International Labour Organization | Social Finance

The impact of inclusive insurance

A systematic review of the literature (2013 to 2024)

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Inclusive insurance, which is insurance that is aimed at underserved or unserved populations, has been a keen focus of those working on social finance and financial inclusion for at least the last two decades. The vision is that insurance can be used as one of the tools for social and economic development through the pooling of risk, relieving the insured from the full burden of a financial shock. For low-income households and small businesses, financial shocks could mean poverty, over indebtedness or bankruptcy. With ongoing threats and challenges related to climate change, persistent levels of poverty, regional conflicts, gender inequality and a lack of decent work to name a few, building resilience through risk management should be given priority; the implications of not doing so are serious. As stated by the ILO in 1944, “poverty anywhere constitutes a danger to prosperity everywhere”.

Although it is unrealistic to think that insurance alone is the solution, the question is, does it really help and how? Does it ultimately achieve its purpose of helping people cope better with financial shocks? And even where these shocks do not occur, does having insurance change the way people behave in a positive way that has a positive social or economic outcome?

This briefing note[1] presents the key findings from a review of academic papers on inclusive insurance and its impact on individuals, households and small businesses, regardless of whether it was positive, negative or neutral. The academic research papers reviewed in this work were collected via a search of all papers in various repositories discussing any of the following types of insurance: micro-, inclusive, impact, mass market, emerging consumer, agricultural, climate, index, micro-health and micro-takaful, alongside a mention of impact or value. Only papers that measured the impact of insurance on a socio-economic factor or factors with real-life data were retained – any paper that merely suggested an impact based on subjective opinion or showed the results of hypothetical models not based on real data were excluded.

1 This briefing note is excerpted from a full paper authored by Corina Constantinescu, Ida Ferrara, and Séverine Arnold. The paper is available at this address: https://www.ilo.org/publications/impact-inclusive-insurance

Here are some key findings from the review:

Inclusive insurance can shape agricultural production by ensuring input access, fostering innovation and driving economic growth, thereby boosting productivity and sustainability. There is strong evidence to show that having, not having or removing insurance changes behaviours around risk taking, with an impact on reward. Inclusive insurance, particularly index-based insurance and credit-linked insurance bundles, significantly impacts the use of agricultural inputs such as fertilizer, seeds, land and livestock, leading to an increase in production. When smallholders lose access to credit-linked insurance bundles, they experience a substantial reduction in their agricultural input use. Specifically, studies reveal that these farmers purchase 36% less fertilizer, resulting in a 27% decrease in harvests and a 31% decrease in the quantity sold resulting in lower income. Ongoing innovation is necessary to meet agriculture's evolving needs, with tailored approaches maximizing benefits across regions.

Inclusive insurance schemes can have diverse impacts on health and well-being. They reduce out-of-pocket health expenditure, improve access to healthcare and enhance utilization, particularly benefiting maternal and child health services. Agricultural insurance initiatives improve nutritional status and food security in rural areas, while community-based health insurance programs lower mortality rates, especially among children under five. However, challenges remain in optimizing the effectiveness of health microinsurance and integrating primary care. Furthermore, private health insurance – where it is not mandated – is not a substitute for social health protection.

Inclusive finance strategies, ranging from microinsurance to cooperative loans, showcase diverse impacts on households' coping mechanisms. Indemnity payments from insurance programs protect from disruptive coping strategies (e.g. liquidation of productive household assets when prices are low, disinvestment in human capital, cutting down on elementary consumption goods), while index-based livestock insurance positively impacts households' recovery in livestock holdings post-disaster. They mitigate child labour, influence borrowing behaviours, safeguard assets and shape education and consumption expenditure choices, highlighting their pivotal role in enhancing household resilience and financial stability.

Inclusive insurance can safeguard assets, reduce healthcare costs and enhance income and savings, especially in rural areas, which aids economic resilience and poverty reduction. Moreover, index-based insurance bolsters agricultural productivity and mitigates climate-related financial risks. These efforts promote financial stability and equitable access to essential services.

Inclusive insurance initiatives can contribute to several Sustainable Development Goals (SDGs). They play a crucial role in poverty eradication (SDG 1) by providing a financial safety net, foster resilience in rural communities, contributing to long-term food security (SDG 2), improve health outcomes (SDG 3) by facilitating access to finance towards medical services or indirect costs, empower women (SDG 5) through tailored products, foster economic growth (SDG 8) by mitigating risks for smallholder farmers and entrepreneurs, and support climate action (SDG 13) by providing resilience against climate-related risks.

