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A Study on India's Insurance Penetration (Especially Life and Health Insurance), Remains Low Compared to Global Standards

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Abstract

This study examines the level of insurance penetration in India, with a focus on life and health insurance and their role in ensuring financial security and economic stability. Despite rapid economic growth, insurance penetration in India remains relatively low compared to global standards. A significant portion of the population is still uninsured or underinsured, increasing financial vulnerability. The research identifies key factors contributing to this gap, including low financial literacy, affordability constraints, lack of trust, and complex insurance products. This study is based on both primary and secondary data. Primary data was collected through a structured questionnaire from 102 respondents to understand their awareness, perceptions, and adoption of insurance. Secondary data from journals, reports, and research papers supports the analysis. Findings indicate that life insurance has higher adoption compared to health insurance and other forms. Awareness levels are moderate, with many respondents only partially familiar with insurance products. Major challenges include high premium costs, complicated policy terms, and limited financial awareness. Statistical analysis reveals a significant relationship between age and familiarity with insurance products. It also highlights that awareness plays a crucial role in influencing insurance adoption. Consumers tend to rely more on online research and personal recommendations rather than traditional agents. Although customer satisfaction is generally neutral to positive, there is room for improvement in service quality and transparency. The study concludes that enhancing financial literacy, simplifying policies, improving affordability, and expanding digital access are essential. Government initiatives, technological advancements, and private sector participation can collectively boost insurance penetration and strengthen financial resilience in India.

Keywords *- Insurance Penetration, Financial Inclusion, Life Insurance, Health Insurance, Financial Literacy, Consumer Awareness, India.*

Introduction

Insurance plays a vital role in ensuring financial security and stability by protecting individuals and families against unexpected risks such as illness, accidents, and natural disasters. In a rapidly growing economy like India, it also supports socio-economic stability and financial inclusion. However, despite economic progress and improved literacy levels, insurance penetration in India remains low compared to global standards, at around 4.2% of GDP. A large section of the population continues to be uninsured or underinsured due to factors like low awareness, affordability constraints, and lack of trust in insurers. Although initiatives such as Ayushman Bharat and PMJJBY, along with digitalization and private sector participation, have improved accessibility, universal coverage is yet to be achieved. Rural populations, low-income groups, and informal workers remain largely excluded. Challenges such as complex insurance products, financial illiteracy, and limited accessibility further hinder adoption. This study explores the key reasons behind low insurance penetration, focusing on socio-economic factors, consumer behavior, affordability, and policy effectiveness. It also compares India with global markets to identify best practices. Enhancing insurance penetration is essential for reducing financial vulnerability and strengthening long-term economic resilience.

Background of Insurance:

Insurance plays a vital role in ensuring financial security and stability by protecting individuals and families against unexpected risks such as illness, accidents, and natural disasters. In a rapidly growing economy like India, it also supports socio-economic stability and financial inclusion.

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However, despite economic progress and improved literacy levels, insurance penetration in India remains low compared to global standards, at around 4.2% of GDP. A large section of the population continues to be uninsured or underinsured due to factors like low awareness, affordability constraints, and lack of trust in insurers. Although initiatives such as Ayushman Bharat and PMJJBY, along with digitalization and private sector participation, have improved accessibility, universal coverage is yet to be achieved. Rural populations, low-income groups, and informal workers remain largely excluded. Challenges such as complex insurance products, financial illiteracy, and limited accessibility further hinder adoption. This study explores the key reasons behind low insurance penetration, focusing on socio-economic factors, consumer behaviour, affordability, and policy effectiveness. It also compares India with global markets to identify best practices. Enhancing insurance penetration is essential for reducing financial vulnerability and strengthening long-term economic resilience.

Factors Affecting Insurance Penetration

Insurance penetration in India is influenced by several economic and social factors. One major issue is low financial literacy and awareness, leading people to view insurance mainly as a tax-saving tool. Affordability constraints also limit adoption, especially among low-income and informal sector workers. Rural-urban disparities further restrict access, as insurance services are concentrated in cities. Complex policy structures and technical jargon discourage potential buyers. Lack of trust due to mis-selling, claim delays, and poor service reduces confidence in insurers. Traditional distribution channels dominate, while digital and alternative channels are underutilized in rural areas. Cultural beliefs and reliance on informal support systems also reduce demand for insurance.

Technological barriers such as poor internet access and low digital literacy limit online adoption. Regulatory challenges slow innovation and product development. Low awareness of health insurance leads to high out-of-pocket healthcare expenses. These interconnected factors collectively contribute to India's low insurance penetration.

