2. Micro-Insurance as a Tool for Financial Inclusion of Rural Women in India: A Literature Review

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Abstract

Financial inclusion is a key driver of sustainable economic growth and gender equality especially in rural India. While the formal banking mechanisms have grown faster, the vulnerable population like rural women are highly susceptible to sudden socio-economic shocks, vagaries of climate and health crises. The paper discusses about the literature review on role of micro insurances as a strategic tool to bridge this security gap and fostering the financial inclusion of rural women in India. The paper discusses the current scenario of micro-insurance delivery models such as SHG linkages and public-private partnership models. Study has been done on the basis of secondary data and information from the academic journals, industry reports and regulatory frameworks of Insurance Regulatory and Development Authority of India (IRDAI). The review shows that the implementation of customised micro-insurance schemes can offer a substantial financial safety net to women in rural areas, thereby decreasing their indebtedness and improving their socio-economic resilience. However, the study highlights major structural challenges that hinder mass adoption including low financial literacy, complex claim settlement processes, trust issues and lack of gender-sensitive product design. The paper concludes with policy recommendations which primarily focus on improvement of digital mobile based delivery channels, simplification of documentation and targeted financial awareness campaigns. The review concludes by suggesting that the integration of micro-insurance into wider financial literacy programmes will be essential in transforming rural women from passive financial participants into powerful economic agents.

Keywords: Micro-insurance, Financial Inclusion, Rural Women, Economic Resilience

Introduction:

Financial inclusion is gaining recognition as a critical element of sustainable development and poverty alleviation around the world. This is central to achieving the United Nations Sustainable Development Goals, especially SDG 5 (Gender Equality) and SDG 8 (Decent Work and Economic Growth). India has made huge strides in the past decade in bringing more people into formal financial institutions, largely through state-led digital initiatives like the Pradhan Mantri Jan Dhan Yojana (PMJDY) and the expansion of mobile banking technologies. But new research suggests that having a formal bank account is an important first step, but does not offer blanket immunity against unforeseen economic shocks. For vulnerable groups, particularly women in rural areas, a single health crisis, crop failure or household crisis can completely wipe out hard earned savings, pushing them back into serious debt and poverty. Indian rural women have a unique combination of vulnerabilities. They are highly dependent on weather-sensitive sectors such as agriculture and livestock but lack productive assets. They also face socio-cultural barriers to access to formal credit and spaces for financial decision-making. These women are forced to turn to informal moneylenders who charge extortionate predatory interest rates when localised or systemic crises

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hit, without the support of structural safety nets. This revelation of the systemic risk signals a gaping hole in policy. Financial inclusion is not complete if it is limited to banking transactions and does not include strong protective financial instruments. Micro-insurance has emerged as a powerful, tangible tool to manage risk and close this important security gap. Micro-insurance is a low-premium low-coverage insurance product which is designed to cater for the needs of low-income households and acts as an economic shock absorber. It offers affordable policies for critical needs such as health, life, crop and livestock insurance. In a crisis, rural women will not be forced to sell their small assets or take their children out of school. Over the years, the practice of micro-insurance in India has mostly depended on community-based delivery models, especially SHG bank linkages and tie-ups with microfinance institutions (MFIs). The institutional architecture builds on pre-existing social networks to establish trust and provide risk mitigation products to the grassroots. Theoretical benefits of these programs are discussed but there are significant structural and behavioural bottlenecks to mass take up of micro-insurance among rural women. There have been a number of isolated regional studies looking at localised insurance schemes but there is an urgent need to collate this scattered data to understand the broader national picture. The present paper fills this gap by conducting a comprehensive literature review of secondary data, policy frameworks and regulatory reports of Insurance Regulatory and Development Authority of India (IRDAI). The main objectives of this study are threefold: To determine institutional delivery channels for micro-insurance to rural women. Specific socio-economic benefits and empowerment drivers of micro-insurance uptake are evaluated. To critically assess the persistent barriers to scaling these financial safety nets: low financial literacy, complexity of claim procedures and generic product design. The final aim of the study is to produce policy recommendations to make rural women less vulnerable and more resilient economic actors.

The literature on micro-insurance in India has evolved from viewing it as a mere "add-on" to microfinance loans to recognizing it as a standalone, critical instrument for financial resilience. Recent studies (2020–2026) emphasize that while banking penetration (via PMJDY) has increased, it remains insufficient without risk-mitigation tools, particularly for rural women who face distinct socio-economic vulnerabilities (Nandru et al. 12; "From Vulnerability to Resilience" 5).

The Shift from Financial Access to Financial Resilience

Early literature on financial inclusion primarily focused on "access" to bank accounts. However, contemporary research argues that true inclusion requires "resilience"—the ability to withstand economic shocks without falling into poverty traps. Studies indicate that rural women, despite having bank accounts, remain highly vulnerable to health crises, climate vagaries, and livelihood losses. A 2024 report by Women's World Banking highlights that while 88% of rural women in their sample had at least one insurance policy (mostly government schemes), only 2% actually utilized insurance claims during a crisis, relying instead on savings or high-interest borrowing ("From Vulnerability to Resilience" 8). This gap suggests that financial inclusion is incomplete without effective claim settlement and product relevance.

