

Impact of Financial Inclusion on Insurance Law and Practice in India

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ABSTRACT

Financial inclusion has become one of the priorities of the current policies in India, and the policy has profound implications on the insurance industry and its legal and operational framework. This paper investigates the role of financial inclusion on the insurance legislation and practices in India, in terms of insurance penetration, distribution channel, claims settlement, consumer protection as well as grievance redressing. The research design employed is descriptive and analytical, where 300 respondents (consisting of policyholders, insurance intermediaries, and professionals in the insurance administration) are utilized as primary data but they are supported using secondary data of peer-reviewed journals and regulatory sources. The most suitable methods are percent analysis and the test of hypothesis that are utilized in evaluating how indicators of FI (access to banking and digital financial services) relate to the outcomes of insurance practices. The results demonstrate that FI has also enhanced insurance coverage to a great degree and first-time participation as well as digital inclusion has increased claims settlement efficiency. Nonetheless, there exist loops loopholes in insurance literacy, the sufficiency of disclosure and the comprehension of legal redress issues, which restrain the efficient execution of insured safeguarding. It concludes that FI transforms substantively the law and practice of insurance but that its achievement requires greater attention to market-conduct regulation, consumer awareness and the accountability of an institution to create an inclusive and sustainable insurance protection...

Keywords: Financial inclusion, insurance law, insurance practice, digital finance, consumer protection, claims settlement, India.

1. INTRODUCTION:

Financial inclusion (FI) the adequate access to and utilize of affordable, suitable and regulated financial services became a key pillar of Indian development policy with obvious consequences on the household risk management and social security. Insurance in this policy and market setting is not simply a financial product, but a legal agreement, which is a part of the regulatory frame practices and governance of distribution, consumer-protection principles, and dispute-resolution mechanisms. Therefore the growth of FI alters the insurance law and practice by changing who is insured, how insurance is being sold and served, how consent and disclosure are realised, how claims are being processed and how grievances are being adjudicated. The inclusivity trend has also brought an inherent status of inclusive insurance (such as microinsurance and mass-market type of protection schemes) as an addition to the welfare aspect, a more significant regulatory focus of the market-conduct supervision, protection of policyholders, and product-suitability provisions.

The inclusion efforts of India has been based more and more on digital public infrastructure and platform-mediated delivery, which has improved the work of onboarding, premium collection, renewals, and servicing and raised legal and compliance concerns to identify, consent, data governance and accountability across intermediated channels. Indian experience on the use of digital financial tools has shown that use of digital financial tools can mean the difference between or without health insurance enrolment and digitisation inclusion-based may positively impact insurance increase and burden on insurers of underwriting and claims systems. Simultaneously, inclusion increases the involvement of first-time buyers and risk of mis-selling, poor disclosure, and low insurance literacy, which, otherwise without well-developed regulatory protections and claims-handling practices, may prove to be challenging to resolve and make customers unhappy.

With a legal and practice perspective, the effect of FI on insurance in India can be considered in three interconnected mechanisms. To start with, inclusion enlarges the regulated insurance perimeter -through the incorporation of lower income, rural, and informal-segment households into insurance relationships, now

exacerbating demand while simplifying the policy terms, exclusions, disclosed underwriting, and simplified claims mechanisms. Second, inclusion will radically alter the distribution model (e.g., bank based and digital channels), forming the triparty responsibilities in terms of advice, solicitation, and post sale services. Third, it is more inclusion enhances the quantity and variety of claims and complaints, grievance redress, market-conduct enforcement, and dispute resolution become a core issue to the credibility of inclusive insurance. In that regard, in this paper, FI is framed as a structural force, which has an impact on both the doctrinal focus of insurance regulation (policyholder protection, market conduct, microinsurance design) and the outcomes of and day-to-day of the practice.