In conclusion, the academic literature shows that inclusive insurance schemes have demonstrated significant potential in enhancing financial security, promoting health and well-being, fostering economic growth and building resilience against climate-related and other risks among underserved populations. Having said this, clearly some schemes are better than others at achieving these goals and care should be taken to design them so that the likelihood of having a positive impact is maximized. Furthermore,

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insurance may not be the best or only solution and will need to be weighed up alongside and/or in combination with other financial and risk management mechanisms.

This review also provides a set of recommendations for policymakers, practitioners and researchers based on the evidence gathered and analysed. Integrating these initiatives into broader development agendas and empowering communities will maximize their potential for sustainable development and social progress.

Recommendations for policymakers:

- Only well-designed insurance products are likely to achieve the desired developmental impacts. Products with low claims rates, where beneficiaries do not even know that they are covered are, unfortunately, too common. Regulators need to monitor the client value dimensions to increase the likelihood that the target group will be able to benefit from the coverage.
- Insurance regulators need to be made aware that expanding the coverage of (well-designed) insurance to under-insured or uninsured groups can clearly achieve public policy objectives. Regulators can facilitate availability through creating a more enabling environment and only vetting products that "Do No Harm".
- Provide subsidies to make insurance more affordable for vulnerable populations.
- Identify and formalize public-private partnership opportunities with clear guidelines for stakeholder collaboration.
- Collaborate with relevant ministries to share evidence on the positive impacts of insurance and ensure proper integration across sectors. For example, present data to the Ministry of Agriculture showing how insured farmers invest more in inputs, take greater risks and achieve larger harvests in the absence of risk events, contributing to food security and climate resilience.
- Support the Ministry of Health in upholding commitments to Universal Health Coverage by expanding government-led primary care and clarifying the complementary role of private insurance.
- Based on the evidence that microcredit programs alleviate child labour in extremely poor households, regulators could study the optimum bundles of access to finance and insurance and create best practice guidelines for financial service providers to responsibly serve these vulnerable clients.

Recommendations for practitioners, including insurers, insurtechs and intermediaries:

- Engage more actively in international development discussions to raise awareness of the industry's broader societal impact.
- Document how insurance influences investment behaviours and payout utilization, and share these insights with regulators, researchers and other stakeholders who would like to measure the impact of inclusive insurance.
- Share best practices to improve insurance penetration and collaboration. Reading broadly about the experience of others and following best-practice advice is necessary and highly recommended.
- Insurers should consider the bundling of complementary innovations to reduce costs and increase effectiveness, for example, stress tolerant seeds and/or other value-added services (relevant to the type of insurance).


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- Assist agricultural clients in exploring risk mitigation strategies, such as irrigation systems and dams for drought resilience.
- For agricultural insurance, and potentially other types of insurance, collaborate with microfinance institutions to refine loan use for targeted investments and explore holistic risk management solutions.
- Engage with regulators and governments to explore public-private partnerships, emphasizing the positive impacts of agricultural insurance on nutritional status, crop diversity and food security.

Recommendations for researchers:

- Incorporate a broader set of explanatory variables to enable deeper analysis and stronger connections to the Sustainable Development Goals.
- Conduct longitudinal studies to assess the long-term socio-economic impacts of inclusive insurance.
- Explore which elements of the findings from the delivery of inclusive health insurance could be applied to public health initiatives.
- Study the impact of inclusive insurance on small economic units, namely the self-employed and micro- and small enterprises. Studies on how insurance impacts the financial protection and productivity of micro- and small enterprises are of particular interest.
- Examine integrated risk management strategies, including savings, credit and loans, along with the effects of insurance on climate resilience, gender-responsive design, and support for small and medium enterprises during financial shocks.
- Investigate the relationship between inclusive insurance and inclusive growth further.

Research gaps continue to exist, especially concerning the long-term sustainability and differential impacts of inclusive insurance programs. Further investigation is needed into the mechanisms behind behavioural change and financial protection outcomes. Stakeholders should prioritize longitudinal studies, assess scalability and innovate to address the specific needs of vulnerable populations. Collaboration among policymakers, practitioners, and researchers is essential to enhance financial literacy, strengthen regulatory frameworks and expand access to inclusive insurance.

International Labour Organization

4 route des Morillons
CH-1211 Geneva 22
Switzerland

T. 41 22 799 6111
E. socialfinance@ilo.org

▶ **ilo.org**

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