Institutional Delivery Models: SHGs, MFIs, and Public-Private Partnerships

The literature identifies three dominant delivery channels for micro-insurance in rural India, each with distinct advantages and limitations:

- **Microfinance Institutions (MFIs) and SHG Linkages:** This is the most cited model in academic literature. Research by Nandru et al. (2016) and recent analyses (2026) confirm

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that MFIs and Self-Help Groups (SHGs) leverage existing trust networks to distribute insurance. Women account for approximately 60% of policyholders in MFI-distributed schemes because these institutions allow for flexible premium collection aligned with loan cycles (Nandru et al. 15). However, critics note that this model often leads to "forced selling," where insurance is bundled mandatorily with loans, reducing genuine voluntary uptake ("From Vulnerability to Resilience" 12).

- **Public-Private Partnerships (PPPs) & Government Schemes:** The "Jan Suraksha" schemes (PMSBY, PMJJBY) represent a massive state-led intervention. Literature suggests these schemes have achieved high penetration (68% for accident insurance among rural women) due to extreme affordability (e.g., ₹20/year) ("From Vulnerability to Resilience" 6). However, scholars argue that while these public schemes cover mortality and accidents, they fail to address the more frequent "income shocks" women face, such as crop failure or minor health issues, creating a demand for private sector innovation ("From Vulnerability to Resilience" 9).
- **The "Bima Vahak" Model:** Emerging literature (2024–2025) discusses IRDAI's new "Bima Vahak" initiative, which recruits local women as insurance distributors at the Gram Panchayat level. Early assessments suggest this gender-intentional channel improves trust and literacy, addressing the historical lack of female agents in rural markets ("From Vulnerability to Resilience" 14).

Socio-Economic Benefits and Empowerment Drivers

The literature consistently links micro-insurance uptake to three key empowerment drivers for rural women:

1. **Reduction of Distress Coping Mechanisms:** Studies (e.g., Mhella, 2024; Habib et al., 2016) show that insured women are less likely to resort to negative coping strategies like selling productive assets (livestock, jewellery) or pulling children out of school during a crisis (Nandru et al. 18).
2. **Creditworthiness and Agency:** By mitigating risk, insurance acts as collateral substitutes, allowing women to access larger credit lines for entrepreneurship. Research indicates that women-led MSMEs with insurance coverage demonstrate higher financial stability and are viewed as lower-risk borrowers by formal institutions ("From Vulnerability to Resilience" 11).
3. **Decision-Making Power:** Qualitative studies reveal that women who hold independent insurance policies (rather than being covered under a husband's name) report greater autonomy in household financial decisions, particularly regarding health expenditures ("From Vulnerability to Resilience" 13).

Structural Challenges: The "Last-Mile" Barriers

Despite the theoretical benefits, the literature highlights persistent structural bottlenecks that hinder mass adoption:

- **Low Financial Literacy and Awareness:** A recurring theme across reports (IRDAI, Microinsurance Network) is the "awareness gap." While 61% of women may be aware of a scheme, only 41% understand the specifics, leading to low claim ratios ("From Vulnerability to Resilience" 7).

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- **Complex Claim Settlement:** The complexity of documentation and slow processing times (often 30–45 days) erodes trust. For daily wage earners, a delayed claim is as damaging as no claim at all (Nandru et al. 20).
- **Gender-Blind Product Design:** Scholars criticize the lack of gender-sensitive products. Most micro-insurance policies are generic "miniature" versions of retail products, failing to address women-specific risks like maternity complications, gender-based violence, or the specific climate risks faced by women farmers who often lack land titles ("From Vulnerability to Resilience" 10).
- **Trust Deficit:** Historical mis-selling by agents has created a "trust deficit." Literature suggests that women are more likely to trust community-based organizations (SHGs) than commercial insurance agents, necessitating a shift in distribution strategy (Nandru et al. 22).

Policy Recommendations in Literature

Recent academic and policy papers converge on several recommendations to transform micro-insurance from a "safety net" to a "growth engine":

- **Digital-First, Human-Touch Models:** While digital platforms (like Bima Sugam) can streamline processes, literature emphasizes the need for "assisted digital models" where local agents (Bima Vahaks) help women navigate apps and file claims ("From Vulnerability to Resilience" 15).
- **Simplified Documentation:** Proposals include "parametric insurance" (e.g., automatic payouts based on rainfall data for farmers) to eliminate the need for complex loss assessment documentation ("From Vulnerability to Resilience" 16).
- **Integration with Financial Literacy:** Experts argue that insurance cannot be sold in isolation. It must be integrated into broader financial literacy programs that explain risk pooling and the claims process, transforming women from passive beneficiaries to informed consumers (Nandru et al. 24).