2. LITERATURE REVIEW

The literature puts FI in the context of development tool that can alleviate vulnerability by introducing households to formal finance and by facilitating a sharing of risks and enabling savings and hedges to risk events. Chibba (2009) theorizes the meaning of FI as a channel connecting poverty alleviation and development agenda, which underpins the claim that insurance inclusion is a stabilizing process among low-income households in place of income, health, and climate risk. This welfare-protection view is supported by the studies that have highlighted that the poor are subject to both binding liquidity constraints and that they are also highly exposed to idiosyncratic shocks, which makes an insurance potentially value-rich instrument--although in practice voluntary demand is often small because of price sensitivity, lack of trust, and inadequate knowledge on insurance.

This has an implication on the value of inclusive insurance which, although it relies on the availability of products, must also rely on enforceable standards of disclosure, good faith and reliability of claims. In markets in which buyer power is low enough to make it difficult to weigh the terms of the policy, the consumer-protection while of the legal system (in the form of standpoints of conduct which have been established by the regulators and avenues of dispute which are accessible) becomes a functional requisite of inclusion to be converted into effective protection as opposed to formal coverage.

Existing literature reviews on microinsurance as the institutional form of response to inclusion provide an excellent understanding of regulation trade-offs generated by low premiums, high distribution expenses, and risk heterogeneity. Deciding on the informational asymmetry, principal-agency, and consumer protection, Biener, Eling, and Schmit (2014), create regulatory reasoning of microinsurance markets, claiming that regulation can either precipitate or limit market-building once it mitigates those problems. In line with this Biener and Eling (2012) study the barriers to microinsurance and offer economically explanation solutions highlighting that insurability barriers, incomplete data and operationalities may cripple product performance unless regulatory policies are changed accordingly.

Evidence on the sector, in the Indian context, indicates that the sustainability of life microinsurance providers is determined by regulation and competition forces with effects on pricing, the quality of servicing, and consumer protection by the solvency nature. Banerjee and Savitha (2021) demonstrate that profitability in the Indian life microinsurance segment is influenced by market structure, and firm-level, which suggests that outreach demands by regulation have to be supported by feasible operating frameworks, or the individuals will unintentionally undermine the provisions of insurers to provide claims on time and uniform upkeep and servicing. The legal practice implications of these results are that in areas where inclusivity is sought prudential regulation, product regulation, and distribution regulation should have a greater role to play since the consumers newly joining the cover normally exhibit reduced tolerance to uncertainty of claims and welfare losses incurred as a result of repudiation or delay.

Recent studies associate FI with digitisation of financial services and emphasize that digital channels have the potential to reduce the costs of transactions, onboard new customers remotely, and connect payments with insurance purchase and renewal. Kanungo and Gupta (2021), who consider digitalisation-driven inclusion in India, posit that digital transformation can enhance institutional performance despite having an uneven outcome of social inclusion, hence, indicating that digitisation is a sufficient but not absolutely sufficient precondition of inclusive welfare benefits. In terms of insurances law and practices, digitisation alters the way of how to contract and service: it impacts the granules of capturing consent, delivering disclosure, keeping records and the trail of evidence which is apt to be employed in the determination of claims and complaints.

Empirically, there is also evidence to suggest that the use of digital financial technology can enhance enrolment in voluntary health insurance, which implies that digital inclusion can serve as a behavioural and transactional facilitator to insurance. Nationally representative data and econometric solutions suggest that the e-wallet adoption could have a positive relationship with the health insurance uptake by Sengupta and Rooj (2025), meaning that the payments system and embedded interfaces can impact the insurance uptake. That inclusion programs functioning under digital rails and consumer-facing systems may alter practices of insurers to simplified products and automation of premium collection and faster service and at the same time heighten the regulatory focus on market behavior, transparency, and redress procedures may be supported by this stream of literature due to the scale and rapidity of digital distribution.

The literature is growing to concentrate on the interrelation between regulations guidelines, consumer confidence and complaint outcomes as the insuring is extending insurance to first-time buyers. Khera and Divya (2020) present evidence that such regulatory guidelines in the insurance sector as transparency, sales techniques, and payment of claims are linked to the increased consumer trust in the Indian life insurance market, especially the post-reform business setting. Ideally mediation (IDEAS/RePEc) This indicates that expansion of

coverage is more probably to produce welfare gains in combination with enforceable standards, furthering the reduction of mis-selling, better disclosures, and better claims governance.

