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ORIGINAL PAPER

The Role of Insurance in Ensuring Financial Security: An Analytical Study based on Risk Management approach

P. Vidhya[1], Sharan Kumar Shetty[2], N. Devaram[3], Ramona Birau[4], Virgil Popescu[5], D. Renukadevi[6], P. Manochithra[7], Payam Rostamicheri[8], Gabriela Ana Maria Lupu (Filip)[9], Stefan Margaritescu[10], M. Devaki[11], Cristina Sultanoiu (Patularu)[12]

Abstract: Insurance plays a pivotal role in safeguarding individuals and families against financial uncertainties caused by unforeseen events such as illness, accidents, or death. This study aims to analyze the role of insurance in ensuring financial security among residents of [City/Region]. A total of 300 respondents were surveyed using a structured questionnaire to collect primary data, supplemented by secondary data from journals, reports, and publications. The study employs descriptive and inferential statistical methods, including frequency distribution and chi-square analysis, to examine awareness, perception, and the impact of insurance on financial stability. The findings indicate that individuals with adequate insurance coverage demonstrate higher financial confidence and resilience during emergencies. This study highlights the importance of promoting insurance literacy and adopting comprehensive insurance plans for long-term financial security.

[1] Department of Corporate Secretaryship, Sri Ramakrishna College of Arts & Science, Coimbatore Tamil Nadu, India, vidhyasathishsnr@gmail.com
[2] Department of MBA, AJ Institute of Engineering & Technology –Mangalore, Karnataka, India, sharansai25@gmail.com
[3] Department of Corporate Secretaryship, Sri Ramakrishna College of Arts & Science, Coimbatore Tamil Nadu, India, ramdeva705@gmail.com
[4] Doctoral School of Economic Sciences” Eugeniu Carada”, University of Craiova, Craiova, Romania, ramona.f.birau@gmail.com
[5] Faculty of Economics and Business Administration, University of Craiova, Craiova, Romania, virgil.popescu@vilaro.ro
[6] Department of Corporate Secretaryship, Sri Ramakrishna College of Arts & Science, Coimbatore Tamil Nadu, India, renu28185@gmail.com
[7] Department of Corporate Secretaryship, Sri Ramakrishna College of Arts & Science, Coimbatore Tamil Nadu, India, manomadhumitha@gmail.com
[8] Department of Finance, Student of Finance, BI Norwegian Business School - Oslo campus, Nydalsveien 37, 0484, Oslo, Norway, payamrostami07@gmail.com
[9] University of Craiova, "Eugeniu Carada" Doctoral School of Economic Sciences, Craiova, Romania, Lupuanamariagabriela@yahoo.com
[10] University of Craiova, "Eugeniu Carada" Doctoral School of Economic Sciences, Craiova, Romania, stefanitamargaritescu@gmail.com
[11] Department of Corporate Secretaryship, Sri Ramakrishna College of Arts & Science, Coimbatore Tamil Nadu, India, deva.shylu@gmail.com
[12] University of Craiova, Doctoral School of Economic Sciences ”Eugeniu Carada”, Craiova, Romania, cristinapatularu1973@gmail.com

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Keywords: *Insurance Financial Security, Risk Management, Life and Health Insurance, Economic Stability, Risk Management*

Introduction

In today's uncertain economic environment, individuals and families face numerous financial risks ranging from medical emergencies to loss of income. Insurance serves as a financial safety net, providing protection against these unforeseen risks by pooling resources and sharing the financial burden. Beyond protection, insurance encourages savings, promotes financial discipline, and enhances economic stability for individuals and society. Understanding the role of insurance in ensuring financial security is essential, as it influences financial planning, risk management, and overall well-being.

Statement of the Problem

1. Despite the availability of various insurance products, a significant portion of the population lacks adequate awareness and understanding of insurance benefits, limiting its effectiveness as a financial security tool.

2. The impact of insurance on financial stability and risk management remains underexplored among different demographic groups, making it essential to evaluate its role in ensuring economic resilience

Objectives

1. To examine the level of awareness and utilization of insurance among respondents.

2. To analyze the role of insurance in providing financial security and mitigating economic risks.

Research Methodology

The study follows a descriptive research design. A total of 300 respondents were selected using a convenience sampling method. Primary data were collected through a structured questionnaire covering demographic details, awareness, and perception of insurance, as well as its financial impact. Secondary data were gathered from journals, reports, and books. Data analysis involves frequency distribution to understand demographic trends and chi-square analysis to examine the relationship between insurance awareness and financial security.

Limitations of the Study

1. The study is limited to respondents from Coimbatore and may not represent the entire population.

Review of Literature

Smith (2020) conducted a study which emphasizes the role of life insurance in reducing financial vulnerability among families. The research found that households with life insurance coverage were better able to cope with sudden income loss due to the death of the primary earner. The study highlights that life insurance not only provides financial compensation but also contributes to long-term planning, ensuring children's education and basic household needs are met. This aligns with the idea that insurance is a core tool for financial security.

