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FINANCIAL LITERACY AND CONSUMER PERCEPTION OF MICROINSURANCE PRODUCTS: A REVIEW-BASED ANALYSIS OF ADOPTION AND FINANCIAL INCLUSION

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Abstract:
Financial literacy is now one of the key factors impacting how consumers perceive and decide to use microinsurance products, especially those coming from low-income and financially excluded segments. Even though microinsurance is getting more recognition as a tool for advancing financial inclusion and offering protection against unforeseen risks, its uptake is still scant mainly because of poor knowledge, lack of awareness and behavioral barriers. This paper examines how financial literacy influences consumers' perception, insurance knowledge and their decisions to use microinsurance. Secondary data that consists of peer-reviewed journal papers, reports and technical writings covering financial literacy, consumer behavior and microinsurance have been used for conducting the paper. A thorough and critical analysis has been employed to review the literature, compare the results and pinpoint the main factors that influence consumers' behavior in relation to microinsurance products. It reveals that being financially literate leads to greater insurance knowledge, help build faith in financial service providers and allow consumers to effectively assess different insurance options and take financially sound decisions. Besides that, the study points out that problems of accessibility, inability to pay, lack of openness and behavioral factors are among the top barriers that prevent the target groups from taking up microinsurance. It recognizes that well-targeted financial literacy programs, work on getting simpler insurance coverage and coming up with better communication strategies will definitely have an impact on consumer attitudes and encourage microinsurance scheme enrollment. The paper provides a conceptual model to explain how financial literacy interacts with microinsurance decisions which is the first of its kind, and it also points out the directions for future work that by stakeholders including governments, financial organizations and insurance firms who have been at the forefront of single-sided financial development.

Keywords: *Financial Literacy, Microinsurance Adoption, Consumer Behaviour, Financial Decision-Making, Risk Perception*

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1. Introduction

Microinsurance has become a major financial tool for giving risk coverage to the poor and vulnerable persons who are generally left out of the formal insurance markets. It helps them get insured for unforeseen events like health problems, crop failure, accidents and natural calamities by paying low rates and with very less formalities (Bisen & Singh, 2025). In the entire scheme of financial inclusion, microinsurance is an essential element as it brings risk management instruments to the poor, thereby, making available to them opportunities for savings and loans. The objective of financial inclusion is to ensure the availability of financial services to all segments of population in a manner that is not only affordable but also appropriate, thereby, resulting in the elimination of inequalities and the promotion of inclusive economic growth (Dalkilic & Erdem, 2015).

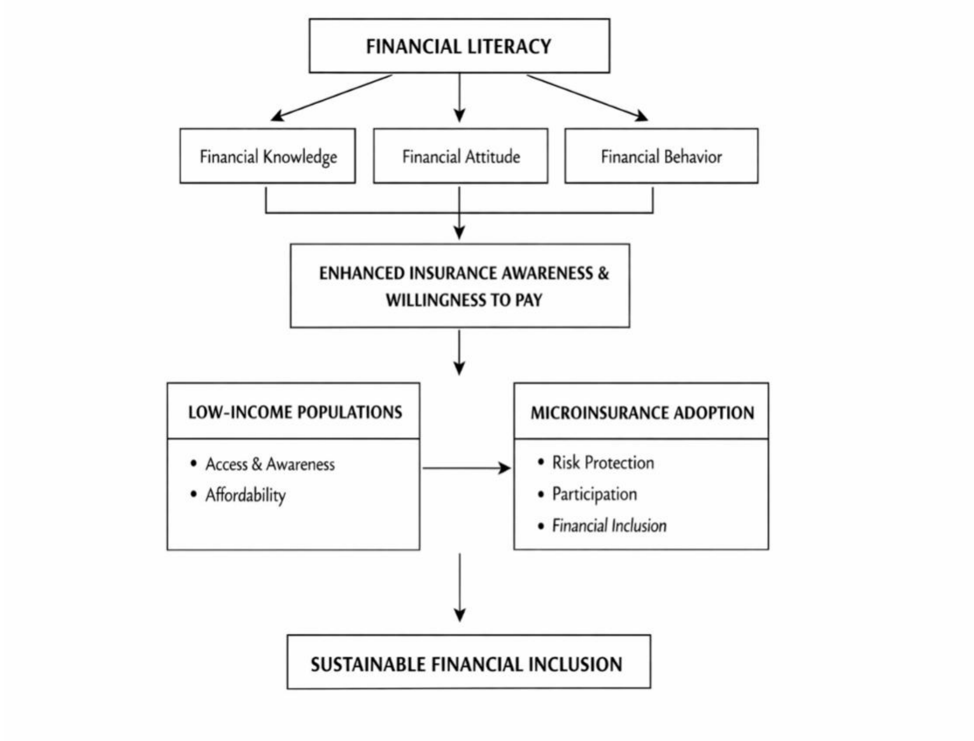

Figure 1: Financial Literacy Framework

Source: Own processing using Ms. Word

Microinsurance has the potential to bring massive changes to developing economies, however, its current use is still very limited. A great number of people remain without any insurance mainly due to knowledge barriers, tight budgets and scarcity of financial facilities. In India and various other developing parts of the world, the percentage of people having insurance is still low especially in rural areas and among those who are working in the informal sector. This financial risk exposure of vulnerable groups without any form of protection is an important issue that keeps them at the mercy of poverty due to loss in income. Even though microinsurance options are purposely created to help with these problems, the amount of people using them has not reached the levels predicted which has led to doubts on whether they are really helping in achieving the goal of including everyone financially (Dalkilic & Erdem, 2015).

One major reason for the gap is that many of the target populations have very low financial literacy. Financial literacy is the knowledge and ability to understand financial matters and make good financial decisions. It is one of the most important factors that determine how a person perceives and uses different financial products. A person with a very low level of financial literacy usually has poor awareness, misconceptions and lack of trust in insurance services. Such a person is less likely to take up microinsurance. On the other hand, a person

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with a good level of financial literacy is capable of comparing different policies, identifying the benefits of insurance and making a smart decision on risk management (Dalkilic & Erdem, 2015). Insurance literacy, which is a part of financial literacy, helps even more in making the right decision because it affects purchase decision, risk perception and long-term financial planning (Bisen & Singh, 2025).

