

## ASSET ALLOCATION STRATEGIES IN INDIAN INSURANCE SECTOR AT LIC OF INDIA

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**ABSTRACT:** The investment decisions of the Life Insurance Corporation of India (LIC), India's greatest insurance provider, are the subject of this study. It evaluates the extent to which LIC adheres to IRDAI regulations in its investments in infrastructure initiatives, government securities, corporate bonds, and equities. The research suggests that LIC implements a prudent yet diverse investment strategy to guarantee consistent returns and safeguard policyholders. It also examines the impact of fluctuations in the stock market and economy on LIC's portfolio strategies. Since it allocates long-term capital to industries that promote national prosperity, the data suggest that LIC is a critical component of development. The research demonstrates how LIC maintains its financial stability and long-term viability by balancing regulatory obligations, risk, and return.

**Index Terms:** *Asset Allocation, LIC (Life Insurance Corporation of India), Investment Strategy, Portfolio Management, Government Securities, Corporate Bonds,*

### 1. INTRODUCTION

Diversifying one's financial resources among various asset classes, such as equities, fixed income securities, cash equivalents, and other investments, is referred to as asset allocation. The primary objective of asset allocation is to reduce investment risk. It is likely that the returns from a variety of assets will not be consistent. Market volatility may influence investments that are contingent upon market returns. As a result, diversifying your investments across a variety of asset classes can reduce risk, reduce the likelihood of financial loss, and increase the potential for increased returns.

Investors should consider the following factors when determining fund allocation, regardless of whether they are investing in alternative investments or ULIP plans.

**Risk Tolerance:** The capacity to manage market volatility without experiencing distress is referred to as risk tolerance.

**Investment Horizon:** The period of time during which you intend to retain your capital before it is required.

**Financial Goals:** This involves the allocation of funds for retirement, a ULIP, or other significant financial objectives.

Diversifying your capital across a variety of asset classes, such as equities, fixed-income securities, precious metals, and real estate, is the investment strategy known as asset allocation, which minimizes risk. The primary objective of asset allocation is to guarantee that your portfolio operates at its best under a variety of market conditions. To achieve this, it is necessary to ensure that your portfolio contains a diverse selection of asset types, as no single asset class consistently outperforms others.

The insurance industry in India is crucial for the allocation of resources toward the country's economic advancement and infrastructure development, as well as the

promotion of long-term savings. Insurers must make strategic decisions regarding the allocation of the substantial funds they have received from policyholders.

Asset allocation strategies are the deliberate methods used to distribute assets across a variety of investment categories, including equities, money market instruments, corporate bonds, government bonds, and alternative investments. These solutions are designed to strike a balance between ensuring that policyholders receive consistent returns and preserving the company's financial stability for the fulfillment of long-term obligations. The Insurance Regulatory and Development Authority of India (IRDAI) imposes stringent regulations on insurance companies in India. These regulations cover the categories of investments that are permissible, the level of risk that is acceptable, and the measures that are in place to safeguard the interests of policyholders.

## 2. LITERATURE SURVEY

Lakshmi, Y. (2020). This paper investigates the efficacy and application of portfolio insurance strategies in the Indian stock markets, with a particular emphasis on the CPPI and OBPI models. The study evaluates the effectiveness of a variety of strategies in addressing precipitous market disruptions and variable volatility levels through a comprehensive analysis of historical market data. Simulated portfolios are designed to evaluate the performance of insured portfolios in both favorable and bearish markets. The results suggest that CPPI's performance is improved during substantial declines due to its capacity to swiftly adjust its exposure. In contrast, OBPI is particularly

effective in turbulent conditions due to its provision of structural downside protection.

Sharma, R., & Gupta, A. (2021): The results of this investigation are the result of an exhaustive survey that was conducted to assess the asset allocation and risk management strategies implemented by Indian life insurance. It evaluates the application of methodologies such as scenario analysis, stress testing, and internal risk modeling frameworks in the development of investment decisions. The data indicates that insurers prioritize market conditions, obligation duration, and regulatory regulations when developing their portfolios. The study demonstrates the growing significance of corporate risk management and its potential to enhance investment governance. Respondents reported experiencing challenges in integrating sophisticated quantitative models into conventional decision-making processes as a result of financial constraints.

