17. Bridging the Protection Gap: Financial Inclusion and Insurance Accessibility during Crises A Theoretical and Conceptual Analysis

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Abstract

Insurance is the part of financial inclusion that gets talked about least and needed most. When COVID-19 hit, when cyber-attacks became routine, and when geopolitical shocks began rippling through supply chains and currencies, households and small businesses found out how thin their protection really was. Financial inclusion is usually measured by bank accounts and credit access, but that misses something important: a family that can save and borrow but cannot insure is still one bad year away from poverty. This paper asks why insurance accessibility in India has lagged behind other forms of financial inclusion, particularly during crises, using a qualitative approach grounded in four theories, the access-usage-quality framework, prospect theory, diffusion of innovation theory, and the sustainable livelihoods framework. It traces India's financial inclusion policy, evaluates schemes like PMJJBY, PMSBY, PMFBY and Ayushman Bharat, and looks at what InsurTech and IRDAI's reforms have actually achieved. The barriers that emerge, affordability, literacy, distribution gaps and a persistent trust deficit around claims, resurface with particular force whenever a crisis hits. The paper closes with five practical steps and argues that insurance accessibility deserves to be central to financial inclusion policy, not an afterthought.

Keywords: *Financial Inclusion, Insurance Accessibility, Micro-insurance, Protection Gap, Crisis Management, InsurTech*

1. Introduction

Insurance does something no other financial product quite manages: it turns an unpredictable, potentially ruinous loss into a small, known cost. That should make it indispensable for any household living close to the edge. Yet across India, insurance remains the piece of financial inclusion that policy has struggled hardest to deliver. Bank account ownership under Pradhan Mantri Jan Dhan Yojana climbed rapidly over the past decade; insurance penetration did not keep pace, and the gap shows up exactly when it matters least to be missing. COVID-19 pushed uninsured families into medical debt and shut down uninsured businesses with no cover for lost income; cyber-attacks and geopolitical tension have since added risks most existing products were never built to handle. Financial inclusion, as usually framed, savings, credit, payments, leaves out the piece that decides whether a shock is survivable or ruinous.

2. Review of Literature

Five sources, in particular, shape the argument that follows.

 ISBN: 978-81-687720-2-1

Study 1: ***World Bank (2025) – The Global Findex Database 2025***
Global account ownership has reached 79% of adults, but insurance and risk-management usage lags well behind, especially among low-income and rural households.
Study 2: ***Swiss Re Institute (2024) – sigma Resilience Index 2024***
Swiss Re's resilience research puts the global protection gap at a record high, widening fastest in emerging Asia, including India, during periods of stress.
Study 3: ***IRDAI (2024) – Annual Report 2023–24***
IRDAI's own reporting confirms Indian insurance penetration trails global and regional peers, non-life and health cover more than life insurance, even as the regulator pushes standard products and rural distribution.
Study 4: ***IAIS (2023) – Financial Inclusion***
The IAIS has shifted from a narrow access agenda to a broader one built around financial health, treating microinsurance, digitalisation and consumer protection as one strategy rather than separate boxes to tick.
Study 5: ***Sarma (2008) – Index of Financial Inclusion***
Sarma's access-usage-availability index, later adapted by the RBI, supplies the logic this paper borrows and applies specifically to insurance.
Read together, these five sources point the same way from different angles: usage lags access, crises widen the gap further, and the global consensus has shifted toward 'access isn't enough'. What's missing is a paper that puts these pieces together for India specifically, which is what this one attempts.

3. Theoretical Framework

Four theories do the heavy lifting here. Sarma's (2008) access-usage-quality framework, adapted by the RBI, separates whether a product exists from whether people actually use it and whether the service holds up, which explains why PMJJBY's enrolment numbers can look impressive while offering less protection than they suggest. Prospect theory (Kahneman & Tversky, 1979) explains why people under-insure against the very risks that would hurt them most, since a premium feels like a certain, immediate cost while the loss it covers feels distant. Rogers's (2003) diffusion of innovation theory explains why InsurTech has spread fast among urban, digitally confident populations and barely touched everyone else. The sustainable livelihoods framework (Chambers & Conway, 1992) treats insurance as a formal coping strategy that beats informal alternatives, like selling an asset in a hurry. These ideas frame the analysis in Section 9.

4. Objectives of the Study

Given the qualitative approach taken here (Section 5), these objectives are explored through reading and synthesis rather than statistical testing:

- Examine the link between financial inclusion and insurance accessibility during crises.
- Evaluate what government micro-insurance schemes have achieved for low-income households.
- Assess whether digital platforms and InsurTech have made insurance easier to access.
- Review IRDAI's regulatory reforms aimed at widening insurance penetration.
- Identify the barriers that still limit accessibility during crises.
- Propose a practical strategy for strengthening insurance accessibility.

ISBN: 978-81-687720-2-1

5. Research Methodology

This is a qualitative study built entirely on secondary sources; there is no survey, no statistical test, no primary data collection. The evidence comes from IRDAI, RBI, the World Bank's Findex database, Swiss Re's sigma research, IAIS guidance, and official documentation for PMJJBY, PMSBY, PMFBY and PMJAY, read for recurring themes, affordability, distribution, trust, regulation, then interpreted through the theories in Section 3 and checked against each objective in Section 9.