Some research studies have investigated financial literacy and insurance awareness individually, but there is a missing part in analytical understanding that integrates the way financial literacy determines a consumer's perception which then leads to the decision to purchase microinsurance products. This issue is more pronounced among financially excluded populations. Majority of the existing literature is either empirical and context-specific or conceptual without a clear link among perception, behavior and adoption in a single framework. This leads to a research gap in comprehending the complicated relationship between financial literacy, consumer perception and microinsurance adoption.

Therefore, this paper focuses on the conceptual and analytical method to study the role of financial literacy in influencing consumer perception of microinsurance products. Besides that, it also investigates how this connection results in awareness, trust and decision-making, which in turn leads to adoption. After considering key factors such as accessibility, transparency and behavioural elements, the paper adds to the pool of knowledge by presenting a detailed model that associates financial literacy to consumer perception and financial inclusion outcomes. The results of the research provide significant insights for the government, financial entities and other players in the market in terms of preparation of successful financial literacy programs and microinsurance products that are centered on consumers to foster inclusion and economic resilience.

1.1 Aim and Objectives

For exploring the impact of financial literacy on how consumers develop perception and uptake of microinsurance products especially the low-income and financially excluded segments of the population.

Objectives of the Study

1. To analyze the relationship between financial literacy and insurance awareness in respect of microinsurance.
2. To assess the impact of financial literacy on consumer perception and adoption of microinsurance products.
3. To figure out the main behavioural and socio-economic factors that influence microinsurance uptake by low-income consumers.
4. To investigate how trust, accessibility and financial awareness affect consumer decision-making in regard to microinsurance products.
5. To provide conceptual inputs for the enhancement of financial inclusion through microinsurance offerings.

2. Conceptual Framework of Financial Literacy

The term "financial literacy" describes a person's ability both to comprehend and implement their knowledge of finance in managing his or her own personal finances as well as the ability to reach reasonable conclusions about monetary matters. Financial literacy encompasses such things as: comprehension and experience with financial products, knowledge of risk/return profiles for these products, and the ability to prepare for a secure future financially. As it relates to microinsurance and improving financial access, financial literacy plays a major role in how someone understands and uses, given that an individual does not necessarily process or utilize the information they have (Ndhlovu, 2021). Financial Literacy is multidimensional in that it incorporates theoretical knowledge but also the ability to apply that theoretical knowledge to real life situations involving money. Individuals with sufficient levels of financial literacy are more capable of evaluating the available alternatives regarding money

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and comparing various insurance options to determine which ones meet their needs and goals. Conversely, a lack of financial literacy is typically the cause of poor financial planning and underutilization of formalized financial systems by economically disadvantaged individuals (Ghimire, 2025).
There are generally three primary elements of financial literacy and how these elements interact with each other to create a framework for a person's ability to make sound financial decisions: financial knowledge, financial attitude, and financial behaviour. The concept of financial knowledge is to give individuals an understanding of the fundamental components of finance as well as various forms of insurance; while one's financial attitude is a reflection of such individual's thoughts and beliefs regarding saving, investing, and protecting their wealth through insurance; and, finally, financial behaviour is indicative of the actions that individuals take reflecting their understanding of, and belief in, various financial practices such as purchasing insurance and saving money. Collectively, these three elements determine how a person makes their financial decisions (Ndhlovu, 2021). Financial literacy also is significant in relation to the way in which individuals in low-income populations perceive and understand the concept of microinsurance. Because many have limited information regarding insurance and hold incorrect beliefs about it, they often do not buy or use the services that microinsurance offers. However, when individuals are given proper information regarding microinsurance, including how it works, they have a more positive view of it, resulting in increased acceptance and ultimately greater participation in microinsurance products and programs (Srinidhi & Velavan, 2019).
Further, financial literacy has a profound effect on a person's attitude as well as intentions to buy insurance products. The more knowledgeable people are about finances, the more likely they will be to have a positive attitude towards financial planning and managing risk; consequently, they will want to use insurance in their overall finance strategy. Therefore, having a positive outlook towards financial planning and managing risk leads to a stronger desire to purchase and use insurance products (Ndhlovu, 2021). Furthermore, there is an increased likelihood that individuals who possess high levels of financial literacy will make better decisions regarding life insurance. Individuals with a sound understanding of finance can analyze the policy features, evaluate the policy's long-term benefits, and then select policies that match their needs/financial capability. The result is making informed and effective decisions; therefore, lessening their susceptibility to debt or financial vulnerability resulting in more overall security (Ghimire, 2025).
Financial literacy is important not just for individuals but also for the larger economy and improving access to finance for everyone (known as financial inclusion). Financial literacy helps people efficiently use financial products and services and therefore gives them access to the formal financial system. Financial literacy is critical in many developing regions that struggle with high levels of financial exclusion; by improving financial literacy we can create the necessary conditions for an inclusive growth process (Srinidhi & Velavan, 2019). In summary, effective financial decision-making relies on having a strong base in financial literacy and thus providing a foundation for the promotion of microinsurance and financial inclusion. The three major components of financial literacy (knowledge, attitude and behaviour) all play a role in how people view, assess and take up financial products. A focus on improving financial literacy through education and awareness is needed to support efforts to increase insurance penetration and achieve sustainable financial inclusion (Ndhlovu, 2021).

3. Understanding Microinsurance Products

Low-income and vulnerable individuals typically cannot buy traditional insurance, however microinsurance products help these people obtain financial protection against the risks of: health, life, agricultural and property damage, or injury. The premiums for microinsurance products are low and can be affordable for low-income consumers. Unlike traditional insurance products, microinsurance is designed with simplicity and accessibility as primary considerations - making the microinsurance product an attractive option for people with less

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than regular income and inadequate or limited financial means. The way in which an individual perceives insurance products (especially low-income consumers) is a significant influencer of that individual's acceptance of the given insurance product, thus underscoring the importance of a consumer-oriented product design (Mohideen, 2019). Microinsurance products have a low level of premium and are designed to provide coverage for low-income individuals. Typically, microinsurance products have a simplified documentation requirements; have minimal processing time; and provide quick payment for claims. As a result, these features of microinsurance create a level of trust and familiarity with first-time users, allowing them to comfortably access the services of a formal financial institution. Additionally, microinsurance products that have clear and transparent communication about the terms of the policy will foster better understanding and satisfaction among customers, leading to a higher rate of participation in the purchase of microinsurance products (Amoah & Mungai, 2020).