Comparison with Global Standards

- Insurance penetration in India is significantly lower than global standards, with a rate of around 3.7–4.2% compared to the global average of 7%. Developed countries like the US, UK, and France have higher penetration due to better income levels, awareness, and institutional support.
- These countries benefit from universal health coverage, employer-sponsored insurance, and advanced digital systems. Strong regulatory frameworks and consumer trust further enhance adoption.
- In contrast, India faces challenges such as low awareness, affordability issues, and limited access, especially in rural areas. Life insurance dominates the market, while health insurance penetration remains low.
- Despite these gaps, India is experiencing steady growth driven by digitalization, government schemes, and rising middle-class demand. However, public schemes often provide limited coverage.
- To bridge the gap, India must focus on improving financial literacy, strengthening trust, enhancing digital infrastructure, and promoting inclusive insurance products. Structural reforms are essential for achieving global standards.

Challenges and Opportunities

India's insurance sector faces multiple challenges, including income inequality, low financial literacy, and affordability constraints. Rural populations and informal workers often lack access to insurance services. High premiums and complex policy structures discourage adoption. Trust issues arising from mis-selling, claim delays, and poor grievance handling further reduce demand. Digital adoption is limited due to low internet access and digital literacy. Regulatory delays and lack of customized products for specific groups also hinder growth. However, the sector offers significant opportunities. Government schemes like PMJJBY and Ayushman Bharat have expanded coverage among low-income groups. The growing middle class is increasing demand for insurance products. Digital transformation and InsurTech innovations are improving accessibility and efficiency. Microinsurance has the potential to reach underserved populations. Advanced technologies like AI and big data enable personalized products. Supportive policies, increased FDI, and expanding bancassurance channels further drive growth. With the right strategies, India can significantly improve insurance penetration and achieve inclusive financial protection.

Research Methodology

Objectives:

1. To study the concept and importance of insurance penetration and its role in promoting financial security and economic stability in India.
2. To assess the present level of insurance penetration in India with a focus on life and health insurance and compare it with global standards.
3. To identify the key socio-economic, cultural, and structural factors responsible for low insurance penetration in India.
4. To examine consumer perception, awareness, and trust levels regarding life and health insurance products.
5. To analyze the role of the government and IRDAI in promoting insurance inclusion through public welfare schemes and regulatory reforms.
6. To evaluate the impact of digitalization and private sector participation in expanding insurance accessibility and affordability.
7. To suggest practical measures and recommendations to improve India's insurance

penetration rate and ensure financial protection for all sections of society.

8. Each of these objectives is interlinked and collectively aims to provide a holistic understanding of India's insurance ecosystem and its challenges.

Scope of the Study:

The scope of this study outlines the limits within which insurance penetration in India is examined, focusing mainly on life and health insurance. Geographically, it includes both urban and rural areas, recognizing significant differences in access, awareness, and coverage. Product-wise, the study concentrates on life and health insurance, with other non-life segments referenced only for comparison. Institutionally, it considers public insurers, private companies, government schemes, and the regulatory role of IRDAI. A global comparative perspective is included to assess India's position relative to countries like China, Japan, South Africa, and the United States. The analysis uses both quantitative indicators, such as penetration ratios and premium trends, and qualitative aspects like awareness and consumer behaviour. Overall, the study provides a focused and comprehensive understanding of India's insurance landscape.

Statement of Problem:

Despite India's rapid economic growth and increasing financial awareness, insurance penetration particularly in life and health insurance remains significantly low compared to global standards. A substantial portion of the population continues to be uninsured or underinsured, exposing individuals and families to financial vulnerability in the event of illness, accidents, or death. Key factors such as low financial literacy, affordability constraints, lack of trust in insurance providers, and the complexity of insurance products hinder wider adoption. Although government initiatives and digital advancements have improved access to insurance services, their impact has not been sufficient to achieve inclusive coverage, especially among rural populations, low-income groups, and informal sector workers. This gap highlights a critical need to understand the underlying socio-economic, behavioural, and structural barriers affecting insurance adoption. Therefore, this study aims to analyse the factors contributing to low insurance penetration in India and identify measures to improve accessibility, awareness, and overall participation in life and health insurance.

Data Source:

The data for this study comes from a mix of primary and secondary sources. On the primary side, information was gathered directly from people through a simple questionnaire that asked about their views and experiences with insurance. To understand their opinions more clearly, survey interviews were also carried out, giving respondents the chance to speak freely and share their thoughts in their own words. On the secondary side, the study relied on published materials such as research papers, which helped provide background knowledge and support the analysis. Reliable websites were also used to collect updated facts, figures, and official reports related to the insurance sector. In addition, articles from e-journals offered deeper insights from experts and researchers. Together, these sources helped build a well-rounded picture of insurance penetration and the factors that influence it.