6. Financial Inclusion and Insurance Accessibility in India

India's financial inclusion story moved from branch expansion to the JAM trinity, Jan Dhan accounts, Aadhaar, mobile connectivity, and transactional access grew fast. Insurance did not keep pace: the RBI's own Financial Inclusion Index shows its insurance sub-index consistently behind banking, another way of saying access and protection are not the same thing. A household that can save and borrow but cannot insure is still fragile, one medical emergency or lost earner, and debt usually follows. Insurance supports inclusion through direct protection, better credit access via insured collateral, and channelling savings into the formal system, yet Indian penetration remains below global norms, and the protection gap stays widest for health and mortality risk among informal households.

7. Crises and the Protection Gap

COVID-19 made the case bluntly. Uninsured households absorbed catastrophic medical bills directly; uninsured businesses without interruption cover simply did not survive the lockdowns. Cyber risk has grown just as fast as digital payments, but insurance uptake among Indian SMEs has not followed, and political risk gets coverage mostly for large corporates. The pattern repeats: those least able to absorb a shock are usually the least insured against it (Table 1).

Table 1: Emerging Risk Categories and Insurance Response in India

Risk Category	Primary Impact	Insurance Response	Accessibility Gap
Pandemic	Catastrophic medical costs	Health insurance, PMJAY	Low informal-worker cover
Cyber Attacks	Data breach, interruption	Cyber liability (corporate)	Very low SME uptake
Geopolitical Risk	Trade disruption, asset loss	Political/trade credit cover	Mainly large corporates
Crop Failure	Loss of farm income	PMFBY	Delayed claims
Death/Disability	Loss of household income	PMJJBY, PMSBY	Low renewal, low cover

8. Government Schemes, Digital Distribution and Regulatory Response

The government has rolled out several low-premium schemes aimed at this population: PMJJBY for life cover, PMSBY for accidental death and disability, PMFBY for crop losses, and Ayushman Bharat–PMJAY for hospitalisation (Table 2), mostly distributed through Jan Dhan-linked auto-debit and business correspondents. Enrolment numbers look strong, but renewal and claim data suggest protection quality does not always match the headline figures. Self-help groups have proven an effective micro-insurance channel, mainly because they already carry trust and low-cost

 ISBN: 978-81-687720-2-1

reach insurers struggle to build from scratch. Digital InsurTech and Aadhaar e-KYC have cut cost and claim time, though uptake remains mostly urban. IRDAI's sandboxes and rural distribution rules fix supply-side problems more than the behavioural ones that keep people from buying cover.

Table 2: Government-Backed Insurance Schemes Supporting Financial Inclusion

Scheme	Coverage	Target Population	Distribution
PMJJBY	Life cover (any cause)	Age 18–50, account holders	Auto-debit
PMSBY	Accidental death/disability	Age 18–70, account holders	Auto-debit
PMFBY	Crop yield loss	Farmers	Banks, CSCs, insurers
Ayushman Bharat–PMJAY	Hospitalisation cover	SECC-identified families	Empanelled hospitals

9. Analysis and Discussion: Mapping Evidence to Objectives

Bringing the themes above back to the six objectives in Section 4:

- Objective 1: the access-usage gap confirms insurance accessibility deserves separate attention, especially in a crisis.
- Objective 2: schemes get people enrolled, but quality, renewal and claim speed lag behind quantity.
- Objective 3: digital insurance cuts costs but adoption is uneven, complementing rather than replacing last-mile channels.
- Objective 4: IRDAI's reforms target supply problems more than the behavioural reasons for under-insurance.
- Objective 5: affordability, literacy, distribution and trust recur across risk categories and worsen in crises.
- Objective 6: no single fix works alone; strategy must address all four together.

10. Challenges and Strategies

Affordability is still the biggest obstacle, alongside low literacy, thin rural distribution and a trust problem rooted in slow or disputed claims, all of which worsen precisely when a crisis hits, since insurers turn cautious right when demand rises. Cyber and political risk cover barely exists for small businesses. A few practical steps could help:

- Simplified, income-calibrated products instead of scaled-down retail policies.
- Wider use of embedded and parametric insurance to cut cost and claim friction.
- Faster, more transparent claim settlement to rebuild trust.
- Insurance literacy folded into existing financial literacy programmes.
- Affordable cyber and business-interruption cover scaled for small enterprises.

11. Conclusion

Financial inclusion is not finished until insurance catches up with banking access, because insurance decides whether a shock is a bad year or a permanent setback. India's micro-insurance schemes, its growing InsurTech sector, and IRDAI's reforms represent real progress, but

 ISBN: 978-81-687720-2-1

affordability, literacy, distribution and trust gaps still stand between enrolment and actual protection. Insurance accessibility deserves to sit at the centre of financial inclusion policy, not its margins, if it is going to turn an uncertain catastrophe into something a family can plan around.

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 ISBN: 978-81-687720-2-1