Accessibility to microinsurance is another major feature that makes it a viable option for those looking for affordable insurance coverage. Microfinance institutions, self-help groups, cooperatives and digital platforms have been very important in providing access to these services to those living in both remote and unbanked locations around the world. They help close the gap between insurance agencies and potential beneficiaries by providing a means of access for people living in rural or semi-urban areas to receive risk protection. The efficiency of these distribution channels relates directly to the financial literacy level of the individual, which affects their ability to fully utilize the microinsurance product being offered (Lepanović, 2025). The range of risks covered under microinsurance is extensive, with the coverage and reach of microinsurance continuing to expand based on the changing socio-economic environment. This includes but is not limited to health emergencies; crop failures; death of an animal; natural disasters; and uncertainty around death or loss of a family member. In developing countries, where individuals are generally considered to be higher risk profiles, microinsurance plays an essential role in the financial stability of individuals and in improving the quality of life for many through poverty alleviation efforts. By providing individuals with a safety net from having to execute any high-cost distress financing methods, such as high interest loans or liquidation of productive assets (Amoah & Mungai, 2020).

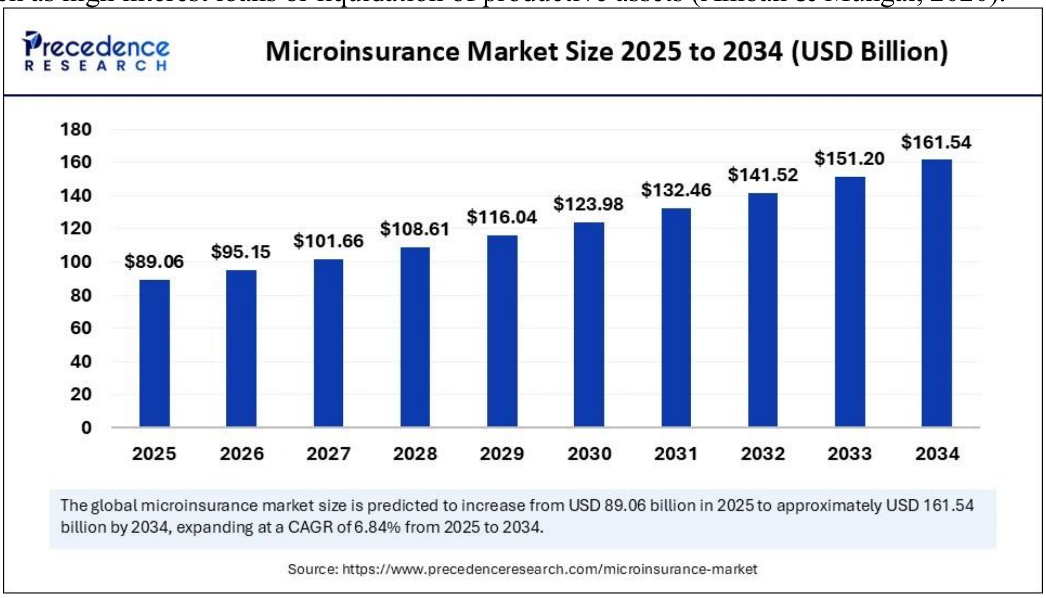

Figure 2: Microinsurance Market Size

Source: https://www.precedenceresearch.com/microinsurance-market

Microinsurance provides considerable assistance to SMEs, most particularly in informal economies. These small and medium sized businesses are normally unprotected against possible risks and as a consequence experience financial hardship from unexpected events.

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Microinsurance is designed specifically to meet the needs of SMEs and helps guarantee a business' continued operation while enabling an increase in financial performance through both the reduction of business uncertainty and improvement of risk management practices.

Financial literacy enables entrepreneurs to make informed financial decisions enabling microinsurance to be more effective. Microinsurance primarily targets low income families, individuals living in rural villages, subsistence farmers, daily wage earners, and those working in the informal economy. The majority of microinsurance clients are unable to access traditional insurance services due to their low incomes, lack of financial documentation and general lack of awareness concerning the existence of traditional insurance products. By providing insurance products that are specific to the unique characteristics of their target markets, microinsurance focuses on providing access to insurance for those who traditionally do not have access due to the characteristics of their socio-economic status (Mohideen 2019).