Hypothesis:

HYPOTHESIS (I)

HO1: Relationship between Age and Familiarity with Insurance Products

H_0: There is a significant relationship between age and familiarity of insurance products.

H_1: There is no significant relationship between age and familiarity of insurance products.

HYPOTHESIS (II)

HO2: Effect of Awareness on Life Insurance Adoption

H0: There is no significant level of awareness about life insurance among respondents.

H1: There is significant level of awareness about life insurance among respondents.

Literature Review

1. Ramli et al. (2024)

This study highlights that low awareness and poor service quality are key reasons for low life insurance penetration. It shows that age, customer experience, and understanding of products influence purchase decisions. The study suggests improving financial literacy and offering customer-focused services to increase adoption.

2. Gupta (2022)

The article explains that InsurTech is transforming India's insurance sector through digital platforms and AI-based processes. It reduces barriers like paperwork and lack of awareness. With better accessibility and innovation, insurance penetration in India can significantly increase in the coming years.

3. Ray, Thakur & Bandyopadhyay (2020)

The study finds that India's insurance penetration is low due to affordability issues and limited rural participation. While liberalization has improved life insurance growth, non-life insurance remains weak. It also highlights challenges like public sector dominance and undercapitalization.

4. Satuluri & Raavi (2019)

This research focuses on LIC's profitability and finds that liquidity and company size positively impact performance. However, excessive capital reduces returns. The study suggests improving efficiency and resource management instead of relying only on capital expansion.

5. Singh (2019)

The article reveals a major protection gap, with about 75% of Indians lacking life insurance. Even insured individuals have very low coverage. It highlights issues like reliance on savings-based policies and vulnerability of informal workers, suggesting stronger policy interventions.

6. Vimala & Alamelu (2018)

This study shows a decline in insurance penetration and density in India between 2010 and 2017. It emphasizes the need for better distribution channels like bancassurance and awareness campaigns. The research supports improving outreach to increase penetration.

7. Chandel & Kumar (2016)

The study finds that despite growth in premium income, India's insurance penetration remains low compared to developed countries. It attributes this gap to low financial literacy and weak distribution systems. The study highlights untapped potential in the Indian market.

8. Kumar (2014)

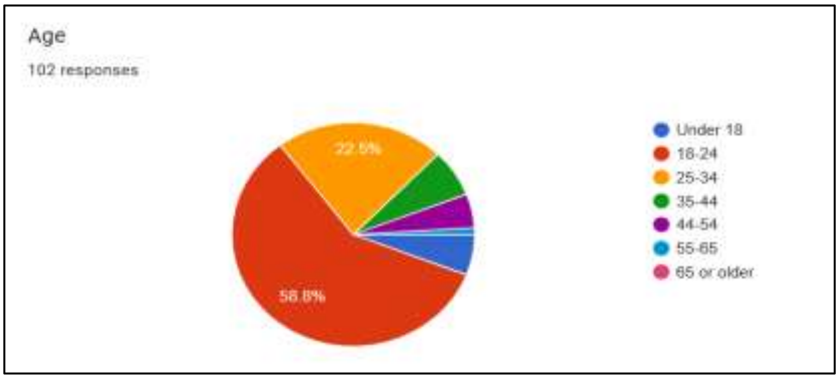
The article points out that insurance in India is still "sold, not bought" due to low awareness. Key issues include poor rural reach and weak agency networks. It suggests improving education, distribution, and product innovation to boost insurance adoption.

Finding and Data Analysis

1. Age

AGE	COUNT OF YOUR AGE	PERCENTAGE
Under 18	18	5.9 %
18-24	60	58.80%
25-34	23	22.50%
35-44	7	6.9%
44-54	5	4.9%
55-65	1	1%
65 or older	0	0%
Grand Total	**102**	**100.00 %**

(Table 4.1)

