

Micro Insurance in LIC: Expanding Financial Inclusion in India

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Abstract—Micro insurance has emerged as a vital financial innovation aimed at extending insurance coverage to low-income and economically vulnerable populations, particularly in developing countries like India. In this context, the Life Insurance Corporation of India (LIC), as the nation's leading public sector insurer, plays a significant role in promoting micro insurance schemes to achieve the broader objective of financial inclusion. This article examines the concept, implementation, and impact of micro insurance within LIC's framework, highlighting its contribution to social security and poverty alleviation. Micro insurance is designed to provide affordable and accessible insurance products with low premiums, simplified documentation, and easy claim procedures. These features make it especially suitable for individuals engaged in agriculture, daily wage labour, construction work, and other informal sectors where income is irregular and financial vulnerability is high. LIC has introduced various schemes such as Jeevan Mangal and Jeevan Madhur to cater specifically to such groups, ensuring that life insurance protection reaches underserved populations across rural and semi-urban India. The study also explores the benefits of micro insurance, including financial protection against unforeseen risks, encouragement of savings habits, and integration of marginalized communities into the formal financial system. However, it also identifies key challenges such as limited awareness, low financial literacy, distribution barriers, and relatively high administrative costs. The article argues that micro insurance under LIC plays a crucial role in strengthening inclusive growth and reducing economic insecurity. It emphasizes that with improved awareness campaigns, technological integration, and stronger outreach mechanisms, micro insurance can become an even more effective instrument for social and economic empowerment in India's developing economy.

Index Terms—Micro Insurance, LIC, Financial Inclusion, Social Security, Rural Economy.

I. INTRODUCTION

Micro insurance refers to a category of insurance products specifically designed to meet the needs of individuals and families with limited income, particularly those living in rural areas and working within informal sectors. These populations often face financial instability and lack access to conventional insurance services due to high premiums, complex documentation, and procedural barriers. Micro insurance addresses these challenges by offering low-cost premium structures, simplified enrollment processes, and easily understandable policy terms. The primary aim is to ensure that economically vulnerable groups receive basic financial protection against unexpected life risks such as death, disability, illness, and accidents, which could otherwise push them further into poverty.

In the Indian context, the Life Insurance Corporation of India (LIC), being the largest public sector insurance provider, has played a crucial role in promoting and expanding micro insurance schemes. LIC has developed specific products tailored for low-income groups, ensuring that insurance services are not restricted to urban or high-income populations alone. These schemes are designed to be affordable and accessible, often involving small premium payments collected at regular intervals, making them suitable for daily wage earners and individuals with irregular income patterns. Through its extensive network of agents and rural outreach programs, LIC

has significantly contributed to increasing awareness and enrollment in micro insurance plans.

These initiatives align closely with the broader national objective of financial inclusion, which seeks to integrate marginalized sections of society into the formal financial system. By extending insurance coverage to underserved populations, LIC not only provides financial security but also promotes economic stability and social welfare. Micro insurance thus serves as a vital tool in reducing vulnerability, supporting sustainable livelihoods, and ensuring that even the most economically disadvantaged groups have access to essential financial protection mechanisms.

II. CONCEPT OF MICRO INSURANCE

Micro insurance is fundamentally based on the principles of affordability and accessibility, making it distinctly different from conventional insurance systems. Traditional insurance policies often involve complex documentation, higher premium costs, and lengthy procedural requirements, which can be difficult for low-income individuals to manage. In contrast, micro insurance schemes are intentionally designed to be simple and user-friendly. They require minimal paperwork, offer lower premium amounts, and provide simplified claim settlement procedures. This streamlined structure ensures that individuals from economically weaker sections can easily enroll and benefit from insurance coverage without facing administrative or financial barriers.

These schemes are primarily targeted at vulnerable groups working in informal and unorganised sectors such as agriculture, construction work, domestic labour, small-scale trade, and daily wage employment. Individuals in these occupations often lack steady income and social security benefits, making them highly susceptible to financial risks. Micro insurance, therefore, acts as a protective mechanism that extends basic insurance coverage to those who are typically excluded from mainstream financial systems. By tailoring products to suit their income patterns and living conditions, micro insurance becomes both practical and inclusive.

The central objective of micro insurance is to reduce financial vulnerability and provide a safety net against unforeseen life events such as illness, accidents, disability, or death. Even though the coverage amount

is relatively small compared to traditional insurance policies, it plays a crucial role in preventing families from falling deeper into poverty during crises. In this way, micro insurance contributes to economic stability, social security, and long-term financial resilience for disadvantaged communities.

III. LIC AND MICRO INSURANCE INITIATIVES

The Life Insurance Corporation of India (LIC) has introduced several micro insurance schemes, such as Jeevan Mangal and Jeevan Madhur, specifically designed to cater to the financial needs of low-income individuals. These policies primarily provide life insurance coverage at highly affordable premium rates, making them accessible to people with irregular or limited income. One of the key features of these schemes is the flexibility in premium payment, which can be made on a daily, weekly, monthly, or even lump-sum basis, depending on the policyholder's convenience. This flexible structure is particularly beneficial for daily wage earners and workers in the informal sector, who may not have a stable monthly income.