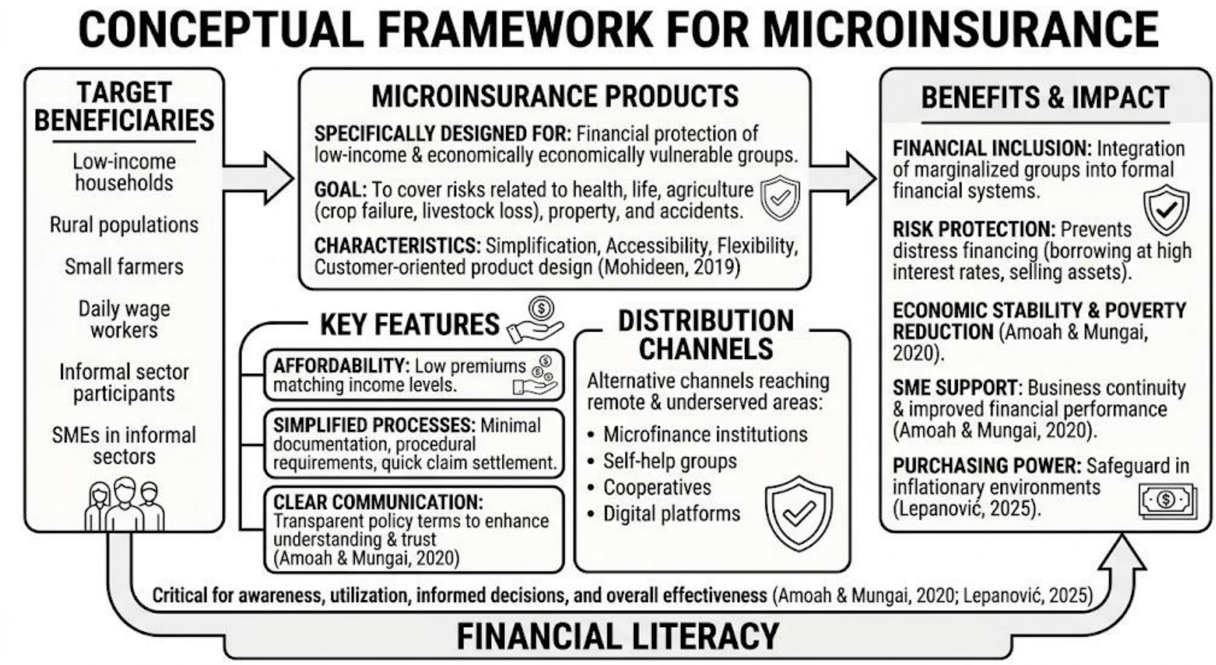

Figure 3: Conceptual Framework for Micro insurance

Source: Own processing using Ms. PowerPoint

Also, those living in areas experiencing inflation get extra benefits from microinsurance as this type of policy can offer financial protection from the expanding uncertainty and instability of the economy. Financial literacy becomes increasingly important in these situations, as people need to understand how to use their microinsurance policies to maintain their purchasing power and protect their long-term financial security (Lepanović, 2025). Ultimately, microinsurance is a valuable tool for fostering financial inclusion and protecting vulnerable populations from many sources of risk; their three main characteristics affordability, simplicity and accessibility make them a good fit for low-income communities, while their broad coverage helps ensure they provide multiple forms of risk protection. Microinsurance also contributes to the economic stability and resilience of communities by targeting those who are not typically served by existing financial services and supporting small businesses. However, if financial literacy does not exist or is lacking in a community, then effective utilization of microinsurance products will remain low further emphasizing the need for continuing efforts to develop the level of financial literacy; hence increasing awareness of, using and positively impacting people who access microinsurance products (Amoah & Mungai, 2020).

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4. Consumer Perception in Financial Services

In financial services, how people perceive the business they do with financial institutions who sell financial products is a major factor in how they view these products and how they make decisions about them, especially in microinsurance where a lack of trust, awareness and understanding can create difficulties for customers to access products. The perception of these businesses is influenced by many factors such as personal experiences, education, social factors and the perceived credibility of financial institutions. A positive perception of these services will help customers adopt and use them. On the other hand, negative perceptions of these services can create significant barriers to financial inclusion (Kaneria et al 2024). Financial literacy is one of the key factors that influences a customer's perception of financial services and how they evaluate financial products. A customer who has a greater degree of financial literacy has a better ability to determine the advantages, disadvantages and cost implications of the financial services they use and will make better informed decisions as a result. Education is a large contributor to a customer's behaviour; through education, customers become better able to process financial information and make reasoned decisions about how they spend, save and invest their money (Cananua-Labid et al 2025).

The degree to which a person trusts and thinks their service provider is proper?. consumer trust and transparency play an essential role in how someone interprets a financial institution's service offering, but these aspects become increasingly significant when discussing microinsurance since the target populations are often in a vulnerable state. As trust is negatively affected when prospective enrollees have either had limited time engaged with their service provider, the service provider has provided an extremely poor customer experience or the service provider's application process includes a great deal of steps, so individuals will be less likely to enrol in the insurance process (Dansu et al., 2026). Another element that plays an important role in consumer interpretation of a financial product is its accessibility and simplicity. Financial products that include complex language, lengthy contracts, or lack of clarity regarding policy conditions increase ambiguity, leading to reduced confidence among consumers. In contrast, financial services with easy-to-understand products and adequate education will increase comprehension, as well as motivate consumers to purchase services. Consumers will also have an enhanced interpretation when financial products are delivered at local institutions (i.e., through branches or community centres) or accessed via digital means, as these options provide consumers with a high degree of convenience and user-friendliness (Kaneria et al., 2024).

Consumers' behavioral factors have a significant impact on their decision-making, including risk perception, attitude toward financial planning, and the effects of social influences. For instance, consumers with a high level of risk perception will be more inclined to purchase insurance products than a consumer with a lower level of risk perception because they view insurance as an option that offers protection. Similarly, consumers who have a positive attitude towards saving money and having long-term financial security are potentially more likely to adopt financial services. Social influences on an individual's choice or perception may include peer pressure from friends and family or community awareness (Cananua-Labid et al., 2025).

Table 1: Consumer Perception in Financial Services

Factor	Description	Impact on Perception
Financial Literacy	Knowledge and understanding of financial products	Leads to informed decisions and positive perception
Trust & Transparency	Reliability and clarity in services and policies	Builds confidence and encourages adoption
Accessibility & Simplicity	Ease of access and simple procedures	Reduces confusion and improves usability
Behavioural Factors	Risk attitude, financial habits, and mindset	Influences willingness to adopt services

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Economic Conditions	Income level, inflation, and financial stability	Affects affordability and decision-making
Awareness	Exposure through education and promotion	Increases understanding and reduces misconceptions
Social Influence	Impact of peers, family, and community	Encourages or discourages participation

Source: Own processing using Dansu et al., 2026; Cananua-Labid et al., 2025; Kaneria et al., 2024

In addition, consumer perceptions of their economic climate and economic stability will also influence their decision to invest in something as serious as microinsurance. In situations where consumers feel the economy is volatile or uncertain, they may either limit their risk by purchasing microinsurance products in order to gain protection, or they may limit their exposure to risk by not making any financial commitments due to their lack of financial resources. Microinsurance may enhance consumer perception when it provides an affordable and relevant solution based on a low-income consumer's financial capacity (Dansu et al., 2026).