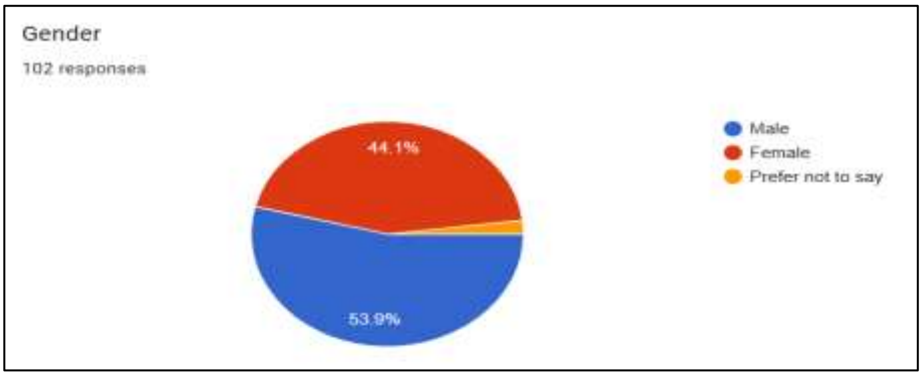


(Chart 4.1)

2. Gender

GENDER	COUNT OF GENDER	PERCENTAGE
Female	45	53.9%
Male	55	44.1%
Grand Total	**102**	**100.00%**

(Table 4.2)

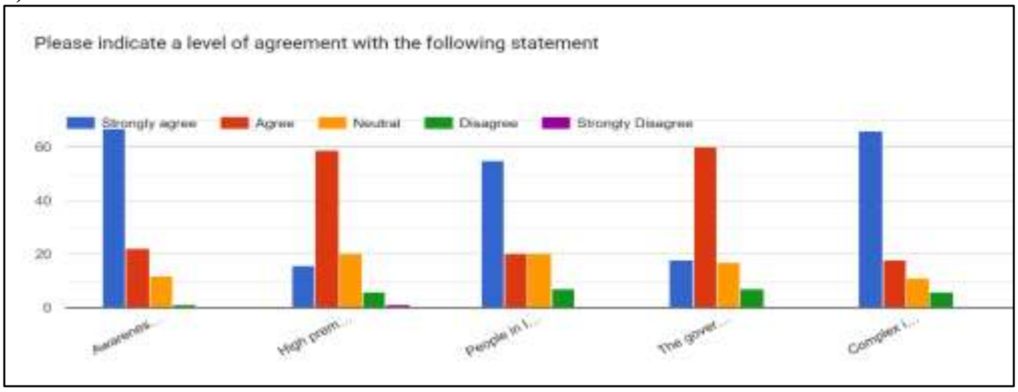


(Chart 4.2)

3. **Please indicate level of agreement (Life Insurance and Insurance Adoption) (Select all that apply)**

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
Awareness about life and health insurance in India is low compared to other countries.	67	22	12	1	0
High premium costs are a major reason why people in India do not purchase life or health insurance.	16	59	20	6	1
People in India lack trust in insurance companies, which contributes to low insurance penetration.	55	20	20	7	0
The government and regulatory initiatives are not sufficient to promote insurance adoption in India.	18	60	17	7	0
Complex insurance policies and lengthy documentation discourage individuals from buying insurance	66	18	11	6	0

(Table 4.3)

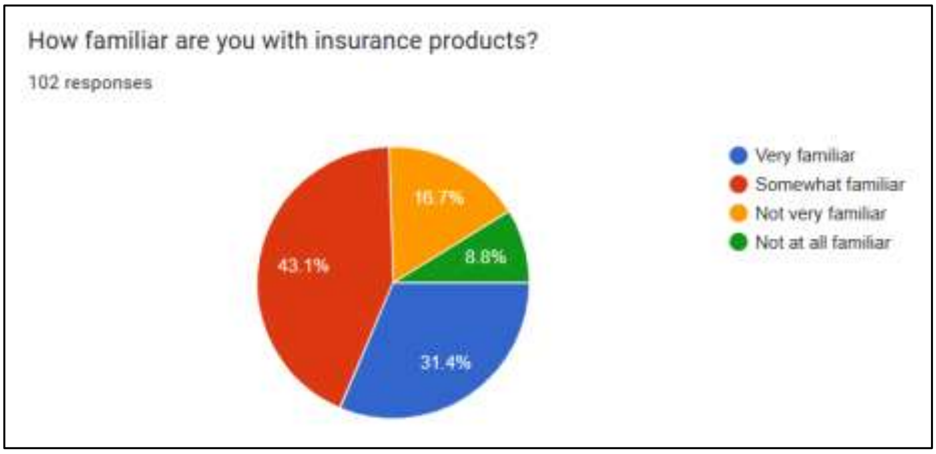


(Chart 4.3)

4. **How familiar are you with insurance products?**

NO. OF RESPONDENTS	FAMILIARITY WITH INSURANCE PRODUCTS	PERCENTAGE
32	Very familiar	31.40%
44	Somewhat familiar	43.10%
17	Not very familiar	16.70%
9	Not at all familiar	8.80%
102		**100.00%**

(Table 4.4)



(Chart 4.4)

4.1 Hypothesis Testing

HO1: Relationship between Age and Familiarity with Insurance Products

1. **H_0:** There is a significant relationship between age and familiarity of insurance products.
2. **H_1:** There is no significant relationship between age and familiarity of insurance products.