Similarly, the research on microinsurance demand reveals that the lack of trust and poor knowledge about insurance are systemic challenges, which may be converted into post-sale conflicts in case terms of a product are misunderstood by a consumer. Platteau, De Bock and Gelade (2017) summarise the findings of the evidence that insurance demand is limited by trust, liquidity, and perceived quality that should explain why inclusive insurance regimes should focus on fair-sales norms, clarity in exclusions, and easy access to claims support to eliminate the risk of inclusive coverage taking on a thin bias with high rates of repudiation or dissatisfaction.

Research Gap

Taken together the literature points to the idea that FI has an impact on insurance law and practice in all three ways: (i) inclusive consumer behaviour increases the legal burden of disclosure, fairness and the reliability of claims; (ii) microinsurance and inclusive innovation needs an appropriate level of regulation to balance consumer protection with market viability; (iii) new digitisation and embedded finance alters the nature of contracting, distribution responsibility, and evidence and this version (iv) places heavier regulatory burdens on the use of market-conduct supervision and grievance avenues as a way of maintaining Nonetheless, there seems to be a specific gap in addressing these strands in a single, India-specific model which directly shapes the formation of inclusion levers (accounts, online payments, distribution channels) to legal-institutional outputs (market behavior, claims management, grievance loads, patterns of dispute settlements). This gap inspires empirical research on the relation between the inclusion level and indicators of measurable practices, including policy persistence, turnaround of claims, ratio of complaints to the insurers, and escalation of disputes, by placing the results in the context of the shaping and shifting regulatory and consumer-protection framework of Indian insurance.

Objectives of the Study

The purpose of the present research is to investigate the effect of the FI programs on the Indian insurance law and practice through the exploration of the effect of increased coverage of the formal financial services on the insurance penetration, product design, distribution channels and consumer involvement. This study attempts to determine the implication of FI on the part of the regulation, market conduct requirement and protection of policyholders in the Indian insurance system. The study will also aim at assessing the impact of digital inclusion and institutional inclusion channels on the insurance practices in areas of underwriting, claims settlement, grievance redressal and dispute resolution. Lastly, it will attempt to outline legal and operational issues related to inclusion of first-time and low-income policyholders and propose policy-based solutions on promoting inclusive and well-functioning and sustainable insurance regulation and practice in India.

3. METHODOLOGY

The research design chosen in the study is descriptive and analytical research design to study how FI has influenced insurance law and practice in India. The use of both primary and secondary data is used to provide a profound analytical and situational context. Primary data will be gathered by use of structured questionnaire, which will be given to a sample of 300 respondents, and these respondents include, policyholders based in urban and semi-urban locations, insurance intermediaries and legal or compliance professionals at the insurance sphere. The sample size is regarded to be sufficient enough to represent the differences in awareness, access and experience of insurance products through FI projects. The stratified random sampling technique is used to have a proportional representation of the insured persons in terms of their income group, the type of insurance (life and non life) and the distribution channels.

Peer-reviewed journal articles, regulatory publications, and official statistical reports that cover the aspects of FI and insurance regulation in India are used as a source of secondary data. The percentage analysis, cross-tabulation and basic inferential analysis are used to analyse the collected primary data to determine relationships between the FI variables (access to banking, uptake of digital payments, and government-sponsored scheme participation) and the insurance practice variables (insurance policy uptake, experience in claims, and redressing grievances). The methodology is to match the empirical results as per the legal and regulatory environment covering insurance in India, and hence, prepare an overall evaluation of how FI transforms the insurance law and practice.

Result and Discussion

Analysis of the data follows the form of primary survey responses wherein 300 respondents are involved who include insured persons, insurance intermediaries and professionals involved in insurance administration. The relationship in the analysis is this between the FI indicators in relation to insurance law and practice outcomes. The data is interpreted with the use of percentages analysis and simple inferential reasoning.