In addition, awareness and promotional activities play a major role in influencing consumer perceptions of financial services. The use of effective communication strategies, financial education programs, and targeted awareness campaigns help to create a positive image of financial products. These initiatives help consumers to understand financial products better, and at the same time, reduce the misconceptions and fears they have about insurance and other financial products (Kaneria et al., 2024). To conclude, the perception of consumers with regard to financial services are determined by various factors such as financial literacy and access to information, trust in financial institutions, and behavioural factors. These factors work together to influence how consumers understand and use financial products, especially in the areas of microinsurance and financial inclusion. Understanding these factors is crucial for the development of effective financial products and strategies that meet the needs of consumers and result in increased participation and inclusive development of the financial sector (Dansu et al., 2026).

5. Relationship Between Financial Literacy and Insurance Awareness

A fundamental factor in financial inclusion is the relationship between financial literacy and insurance awareness. Financial literacy helps people learn about financial products by providing them with the knowledge and skills they need to use them. Insurance awareness is how informed people are about the availability, advantages and functions of insurance. According to theories of how financial literacy and insurance awareness relate, more financially literate people have greater insurance awareness, hence can more effectively adopt and use insurance products. This relationship between financial literacy and insurance awareness is especially important in developing countries, where there is a lack of awareness of insurance and thus a major obstacle to the growth of the insurance industry (Cheraga, 2024). Financial literacy builds up cognitive processes under which people make decisions. A person with enough financial literacy will also interpret insurance-related information more accurately, assess the benefits of an insurance policy more easily, and more easily understand the scope and coverage of insurance policies. All therefore reduce the amount of asymmetrical information between insurers and consumers, resulting in consumers being more confident to do business with their insurers. Thus, financial literacy will form the basis for the development of insurance awareness and the creation of an informed consumer base to participate in insurance markets (Bhatia et al., 2024).

The behavioral theories linking knowledge with attitudes/perceptions is another connection between financial literacy and increasing the perception of necessity versus optionality. This cognitive awareness/translates into how individuals perceive risk management and long-term planning, thus allowing them to view insurance as a necessity rather than a discretionary

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expense. This perception shift is critical for increasing insurance awareness/acceptance (Selvan & Anita, 2019). Studies have also shown that financial literacy has been effective in reducing personal barriers/misconceptions about insurance products. For instance, people who are low-income may think insurance is complicated or that it doesn't apply to them due to limited knowledge. By having greater financial literacy, insurance products/concepts will be demystified, making it easier for them to understand/recognize them as such. This results in greater recognition of the need for insurance/microinsurance products and increases their chances of participating in microinsurance products, thus helping to attain financial inclusion goals (Cheraga, 2024).
Additionally, Financial literacy increases the effectiveness of communication and marketing strategies used by insurance companies. Consumers who possess basic knowledge of financial concepts will be more likely to respond positively to information on the various types of insurance products and more able to process any promotional messages. Thus, there will be a stronger correlation between an awareness campaign's success in generating an awareness of the product or service and an actual adoption of said product/service due to the fact that the awareness campaign for microinsurance can produce outcomes with meaning (Bhatia et al., 2024). Financial Awareness is also related to financial literacy when examining framing effects and decision-making biases as those consumers that are financially literate will be less prone to receiving information that is misleading or untrue as it pertains to insurance and viewing the presentation of the product in a biased way. They will be more equipped with the ability/skills to independently assess the details of the policy objectively, resulting in creating more rationally-based/informed decisions by the consumer. This will increase the level of awareness created by an awareness campaign and also build trust in the services provided by the insurer (Bhatia et al., 2024).
Moreover, micro-insurance initiatives working to enhance financial inclusion frequently include financial literacy initiatives to improve awareness and usage of these insurance products. These initiatives recognize that, without sufficient knowledge of how to use an insurance product even if it is well designed (in terms of risk coverage, features and/or prices) will not achieve their intended objectives. By combining education with access to a product, policymakers and organizations may improve the delivery of both literacy and awareness at the same time (Selvan & Anita, 2019). Thus, the interrelationship of financial literacy and insurance awareness is supported by both theoretical and empirical evidence. Financial literacy is a key drivers of awareness, attitudes, and decision making associated with the various types of insurance products. Improving this interrelationship will assist in providing access to insurance, particularly for those who currently do not have access to it, thus supporting achieving broader objectives of providing financial inclusion (and ultimately, achieving an improved overall standard of living) (Cheraga, 2024).

6. Role of Financial Literacy in Shaping Microinsurance Adoption

The importance of financial literacy is paramount when looking at how microinsurance will be adopted as it influences how people perceive, assess and ultimately choose to purchase insurance products. Microinsurance has a target market of low-income individuals who may be susceptible to financial difficulties; therefore, in order for a person to use microinsurance they have to have some degree of awareness and comprehension of their ability to use it effectively. Financial literacy helps a person understand and evaluate insurance policies by providing them with the skills and knowledge needed to evaluate policy terms, benefits of coverage and to make sound risk management decisions based on their available resources. Insufficient financial literacy can cause a person to be hesitant in obtaining microinsurance due to confusion, misinformation or lack of confidence (Weedige et. al., 2019). Financial literacy also plays an important role in helping individuals make educated decisions when signing up for microinsurance. People who have higher levels of financial literacy are able to thoroughly review all available insurance options, compare premiums for coverage and evaluate benefits provided by coverage; therefore, they have the ability to select a policy

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which best meets their financial needs and protects against their level of financial exposure. On the contrary, people with limited financial literacy may seek informal advice or choose not to purchase insurance at all which could lead to poor financial decisions (Gracias & Broklyn, 2024).

Individuals' financial literacy boosts their ability to understand sophisticated insurance-related concepts including risk pooling, premiums, and claims processes; it eliminates some uncertainty when dealing with insurers; and gives them more confidence in using insurers as sources of funds to finance unexpected events. This combination of attributes makes microinsurance appear much less like a risky or frivolous expenditure and much more like an essential and dependable medium to finance the unexpected (Weedige et al., 2019). An additional factor that impacts the acceptance and use of microinsurance by persons with a high level of financial literacy is their level of trust towards the insurer and the microinsurance product. Since people with low-incomes (the primary target for microinsurance) generally have few positive, or very much negative, experiences with financial institutions, it is particularly important for the providers of microinsurance to develop long-lasting relationships based upon trust. Financial literacy fosters this type of trust because it enables individuals to understand policy language, determine whether they are being treated fairly, and identify credible microinsurance providers. Consequently, as individual participants in the microinsurance process grow more knowledgeable about the process and the offerings of the insurer, they tend to have significantly greater trust in the use of microinsurance and therefore will be more likely to adopt (Mhella, 2024).