Basu, H., Maini, S., & Narayanan, S. (2022): This monograph provides a thorough analysis of stochastic asset-liability modeling (ALM) and its importance to the Indian insurance industry. It delineates the probabilistic modeling methodologies that are used to forecast future cash flows from obligations and assess the sufficiency of asset portfolios in the presence of uncertainty. The authors demonstrate how insurance companies can evaluate their insolvency risk, interest rate sensitivity, and long-term investment success by utilizing stochastic simulations. The article employs case studies to demonstrate the practical application of ALM in duties such as regulatory compliance, strategic asset allocation, and capital planning. The study

emphasizes the limitations of deterministic models, which frequently fail to consider economic volatility and extreme tail events.

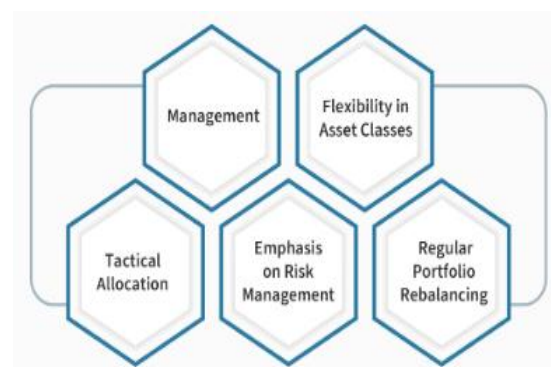
Mahajan, K. (2023): This investigation investigates the function of portfolio rebalancing strategies and asset-liability management (ALM) in life insurance organizations that operate in emerging markets. The paper investigates the manner in which insurers modify their investment portfolios to align with long-term liability frameworks in response to changing macroeconomic conditions, utilizing panel data from numerous emerging economies. The research investigates the influence of regulatory constraints on investment flexibility, as well as duration alignment and rebalancing triggers.

Poufinas, T., & Siopi, E. (2024): This study investigates the influence of investment portfolio allocation on the solvency status of European insurance companies under the Solvency II regime. Using panel data from numerous insurers, the investigation investigates the influence of risk-based capital requirements on asset selection and diversification strategies. The findings suggest that investors are reallocating their investments to more secure portfolios by increasing their holdings of government bonds and high-quality liquid assets in order to satisfy solvency requirements. The survey suggests that individuals are becoming less inclined to invest in equities and other high-volatility securities as a result of the increased capital costs.

Narmadha, A. (2025): This case study examines the investment philosophies, risk limitations, and portfolio construction strategies implemented by mutual fund managers and insurance companies. The

study evaluates performance over a variety of market periods by examining historical allocation patterns in equities, fixed income, hybrid, and alternative assets. The findings indicate that insurers prioritize regulatory compliance, liability matching, and stability, while mutual funds concentrate on return maximization and market timing.

### 3. DYNAMIC ASSET ALLOCATION FUNDS



Dynamic Asset Allocation Funds are distinguished from other investment funds in a number of ways:

#### **Management:**

Portfolio managers are responsible for the active supervision of these funds, as they meticulously monitor market conditions and make prompt decisions regarding asset allocation. They employ an active strategy in contrast to index funds, which strive to replicate benchmark performance.

#### **Flexibility in Asset Classes:**

A wide range of asset categories, such as equities, bonds, commodities, real estate, and alternative assets, can be invested in dynamic asset allocation funds. This adaptability allows fund managers to adjust their allocations in accordance with their assessment of market performance.

#### **Tactical Allocation:**

Asset allocation strategies are employed by fund administrators to temporarily alter

the asset mix of a portfolio. These modifications may be influenced by geopolitical events or fluctuations in interest rates.

#### **Emphasis on Risk Management:**

One of the objectives of these funds is risk management. In order to safeguard their capital, they may limit their investment in high-risk assets during market declines. However, they may increase their exposure to assets in order to capitalize on potential profits in the event of favorable market conditions.

#### **Regular Portfolio Rebalancing:**

Regular adjustments are implemented to ensure that the fund portfolio is consistent with market fluctuations. in accordance with its investment strategy.

## **4. ASSET ALLOCATION STRATEGIES FOR SUCCESSFUL PORTFOLIO MANAGEMENT**

The profitability of an investment portfolio is significantly impacted by asset allocation, a critical element of the investment process.

The returns on the principal asset classes have fluctuated independently over time in response to varying market conditions. A balanced risk-return profile is achieved by diversifying investments across a variety of asset classes, including equities, fixed income, cash equivalents, real estate, and commodities. In order to achieve financial objectives and reduce risk, effective portfolio management necessitates strategically investing across a variety of asset classes. Financial objectives or target returns, risk tolerance, and the duration of the investment strategy are the three primary factors that determine the allocation of funds.