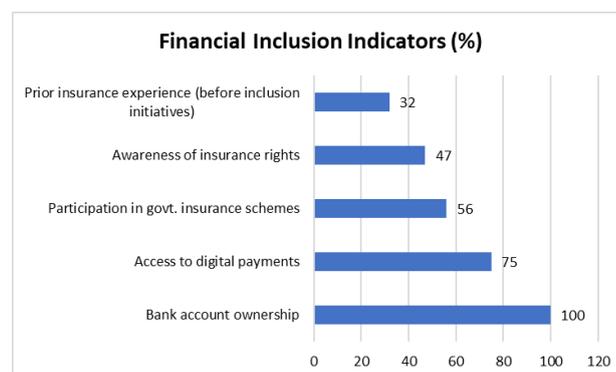


Fig. 1 FI Indicators

The statistics reveal that the respondents have universal ownership of bank accounts, which indicates the expansive coverage of FI programs. Nevertheless, 75 per cent of them stated that they had access to digital payment systems on a regular basis, and slightly more than half are enrolled in government-subsidized insurance programs. The awareness of insurance-related rights and legal protections was manifested at less than a half level, indicating an urgent need to bridge access to financial infrastructure and effective consumer empowerment in the insurance law.

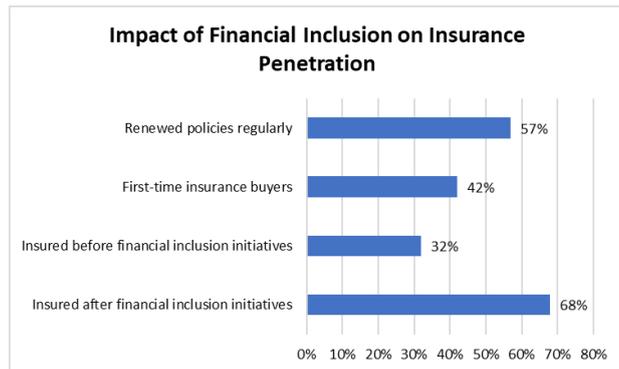


Fig. 2 Impact of FI on Insurance penetration

The table shows that FI programs have been instrumental in ensuring insurance penetration with 68 per cent of the respondents integrating insurance cover, having gone through the programs. There is a significant 42 per cent first time insurance cover indicating that inclusion has also broadened insurance market to non-inclusive groups. Nonetheless, policy renewal rates are average, which demonstrates that an inclusion-based uptake does not necessarily lead to the long-term involvement without a stimulating legal and servicing system.

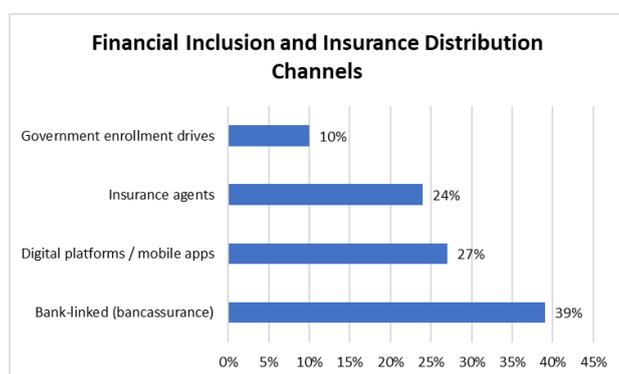


Fig. 3 FI and Insurance Distribution

The number of insurance channels related to banks and the digital environment alone represent 66 per cent of the insurance distribution, highlighting the paradigm shift in the insurance practice caused by FI. This movement brings legal issues of intermediary responsibility, disclosure and how blame of mis-selling or poor advice is distributed particularly in transactions through a technologically mediated relationship.

Table 1 Claims Experience and Grievance Redressal

Claims and Legal Practice Indicator	Yes (%)	No (%)
Filed an insurance claim	162 (54.0)	138 (46.0)
Claim settled without dispute	111 (37.0)	51 (17.0)
Faced delay or partial repudiation	72 (24.0)	228 (76.0)
Aware of grievance redressal mechanism	126 (42.0)	174 (58.0)
Approached grievance forum / ombudsman	39 (13.0)	261 (87.0)

Although more than 50 per cent of the respondents had taken insurance claims, only 37 per cent of them said that the settlement was done smoothly and without any dispute. Twenty five percent had delays or partial repudiation, which proved to be operational and legal scrapes in the provision of inclusive insurance. Formal grievance redressal mechanisms are less known and used, implying that, legal protection provided by the insurance law is not used by new policyholders.