Count of How familiar are you with insurance products?	Column Labels				
Row Labels	Not at all familiar	Not very familiar	Somewhat familiar	Very familiar	Grand Total
18-24	5	11	27	17	60
25-34	2	3	11	7	23
35-44		1	1	5	7
44-54		1	2	2	5
55-65	1				1
Under 18	1	1	3	1	6
Grand Total	9	17	44	32	102

(Source: Primary Data)

Anova: Single Factor						
SUMMARY						
Groups	*Count*	*Sum*	*Average*	*Variance*		
Age	102	254	2.490196	0.925646		
How familiar are you with insurance products?	102	207	2.029412	0.840711		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	10.82843137	1	10.82843	12.26076	0.000569	3.887906
Within Groups	178.4019608	202	0.883178			
Total	189.2303922	203				

t-Test: Two-Sample Assuming Equal Variances		
	Age	*How familiar are you with insurance products?*
Mean	2.490196078	2.029411765
Variance	0.925645506	0.840710542
Observations	102	102
Pooled Variance	0.883178024	
Hypothesized Mean Difference	0	

df	202	
t Stat	3.501536415	
P(T<=t) one-tail	0.000284648	
t Critical one-tail	1.652431964	
P(T<=t) two-tail	0.000569296	
t Critical two-tail	1.971777385	

Interpretation:
Since p(two-tail) = 0.000569 < 0.05, the result is statistically significant, and therefore the null hypothesis (H_0) is rejected. This means that there is a significant relationship between age and familiarity with insurance products, indicating that respondents' familiarity with insurance products varies significantly across different age groups.

ANOVA Test
HO2: Effect of Awareness on Life Insurance Adoption
H_0: There is no significant level of awareness about life insurance among respondents.
H_1: There is significant level of awareness about life insurance among respondents.

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
Awareness about life and health insurance in India is low compared to other countries.	67	22	12	1	0
High premium costs are a major reason why people in India do not purchase life or health insurance.	16	59	20	6	1
People in India lack trust in insurance companies, which contributes to low insurance penetration.	55	20	20	7	0
The government and regulatory initiatives are not sufficient to promote insurance adoption in India.	18	60	17	7	0
Complex insurance policies and lengthy documentation discourage individuals from buying insurance	66	18	11	6	0

(Source: Primary Data)

Anova: Single Factor						
SUMMARY						
Groups	*Count*	*Sum*	*Average*	*Variance*		
67	4	155	38.75	651.583333 3		
22	4	157	39.25	547.583333 3		
12	4	68	17	18		
1	4	26	6.5	0.33333333 3		
0	4	1	0.25	0.25		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	5211.3	4	1302.825	5.34931225 6	0.0070112 56	3.055568276
Within Groups	3653.25	15	243.55			
Total	8864.55	19				

Interpretation:
The ANOVA results show that the calculated F-value is 5.3493, which is greater than the critical F-value of 3.0556. Additionally, the p-value is 0.007012, which is lower than the significance level of 0.05. This indicates that the differences observed among the group means are statistically significant.
Therefore, based on the obtained results, the null hypothesis (H_0) which states that there is no significant level of awareness about life insurance

among the respondents is rejected. The alternative hypothesis (H_1) is accepted, meaning that there is a significant level of awareness about life insurance among respondents, and awareness plays an important role in influencing their perceptions and adoption of life insurance products.

Conclusion

In conclusion, although India's insurance industry has grown significantly in recent years, the penetration of life and health insurance remains low compared to global standards. A large section of the population is still uninsured or underinsured due to low awareness, affordability issues, and the complexity of policies. Many people perceive insurance as confusing, expensive, and difficult to trust, which limits its adoption. However, positive trends are emerging, especially among younger individuals who are becoming more aware and actively seeking information through digital platforms. Customer satisfaction among policyholders is generally positive, showing that people value insurance once they adopt it. Government initiatives, digitalization, and private sector involvement are also improving accessibility and transparency. Despite this progress, a considerable number of people remain hesitant, highlighting the need for stronger awareness and simpler communication. Improving financial literacy, simplifying products, and ensuring affordability can help build trust. Overall, increasing insurance penetration in India requires a collective effort to make it more accessible, reliable, and widely accepted for long-term financial security.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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