comparatively lower speed ratio in settling claims within 30 days.	Axis Max Life has one of the highest claim settlement ratios among private life insurers, including quick settlement by amount paid.

BOTTOMLINE:

LIC: Ideal for clients who want simple traditional insurance + capital protection + steady bonuses. Returns often behave like fixed income plus bonus — stable but limited relative to long-term market growth.

Axis Max Life: Delivers higher long-term growth potential, especially in ULIP / PAR style policies where investment and bonus combine effectively. Excellent claim service track record and disciplined PAR bonus distribution.

Compiled by:

		GIRISH GAUR Advisor, AXIS MAX LIFE INSURANCE	
 +91-7906284866 8859662533	 +91-7906284866 8859662533	 @girish.garry4u@gmail.com girish.gaur@rediffmail.com	 