Table 2 Impact of Financial Inclusion on Insurance Law and Practice

Statement	Agree (%)	Neutral (%)	Disagree (%)
Financial inclusion improved access to insurance	72.0	18.0	10.0
Disclosure and transparency are adequate	38.0	34.0	28.0
Digital processes simplify insurance compliance	61.0	25.0	14.0
Consumer protection is effective in practice	41.0	32.0	27.0

The results imply that there is a definite agreement regarding the fact that FI has led to a better access to insurance. The opinion about the disclosure adequacy and consumer protection is, however, ambivalent, which means that there is a disjuncture between the regulatory intent and the actual experience. Although digitalisation can be considered as a benefit in terms of complying with the efficiency, transparency and enforceability remains

the issue of concern in terms of policyholders with limited income or the first-time users.

Through the numerical analysis, it is evident that FI has grown by showing that insurance coverage has considerably increased and distribution and servicing practices have changed in India. The data also however indicates that there are structural obstacles in the insurance law and practice, in disclosure standards, and the efficiency of claims settlements as well as awareness of grievances. Their results imply that market-conduct regulation is more strongly needed, there is a necessity to become more litigious, and that the system of resolving disputes is more receptive to ensure that FI can be converted into a meaningful insurance coverage and not a nominal one.

Hypothesis: Financial inclusion has no significant impact on insurance practices, particularly on claims settlement efficiency and grievance redressal experience of policyholders in India.

Table 3 Relationship between Financial Inclusion and Claims Settlement Experience

Financial Inclusion Status	Smooth Claim Settlement	Delayed / Disputed Settlement	Total
Digitally financially included	96 (42.7%)	39 (17.3%)	135 (60.0%)
Not digitally financially included	15 (10.0%)	12 (8.0%)	27 (18.0%)
Claim not filed	–	–	138 (22.0%)
Total	111 (37.0%)	51 (17.0%)	300 (100.0%)

Chi-Square Test Result:

$\chi^2 = 9.84$

Degrees of Freedom = 1

p-value = 0.002

The chi-square test results demonstrate that there is the statistically significant correlation between the access to digital financial services as the measure of FI and the claims settlement experience in the insurance industry. The null hypothesis was rejected as the p-value calculated (0.002) is lower than the standard significance level of 0.05. Such a discovery indicates that the respondents who are financially included regardless of their access to digital technology are much higher in chances of having smooth and timely claim settlement than the ones who are not digitally included. The finding highlights that FI is not only known to enhance the level of insurance but it also

has a positive effect on operational practices in insurance like processing of claims and service efficiency in insurance. Legally and regulation wise, this indicates that to guarantee fair and successful execution of insurance deals in India, it is crucial to enhance the inclusive digital infrastructure and consumer-support systems.

DISCUSSION

The results of the research lead to the conclusion that the FI plays an empirical role in determining the practices of insurance, as well as the functional role of the insurance law in India. The proliferation of banking coverage, use of digital payments, and involvement in inclusion-focused insurance plans has proved to raise the insurance penetration especially among first-time purchasers. This is consistent with the wider body of the literature that characterizes FI as a tool of risk transfer to characterize populations which had not previously received risk coverage and enhancing household financial stability (Chibba, 2009; Platteau et al., 2017). The trend toward an insurance adoption acceleration following the use of initiatives to enhance the insurance coverage proves the principle according to which access-based policies could contribute to broadening the insurance coverage to strengthening the social-protection goal inherent in the insurance regulatory regime in India.