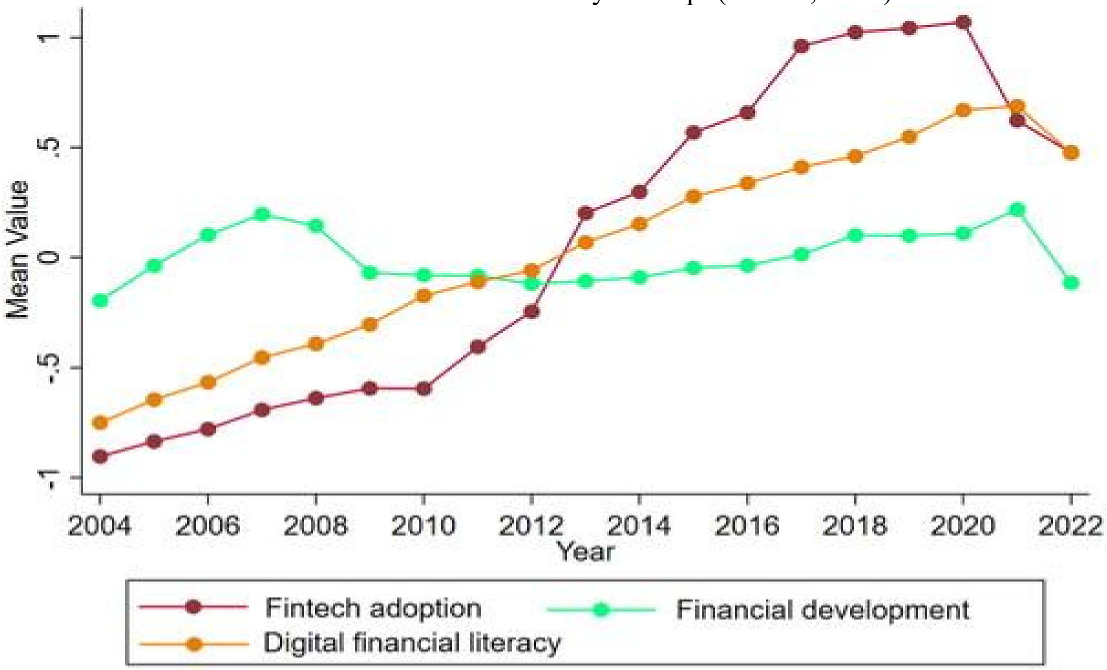

Figure 4: The role of fintech adoption and digital financial literacy

Source: https://www.tandfonline.com/doi/full/10.1080/2329194X.2026.2614065

In addition, improving financial literacy lowers the information gap between insurance companies and their customers to an extent. When a person has little or no knowledge about their product or service, it typically means that they will be at a disadvantage when it comes to negotiating with the provider. This creates a lack of trust and desire to get coverage from these companies. Providing people with financial literacy will give them the confidence to ask questions and get clarification on policies, trust in their decision-making process will strengthen and create a sense of ownership in the policyholder's decision to purchase (Gracias & Broklyn, 2024). As well, behaviour patterns such as risk perception, attitudes towards

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financial planning, and long-term security are influenced by financial literacy. People who are financially literate tend to recognize how important it is for them to have insurance for their financial future, as well as to incorporate insurance into their overall financial planning. By demonstrating this proactive approach to managing risk, there is an increased likelihood of microinsurance being adopted, along with a culture that promotes financial security and preparedness (Mhella, 2024).

In addition, there is a link between education and micro-insurance; education provides information to educate potential users about the advantages and ways in which micro-insurance will work. Education allows individuals to become more aware of micro-insurance and corrects wrong ideas about how micro-insurance works; this will encourage users to buy micro-insurance. As individuals are informed and confident, they will be more likely to use/make investments in micro-insurance because they know it can protect their financial future (Weedige et al., 2019). Thus, the development of financial literacy will greatly affect how people will use micro-insurance; both in influencing their decision-making and developing trust in the use of micro-insurance. Financial literacy allows individuals to evaluate their own needs in purchasing micro-insurance; build confidence in the financial system(s) they choose to use for their financial investments, and create barriers to entry in the complex process of purchasing micro-insurance, or misinformation about the previously mentioned points. With a strong base of financial literacy, micro-insurance can penetrate new markets and assist in achieving the goal of financial inclusion (Mhella, 2024).

7. Barriers to Microinsurance Uptake Among Consumers

Although microinsurance has the potential to help many consumers and provide much-needed safety nets for low-income and informal sectors, it has not been widely adopted. Barriers to widespread use of microinsurance include gaps in knowledge; accessibility issues; and behavior change-related obstacles. These three factors contribute to low levels of awareness or understanding of how to access microinsurance products, thereby limiting contributions to economic security and financial inclusion through microinsurance (Yeboah, 2018) Microinsurance's low level of usage is largely due to inadequate knowledge about finance and insurance. Persons within low-income groups typically have little knowledge of the existence, advantages, and the way in which microinsurance products function. With inadequate knowledge or understanding of microinsurance, many persons in low-income groups develop and hold onto misperceptions that insurance is not necessary or too complicated. Therefore, some persons in low-income groups will not purchase insurance policies when, many would benefit from the risk protection provided by microinsurance products (Singh & Tomar, 2024).

People also find it difficult to learn enough about the terms and conditions of insurance products, which often stops them from trying to be insured. The complicated nature of insurance policies, along with many confusing words and phrases used when communicating about these policies makes it hard for anyone who thinks about buying an insurance policy to understand how an insurance product works. This leads to a lack of trust in insurance products because they do not know what the insurance product would cover or how much their claim would be expected to pay when they have to make a claim (Yeboah, 2018). Accessing insurance services has proven to be one of the major obstacles to increasing the uptake of microinsurance. Many people (especially those in rural areas) have limited or no physical access to insurance services due to a lack of infrastructure or insurance agents. The lack of an insurance agent close, not having access to digital technology, and not having a good outreach programme also limits the availability of microinsurance products to the intended market. Establishing greater access to insurance products via alternative channels (like microfinance institutions and digital channels) must be addressed to overcome this problem (Singh & Tomar, 2024).