In order to achieve the desired results, financial advisors employ a variety of asset allocation strategies that are customized to the investor's objectives and preferences.



#### **Strategic Asset Allocation**

This investment strategy ensures that the portfolio is consistent with the risk tolerance of the individual. It aids in the determination of the asset ratio that includes cash, equities, and fixed-income securities.

Buy and retain is the recommendation of this long-term investment strategy. It encourages investors to diversify their portfolios in order to reduce risks and increase profits.

Strategic allocation is a passive strategy that periodically modifies the predetermined investment blend to address imbalances in allocation.

#### **Constant-Weighting Asset Allocation**

The investment portfolio's equilibrium is preserved by a constant weighting method, which adjusts the weights in response to market volatility. This is distinct from strategic asset allocation.

This approach ensures that the asset classes do not deviate from the initial investment allocation by more than 5%.

#### **Tactical Asset Allocation**

This methodology is implemented by investors to address strategic allocation challenges and facilitate short-term investment decisions. This method is quite active, as it returns to the original investment composition after short-term gains are realized.

### Dynamic Asset Allocation

This investment strategy is the most prevalent because it allows for the continuous adjustment of asset allocation in response to economic and market fluctuations. This approach entails the acquisition of assets that are appreciating and the divestment of assets that are depreciating.

### Insured Asset Allocation

Investors may eliminate risk altogether by employing assured asset allocation.

The investor establishes a fundamental asset value in order to prevent financial loss. If the portfolio depreciates below this threshold, they either modify or select an alternative investing strategy.

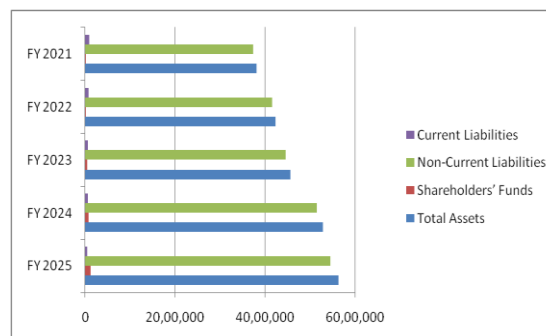
### Integrated Asset Allocation

This approach allows for the examination of the most critical components of the asset allocation decision. When selecting an asset allocation, it is imperative to assess both the risks and the economic forecasts.

## 5. DATA ANALYSIS AND INTERPRETATION

### TOTAL ASSETS & LIABILITY STRUCTURE (₹ Cr.)

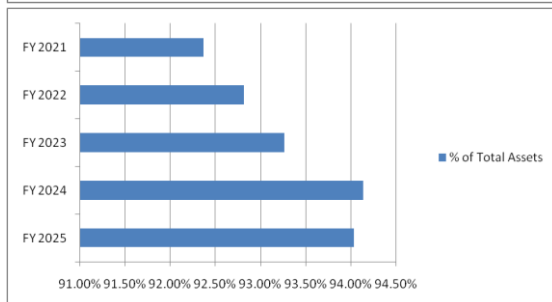
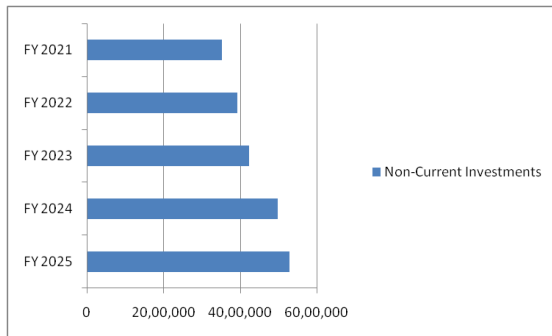
ASSETS & LIABILITY	Total Assets	Shareholders' Funds	Non-Current Liabilities	Current Liabilities
FY 2025	56,23,844	1,26,188	54,48,967	48,690
FY 2024	52,85,533	81,938	51,40,100	63,494
FY 2023	45,50,512	45,669	44,45,462	59,381
FY 2022	42,30,590	10,409	41,48,936	71,245
FY 2021	38,11,756	6,361	37,22,542	82,853



**INTERPRETATION:** The company's total assets increased gradually from ₹38,11,756 crore in FY 2021 to ₹56,23,844 crore in FY 2025. This demonstrates the rapid expansion of the balance sheet. The wealth of shareholders increased from ₹6,361 crore in FY 2021 to ₹1,26,188 crore in FY 2025. This suggests that the organization was increasing its revenue and fortifying its capital. During the same period, non-current liabilities increased from ₹37,22,542 crore to ₹54,48,967 crore, indicating the corporation's continued reliance on long-term debt to support asset growth. Current liabilities decreased from ₹82,853 crore in FY 2021 to ₹48,690 crore in FY 2025. This indicates that short-term liquidity has increased and working capital management has been improved.