LIC's micro insurance model places strong emphasis on rural outreach and deep penetration into underserved areas. To achieve this, LIC utilizes a wide network of agents who act as intermediaries between the organisation and rural communities. These agents play a crucial role in educating individuals about the benefits of micro insurance and assisting them in the enrollment process. In addition, LIC collaborates with self-help groups (SHGs) and microfinance institutions (MFIs), which already have strong connections within rural communities. This approach helps in building trust and ensuring wider participation among economically weaker sections.

Furthermore, LIC also partners with non-governmental organisations (NGOs) and cooperative societies to enhance awareness and improve accessibility in remote and geographically isolated regions. These collaborations support financial literacy initiatives and help simplify the insurance process for first-time users. Through this decentralised and community-based distribution strategy, LIC has been able to significantly expand the reach of micro insurance, ensuring that even the most marginalised populations gain access to essential financial protection.

IV. BENEFITS OF MICRO INSURANCE

Micro insurance schemes offered by the Life Insurance Corporation of India (LIC) provide several important benefits, particularly for low-income and economically vulnerable populations. One of the primary advantages is financial security, as these policies ensure that families receive monetary support in the event of the policyholder's death or disability. This financial assistance helps dependents manage immediate expenses such as funeral costs, debts, and daily living needs, thereby preventing sudden economic hardship.

Secondly, micro insurance encourages a habit of savings among low-income groups through the system of small and regular premium payments. Since the premiums are affordable and structured according to the income patterns of policyholders, individuals from informal sectors are able to participate consistently. Over time, this not only provides insurance coverage but also fosters financial discipline and long-term saving behaviour among economically weaker sections of society.

Thirdly, micro insurance contributes to broader social stability by reducing the economic shock caused by unexpected life events. When families are financially protected, they are less likely to fall into deeper poverty due to unforeseen circumstances. This helps maintain economic balance within communities and reduces dependence on informal or high-interest borrowing during crises.

Additionally, micro insurance plays a significant role in promoting financial inclusion by integrating marginalized and underserved populations into the formal financial system. By offering accessible insurance products, LIC enables individuals in rural and informal sectors to become part of structured financial services, thereby strengthening their economic security and social empowerment.

V. CHALLENGES IN IMPLEMENTATION

Despite its advantages, micro insurance faces several significant challenges that limit its full effectiveness in achieving widespread financial inclusion. One of the major issues is low awareness among rural and economically weaker populations. Many individuals in these communities are either unaware of micro insurance products or do not fully understand their

benefits, which results in low enrollment rates. Lack of targeted awareness campaigns and limited exposure to formal financial services further widen this gap.

Another important challenge is the high administrative cost involved in servicing micro insurance policies. Since these schemes involve small premium amounts, the cost of managing policy issuance, collection, documentation, and claim settlement can become disproportionately high compared to the revenue generated. This creates operational inefficiencies for insurers like LIC and can affect the scalability of such schemes.

In addition, limited financial literacy among target populations often hinders effective participation. Many policyholders are unable to fully comprehend policy terms, coverage details, or claim procedures, which can lead to confusion and underutilization of benefits. This lack of understanding may also result in mistrust or reluctance to renew policies.

Furthermore, issues related to distribution and accessibility continue to persist, especially in remote and geographically isolated regions. Although LIC has an extensive agent network, reaching every rural household remains a challenge due to infrastructural limitations and communication barriers. These combined factors highlight the need for stronger awareness programs, simplified communication, and improved delivery mechanisms to enhance the effectiveness of micro insurance schemes.

VI. CONCLUSION

Micro insurance plays a vital role in strengthening financial inclusion and ensuring social security for vulnerable and low-income populations in India. By offering affordable and accessible insurance products, it helps protect individuals and families from financial distress caused by unforeseen life events such as death, disability, or illness. In this context, the Life Insurance Corporation of India (LIC) has made significant contributions by introducing targeted micro insurance schemes and implementing extensive rural outreach programmes to extend coverage to underserved communities.

Despite these efforts, the full potential of micro insurance is yet to be realised. Several challenges, including low awareness, limited financial literacy, and distribution barriers in remote areas, continue to restrict its effectiveness. Many individuals still remain

outside the formal insurance system due to a lack of understanding of policy benefits and procedural complexities. These issues highlight the need for stronger awareness campaigns and more user-friendly communication strategies.

To address these limitations, there is a growing need for improved financial education and expanded outreach mechanisms. Strengthening distribution networks through digital platforms, community-based organisations, and local agents can significantly enhance accessibility. With continued policy support from the government and the integration of modern technologies, micro insurance can evolve into a more efficient and inclusive system. Ultimately, it holds strong potential as a tool for poverty reduction, economic stability, and sustainable inclusive development in India's evolving financial landscape.

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