Microinsurance has been designed to be affordable, but cost can still create barriers to access for some of the poorest, including people who have irregular sources of income see even

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small premiums as a burden. Therefore, for those in these situations, present consumption is prioritized over future risk management, which leads to little to no participation in microinsurance programmes (Yeboah, 2018). There are several other behaviours that may also decrease a person's ability to use microinsurance, including a person's perception of risk, time discounting and distrust in the financial system, all of which will impact demand for insurance products. The majority of people who do not use insurance products greatly underestimate their risks or will not plan for their financial futures, which results in many people not being interested in purchasing insurance. Furthermore, people's previous negative experiences with insurance companies or their general distrust of insurance companies may further deter these individuals from purchasing insurance (Singh & Tomar, 2024).

Behavioural barriers caused by community/societal factors, as well as culture, affect many people within different segments of society. In some cases, individuals rely upon informal assistance from family members or neighbours for their needs rather than taking advantage of formal insurance programs. When people do this because it is the way they have always done things and they believe that their informal insurance will work just as well as formal insurance; then they are less likely to use or accept microinsurance as a solution. Targeted promotional/advertising methods are ineffective and contribute to the difficulties associated with using microinsurances, because there are no effective marketing methods or financial literacy programs to inform or educate people about microinsurances. A person who does not understand what a microinsurer is or how microinsurances provide them with a benefit; they may not consider using the product for coverage (Singh & Tomar, 2024).

In conclusion, the take-up of microinsurance is limited by knowledge deficits, accessibility challenges, and behavioral issues - therefore, addressing these barriers requires a holistic response involving increased financial education, increased accessibility via innovative delivery channels, as well as creating products designed with consumers in mind. For the true goals of increased microinsurance uptake and thus increased levels of financial inclusion and economic resilience through these type of insurances to be achieved (Yeboah, 2018).

8. Literature Review

The current body of literature continues to be in agreement that financial literacy is an important factor contributing to individuals' awareness of insurance, their perceptions about it, and their financial choices. In a study by Nalan Dalkilic and Kemal Erdem (2015), they found that an increased level of financial literacy gives people a better understanding of the various concepts related to insurance and leads to increased levels of insurance awareness for consumers. According to G. K. Bisen and A. K. Singh (2025), an insurance literate person exhibits more confidence when making a purchase and has the ability to make informed decisions about their purchase thus increasing the security of their assets. Collectively, both of these studies support the theory that consumers with financial literacy generally have the ability to evaluate the various aspects of insurance products more objectively and can make better choices regarding their personal finance.

Many studies identify the correlation between financial literacy and microinsurance acceptance by low-income individuals. A.K. Yeboah and C.K. Obeng (2016) found that increased knowledge of finances increased consumers' willingness to purchase microinsurance products. Similarly, R. Srinidhi and M. Velavan (2019) found that consumers' awareness and understanding of microinsureance are important elements of acceptance within economically disadvantaged populations. Finally, D.J. Mhella (2024) concluded that consumers with adequate understanding of finances and confidence in the insurance industry would benefit from microinsurance and be more financially included.

The literature also suggests that consumers' attitudes toward insurers' products are affected by other factors besides knowledge about finance, i.e. social and behavioural variables. In their studies, A. Kaneria et al. (2024) & S.A. Cananua-Labid et al. (2025) show that the behavioural variables trust, transparency, accessibility, and attitudes toward finance can greatly affect consumer behaviour and financial decision making. They; therefore, argue that

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financially literate consumers are less susceptible to framing effects; thus, they can make more informed insurance decisions. The results suggest that the interaction of financial literacy with behavioural dimensions such as risk perception and trust has an impact on the uptake of microinsurance.

A number of existing studies address various barriers limiting the uptake of microinsurance among vulnerable individuals. R. Singh and V. Tomar (2024) claim that poor awareness, lack of access to microinsurance products, and low levels of financial literacy remain significant barriers to achieving financial inclusion through insurance. Similarly, A. K. Yeboah (2018) demonstrated that affordability, behavioural biases, and reliance on informal support systems negatively affect consumers' decisions about whether to own microinsurance. While virtually all studies agree about the positive impact of higher levels of financial literacy promoting the adoption of insurance, there are competing views regarding the relative importance of accessibility, trust, and socio-economic characteristics in forming consumer perceptions. As a result, there is a growing consensus in the literature about the need for a combined, multi-dimensional conceptual analysis of financial literacy, consumer behaviour and microinsurance uptake in an overall financial inclusion framework.

8.1 Research Gap

While there is a lot of information in the current literature regarding financial literacy, insurance knowledge (also referred to as awareness) and financial inclusion; the current research does not yet have an integrated conceptual analysis that examines the impact of financial literacy on consumer perception and adoption of micro-insurance products by low-income and otherwise financially excluded groups. Most previous studies have focused either on general insurance behaviour or on financial inclusion independently, while comparatively less attention has been given to behavioural factors, trust, accessibility and awareness within the context of microinsurance. In addition, existing findings remain fragmented across different economic and geographical contexts, creating a gap in comprehensive understanding of the relationship between financial literacy and microinsurance adoption in developing economies.

Furthermore, there is a lack of review-based analytical studies that synthesize existing literature on financial literacy, consumer behaviour and microinsurance within a single conceptual framework. Rapid developments in financial services and changing consumer behaviour patterns have also created the need for updated conceptual analysis in this area. Therefore, the present study attempts to address these gaps by providing a thematic and comparative review-based analysis of the role of financial literacy in shaping consumer perception, insurance awareness and microinsurance adoption.

9. Research Methodology

The present study adopts a conceptual and descriptive research design based entirely on secondary data. Relevant information was collected from peer-reviewed journal articles, research papers, conference proceedings, books and published reports related to financial literacy, consumer perception, financial inclusion and microinsurance. To find literature relevant to this study, academic databases (e.g. Google Scholar, Scopus, Springer, Elsevier and ResearchGate) were searched for anything published between 2015-2026. The literature identified was chosen because it related to the study objectives, was of high quality and relevant.