### INVESTMENT ASSET MIX (Core of Asset Allocation)

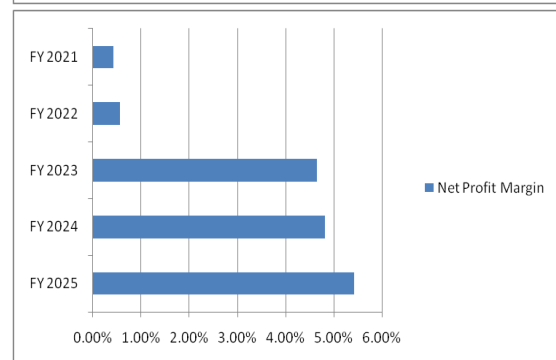
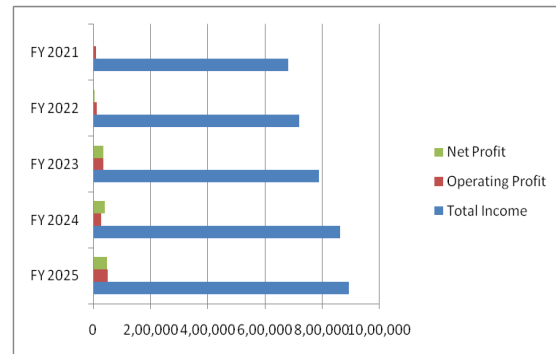
INVESTMENT ASSET MIX	Non-Current Investments	% of Total Assets
FY 2025	52,88,617	94.04%
FY 2024	49,75,514	94.14%
FY 2023	42,44,851	93.27%
FY 2022	39,26,044	92.82%
FY 2021	35,21,318	92.37%



**INTERPRETATION:** According to the investment asset allocation, non-current investments have consistently been the leading segment of the balance sheet, rising from ₹35,21,318 crore in FY 2021 to ₹52,88,617 crore in FY 2025. The insurance industry's robust commitment to long-term investments is evident in the considerable proportion of total assets, which ranges from 92.37% to 94.14%. The prudent management of capital and the incorporation of new assets are suggested by the consistent increase in investment values. The company's portfolio strategy appears to be consistent, with an emphasis on long-term instruments that are in alignment with its liabilities. This is supported by the modest annual increase in the proportion of investments.

#### PROFITABILITY ANALYSIS (₹ Cr.)

PROFITABILITY	Total Income	Operating Profit	Net Profit	Net Profit Margin
FY 2025	8,91,735	51,596	48,151	5.42%
FY 2024	8,62,683	27,228	40,676	4.82%
FY 2023	7,87,391	36,392	36,397	4.65%
FY 2022	7,19,473	13,506	4,043	0.56%
FY 2021	6,82,225	10,824	2,901	0.42%



**INTERPRETATION:** The company's total income increased significantly from ₹6,82,225 crore in FY 2021 to ₹8,91,735 crore in FY 2025. This suggests that the organization's revenue has been steadily increasing. The operational profit increased from ₹10,824 crore to ₹51,596 crore during the same period. This suggests that the business was more adept at managing expenses and conducting operations. The net profit experienced a significant increase, rising from ₹2,901 crore in FY 2021 to ₹48,151 crore in FY 2025. Enhanced profitability and stability were demonstrated by the organization's net profit margin, which increased from 0.42% to 5.42%.

## 6. CONCLUSION

In conclusion, the long-term sustainability, stability, and robustness of insurance companies in India are contingent upon asset allocation. By strategically allocating investments among equities, bonds, government securities, and other assets, insurers can tailor their portfolios to align

with their liability structures, regulatory obligations, and evolving market conditions.

Additionally, prudent asset allocation optimizes risk-adjusted returns, protects capital, guarantees solvency, and accommodates economic fluctuations. As the Indian insurance market evolves and undergoes transformation, advanced asset allocation methodologies, which include dynamic adjustments, ALM-driven decisions, ESG integration, and technology-enabled monitoring, are becoming more indispensable.

The comprehensive implementation of regulatory reforms, enhanced governance, and stronger investment discipline will significantly increase portfolio resilience. Ultimately, a precisely designed asset allocation strategy ensures that insurers can fulfill their obligations to policyholders, maintain financial stability, and make a substantial contribution to India's economic growth.

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