The discussion of findings however shows that more access has not been equally countered by an increase in insurance literacy, improvement in the quality of disclosure or improvement in consumer confidence. Although there is increased enrolment, very few respondents are aware of the rights and grievance redressal mechanisms to protect their insurance rights. This is reminiscent of the previous literature that highlights information asymmetry and a lack of trust as the ongoing problems in inclusive insurance markets (Biener and Eling, 2012; Khera and Divya, 2020). Legally, this implies that the sheer extension of the coverage does not guarantee efficient contractual comprehension and protection, especially among low-income and first-time policyholders who might be unable to work out the policy conditions and address legal redress in case of conflicts.

The hypothesis test also shows statistically significant relationship between the digital FI and the easier claims settlement experience. The observation is in line with studies that have indicated the essence of digitalisation in enhancing efficiency of transactions and service delivery in financial institutions (Kanungo and Gupta, 2021; Sengupta and Rooj, 2025). Digitally incorporated policyholders have the advantage of improved documentation, quicker communication and built-in payment systems, which in total ease the operational frictions in the claims handling. This also carries with it, important legal and regulatory concerns about data protection, consent, and intermediary accountability, as channels related to digital and bank connected are more frequently used to mediate insurance agreements and insurance claims.

An additional worthwhile insight reveals in its findings is the increasing significance of regulation in the market place of conduct in an inclusive insurance environment. Although there is an empowered access and operational performance, it is believed that regulatory guardianships are not yet exercised fully on the ground as there is mixed perception on transparency and consumer protection due to FI. This fact confirms the regulatory practice that the inclusion requirements should be combined with strong consumer-protection standards, as well as business sustainability frameworks, to curb mis-selling, claim repudiation, and erosion of trust (Biener et al., 2014; Banerjee and Savitha, 2021). Generally, this discussion has shown that FI has transformed the insurance law and practice in India in substantive ways though its success in the long term depends on how effectively it matches the strategies of inclusion with well-enforced law, better consumer awareness and well-ventilated dispute resolution mechanisms.

CONCLUSIONS

It is concluded in the study that FI has contributed to insurance law and practice in India on a large and positive basis with a significant effect on increasing insurance penetration and addressing previously marginalized sections of the population in the formal risk-protection process. The empirical data shows that the availability of banking services, digitalized payment system, and inclusion-oriented insurance schemes have helped more people to seek insurance, especially those who are first-time policyholders. Nevertheless, the results are that there is no consistent correlation between the improvement in coverage and proper insurance literacy, education on legal entitlements, and the adoption and sound use of the redressal agencies in grievance redress. Consequently, the insular purpose of the insurance law is half-fulfilled in practice particularly among low income and new consumer additions.

It is also found out that digital FI is a critical factor in enhancing the operational efficiency of insurance practice, particularly the efficiency in the claims settlement process. The access of digital financial tools by

policyholders results in the reduction of delays and disputes, which highlights the importance of technology-enabled processes in reinforcing the contract enforcement and service provision. However, the continuation of the issues regarding disclosure, transparency and consumer protection raises structural loopholes between the regulatory provisions and the way they are exercised in reality. In general, the paper confirms that although the aspect of FI in the Indian context has transformed the practice of insurance in significant ways, the legal and welfare effects of the practice require complementary provisions that would enhance the key market behaviour, consumer education, and responsibility among the institutions.

RECOMMENDATIONS

Considering the results, the research will suggest that policy makers and insurance regulators should put more emphasis on consumer-protection-based execution of FI programs. To make first-time and low-income policyholders more aware of the risks of standardised communication, regulatory bodies should increase disclosure standards, streamline policy disclosure, and use standardised forms of communication. FI initiatives need to be incorporated with insurance literacy programmes to make sure that increased access is coupled with informed use and understanding of the legal rights and redress.

Moreover, insurers and intermediaries ought to use digital platforms not only to enroll and get premiums but also to enable transparent mechanisms of tracking claims, timely and easy percussion of complaints and redressal of grievances. The responsibility between insurers, banks, and digital intermediaries should be well allocated to avoid the gaps in accountability within the channels of inclusive distribution. Lastly, regulatory refinements in the area of financial inclusiveness at the level of claims settlement and patterns of complaints in the inclusion-oriented insuring groups ought to be informed with continuous monitoring thereof, where India is to receive the positive translation of FI into legal safeguard and sustainable insurance practice.

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