Then, the literature that had been collected was analyzed using two different methods (thematic analysis and comparative analysis) to identify the significant determinants, barriers and behavioural dimensions of microinsurance uptake and consumer perceptions. The study applies a comparative approach to investigate the conceptual connection between financial literacy, insurance awareness, trust in financial services, accessibility of financial services, and financial decision-making of low-income and financially vulnerable populations. By

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synthesising the previous research, this study generates a holistic understanding of how financial literacy supports the adoption of microinsurance and promotes financial inclusion.

10. Conclusion
Financial literacy has a key function in developing consumers' perceptions of microinsurance products and encouraging the use of these products. Financial Literacy serves as the basis to develop insurance awareness, improve decision-making and create confidence in many financial service providers. People with high levels of financial literacy will be more able to understand microinsurance; will be able to successfully assess the options available under the policies, and will be able to make good choices about how to manage risk. While microinsurance has a lot of potential to support financial inclusion, the results of the study show that there are many barriers limiting access to microinsurance such as a lack of knowledge, limited ways to obtain the product, the ability to pay, and habits of behaviour restricting access to the product. These barriers are particularly strong for individuals living on low incomes and those who work in an informal sector which represent the target market for microinsurance (Jahnert et al., 2025).
In addition, consumer perception has been shown to be shaped by factors such as trust, the level of transparency in financial product offerings and the ease with which consumers can use their chosen financial products; therefore an individual's overall perception will affect their likelihood of using or adopting new products or services. Understanding this relationship between an individual's perception of a financial product or service and their actual experience may enable providers to address negative misconceptions that may lead to lack of participation in microinsurances or other forms of insufficiently supported financial services. Therefore, these factors support the need for increased financial literacy that can be supported by additional education and awareness efforts to help overcome such barriers. Ultimately, enhancing financial literacy is critical to improving microinsurance's ability to provide for the needs of individuals in low-income populations and to support broader economic development. To do this, it will require the development of user-friendly financial products, provision of additional access through new distribution channels, and development of comprehensive financial education programs to ensure greater participation by consumers and provide them with long-term financial security (Jahnert et al., 2025).

11. Discussion
This article highlights the importance of financial literacy in consumer's perceptions and adoption of microinsurance products by low-income financially excluded consumers. This review-based analysis indicates that consumers with greater financial literacy have more knowledge about insurance concepts, insurance benefits, and financial risk management practices. Such greater knowledge promotes greater insurance awareness, better financial decision-making and greater confidence in the use of micro-insurance services. Overall, these results support other research which suggests that financially literate consumers tend to evaluate insurance products more rationally and are more likely to participate in the formal financial system. Financial literacy is also associated with reducing misperceptions and psychological barriers to using insurance, and therefore increasing the level of trust and willingness to adopt microinsurance services (Tanjung et al., 2025).
Also, this study shows that people's views of microinsurance are affected by more than just how financially savvy they are; they also depend on trustworthiness, openness, easy access to services, and how they act. Furthermore, low-cost and easily understood products that work well with marketing campaigns lead to increased levels of participation and inclusion in the financial system. However, there are still obstacles to wide adoption of microinsurance among low-income populations that include low-income level, low awareness of microinsurance, complicated processing times, and no or little access to purchase products. The results also suggest that there is a close relationship between financial literacy and information about microinsurance, and together, they assist in building increased levels of

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inclusion in finance. Therefore, improving financial education, developing clear communication practices, and developing consumer-focused microinsurance products are crucial to raising the adoption of insurance and providing long-term financial security for underbanked communities. (Tanjung et al. 2025).

12. Recommendation

According to the results of this research study; it is suggested that legislators and other policy making bodies should increase their investment into financial literacy and awareness programs particularly in rural areas or where the economy is less developed than elsewhere. Educating consumers about microinsurance products will also require introducing educational programs regarding (but not limited to) risk management, financial planning, and availability of insurance at schools, community centers, and through digital platforms. Insurance providers should create simple, affordable, and transparent micro insurance products that low income consumers can easily understand and gain access to them These can include but are not limited to:

* Documenting micro product details in an easy to comprehend format
* Rapidly processing micro claims
* Clearly informing policyholders of the terms associated with their policies

Collaboration between financial institutions, digital service providers, insurance companies, microfinance companies, and self help groups will allow the outreach of financial education and ultimately result in an increase in the number of people who participate in microinsurance programs. To accomplish the aforementioned goals future financial literacy initiatives must address behavioral barriers, increase trust in financial services, and develop strategies for providing consumers with long term access to financial products.

13. Limitations of the Study

This research relies on secondary sources of information; thus, there is no collection of primary research information such as surveys or interviews that would provide data to verify the claims made in this paper. The conclusions drawn in the research depend on the available literature and, as a result, will likely limit the applicability of the research to the everyday world of finance. In addition, the research sources come from specific countries and may limit the ability to generalise or transfer results from one country to another (Espina et al., 2025).

There are other limitations as well; for example, there are no statistical or econometric tools used to determine the relationships between financial literacy and consumer perception and microinsurance. The rapidly changing nature of digital financial services and insurance will mean that the research findings concerning the digital financial services and insurance marketplaces may become even less relevant than they are at present (Espina et al., 2025).

14. Future Research Scope

Research conducted in the future can utilise primary data collection techniques like surveys and interviews for more direct/practical insights into microinsurance. Quantitative methods will include the use of regression analysis and/or structural equation models to ensure accurate testing of relationships; this provides stronger empirical evidence of their validity.

Subsequent research will include an emphasis on the role of digital financial literacy in the growing adoption of microinsurance given the growth of mobile-based insurance platforms. Further, by conducting comparative studies across various regions/areas, researchers would be able to confirm whether there are differences between consumer awareness/adoption rates for microinsurance.

Another area of study for future research will be to further examine the behavioural elements concerning risk perception, trust, and financial attitudes that influence consumers' buying decisions when purchasing microinsurance.

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