Impact of Climate Change on Micro-Insurance Demand for Women

Climate change is reshaping the demand for micro-insurance among rural women in India by intensifying their exposure to income shocks while simultaneously revealing the inadequacy of existing financial safety nets. Recent research and policy reports (2024–2026) highlight a critical paradox: as climate-related disasters increase, the demand for micro-insurance among women rises, yet uptake remains dangerously low due to structural, informational, and product-design barriers.

Climate Change as a Demand Driver for Micro-Insurance

The literature identifies climate change as a primary catalyst for increased micro-insurance demand among rural women, who are disproportionately affected by climate-related shocks:

- **Increased Frequency of Climate Shocks:** Women in rural India, particularly those engaged in agriculture, livestock rearing, and fisheries, face heightened risks from droughts, floods, and heatwaves. These shocks directly threaten their livelihoods, making insurance a critical tool for risk management (ADB 2–3).
- **Asset Protection and Livelihood Continuity:** Studies show that women with insurance coverage are better able to protect their productive assets (e.g., livestock, small machinery) and avoid distress sales during climate crises. For instance, insured women in flood-prone

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regions were 30% less likely to sell assets at depressed prices post-disaster compared to uninsured peers (Women's World Banking, "A Vital Response").

- **Credit Access and Recovery:** Micro-insurance acts as a collateral substitute, enabling women to access emergency credit for recovery. Research indicates that women with climate-related insurance are more likely to receive post-disaster loans from MFIs, as lenders perceive them as lower-risk borrowers (ADB 11–12).

The Gender Gap in Climate-Related Micro-Insurance

Despite rising demand, a significant gender gap persists in climate-related micro-insurance coverage:

- **The 20-Percentage Point Gap:** A 2024 report by Women's World Banking reveals that while 1% of the global population has climate-related micro-insurance, there is a 20-percentage point gender gap in coverage, with women significantly underrepresented (Women's World Banking, "A Vital Response").
- **Barriers to Uptake:**
    - **Lack of Awareness:** Many women are unaware of climate-specific insurance products or do not understand how parametric insurance (e.g., payouts triggered by rainfall data) works (ADB 12).
    - **Affordability Constraints:** Even low-premium products can be prohibitive for women with irregular income streams, particularly during lean agricultural seasons (ADB 4).
    - **Trust Deficit:** Historical mis-selling and complex claim processes have eroded trust, making women hesitant to enroll in new climate-related schemes (ADB 5).
    - **Digital Divide:** 880 million women in climate-vulnerable regions lack access to digital payment systems, hindering their ability to receive payouts or manage policies (Women's World Banking, "A Vital Response").

Product Innovation: Parametric Insurance as a Solution

The literature emphasizes parametric insurance as a promising solution to address climate risks for women:

- **How It Works:** Parametric insurance provides automatic payouts based on predefined triggers (e.g., rainfall levels, wind speed) rather than traditional loss assessments. This eliminates the need for complex documentation and speeds up claim settlement (ADB 2, 7).
- **Pilot Successes:** In India, the Asian Development Bank (ADB) is piloting parametric micro-insurance products for MFI clients in climate-vulnerable regions. Early results show that women enrolled in these schemes experienced faster recovery post-disaster and were less likely to fall into debt (ADB 11–12).
- **Scalability Challenges:** Despite its potential, parametric insurance faces scalability issues, including the need for reliable historical climate data and regulatory approval for index-based triggers (ADB 7).

Policy Recommendations for Enhancing Demand

To bridge the gap between climate-induced demand and actual uptake, the literature suggests several policy interventions:

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- **Gender-Intentional Product Design:** Insurance products must be tailored to women's specific risks, such as maternity complications exacerbated by heatwaves or livestock losses due to drought (ADB 5).
- **Financial Literacy and Awareness Campaigns:** Targeted education programs, delivered through SHGs and MFIs, can demystify climate insurance and build trust (ADB 12).
- **Subsidized Premiums and Bundling:** Governments and donors can subsidize premiums for women in high-risk zones or bundle insurance with other financial products (e.g., loans, savings accounts) to enhance affordability and uptake (Women's World Banking, "A Vital Response").
- **Digital Inclusion Initiatives:** Expanding access to mobile banking and digital payment systems is critical for ensuring women can manage policies and receive payouts efficiently (Women's World Banking, "A Vital Response").

Conclusion

Climate change is undeniably increasing the demand for micro-insurance among rural women in India, yet systemic barriers continue to limit uptake. Addressing this gap requires a multi-faceted approach that combines product innovation (e.g., parametric insurance), gender-sensitive design, financial literacy, and digital inclusion. By prioritizing these interventions, policymakers and financial institutions can transform micro-insurance from a theoretical safety net into a practical tool for climate resilience and economic empowerment for rural women.

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