Kumar and Sharma (2019) explored the relationship between awareness and adoption of health insurance among urban households. They found that awareness programs significantly increased the likelihood of individuals purchasing health insurance. The study concluded that lack of awareness was a major barrier to insurance uptake, and informed individuals were more likely to appreciate insurance as a financial safety net.

Rao (2021) provided a research which highlights the dual role of insurance in providing protection and promoting financial discipline. Policyholders who regularly invested in insurance demonstrated better savings habits and were more financially resilient in emergencies. The study suggests that insurance not only mitigates risk but also encourages structured financial planning, making it an essential tool for long-term security.

Imran et al. (2025) investigated relevant aspects on impacting the insurance market in China and its effect on economic growth. Moreover, Frank et al. (2024) examined the implications of Takaful insurance on financial markets. Certain researchers such as Kayarthakdka et al. (2023a; 2023b) and Vidyavathi et al. (2023) have provided comprehensive research studies on life insurance in an emerging economy like India.

Johnson (2018) examined the macroeconomic benefits of insurance in fostering economic stability. The research indicates that insurance reduces the financial impact of risks on households and businesses, enabling investment and entrepreneurship. By managing risk efficiently, insurance indirectly contributes to societal financial security, highlighting its broader role beyond individual protection.

Patel and Singh (2022) investigated the influence of financial literacy on insurance adoption. The study found that individuals with higher financial literacy were more likely to purchase insurance products and perceive them as essential for financial security. The research underscores the importance of educational initiatives to enhance understanding of insurance benefits, which in turn strengthens household financial stability.

Role of Insurance in Financial Security

Insurance is an essential tool for ensuring financial security in today's uncertain world. It provides protection against unexpected risks such as accidents, illness, natural disasters, property loss, or the untimely death of the earning member of a family. By transferring the burden of risk from an individual to an insurance company, it helps maintain financial stability and peace of mind.

1. Risk Management:

Insurance safeguards individuals and families from financial losses due to unforeseen events. For example, health insurance covers hospitalization expenses, while motor insurance covers accident damages.

2. Income Protection:

Life insurance ensures that the dependents of an earning member are financially secure in case of death or disability. It acts as a steady source of income replacement.

3. Wealth Preservation:

Without insurance, unexpected events can deplete lifelong savings. Insurance prevents such financial drain by covering high expenses like medical bills or property damage.

4. Savings and Investment:

Some insurance policies (endowment, pension, and unit-linked plans) combine protection with long-term savings. They help in building wealth for future goals such as retirement, education, or marriage.

5. Economic Stability:

Insurance not only benefits individuals but also contributes to national economic development. By covering risks, it promotes entrepreneurship, investment, and reduces financial stress in society.

Data Analysis and Interpretation

Table no.1. Demographic Profile of Respondents

Demographic	Category	Frequency	Percentage (%)
Age	18–30	100	33.3
	31–45	120	40.0
	46–60	60	20.0
	Above 60	20	6.7
Gender	Male	170	56.7
	Female	130	43.3
Education	High School	50	16.7
	Graduate	180	60.0
	Postgraduate	70	23.3
Income (Monthly)	Below ₹25,000	80	26.7
	₹25,000–₹50,000	120	40.0
	Above ₹50,000	100	33.3

Interpretation:

The majority of respondents are between 31–45 years (40%), with graduate-level education (60%), and a balanced income distribution. This suggests a relatively informed sample capable of understanding insurance concepts.

Table no.2. Awareness of Insurance

Awareness Level	No. of Respondents	Percentage (%)
High	120	40%
Moderate	100	33.3%
Low	80	26.7%

Interpretation:

40% of respondents have high awareness of insurance products, while 26.7% have low awareness. This indicates that while a significant portion understands insurance, targeted awareness campaigns are needed for a larger impact.

Table no.3. Type of Insurance Held by Respondents

Type of Insurance	Number of Respondents	Percentage (%)
Life Insurance	130	43.3
Health Insurance	100	33.3
Vehicle Insurance	40	13.3
Property Insurance	30	10.0

Interpretation:

Life insurance is the most commonly held policy (43.3%), followed by health insurance (33.3%). This shows that respondents prioritize protection against income loss and medical emergencies.

Table no.4. Perceived Role of Insurance in Financial Security

Response	No. of Respondents	Percentage (%)
Strongly Agree	107	35.7
Agree	123	41
Neutral	41	13.7
Disagree	18	6
Strongly Disagree	11	3.7

Interpretation:

76.7% of respondents (Strongly Agree + Agree) believe that insurance plays a significant role in financial security. Only a small fraction (10%) disagrees, indicating general recognition of insurance as a safety net.

Table no.5. Chi-Square Analysis of Insurance Coverage and Financial Security

Financial Security	Insured (Observed)	Insured (Expected)	Uninsured (Observed)	Uninsured (Expected)	$(O-E)^2/E$ Insured	$(O-E)^2/E$ Uninsured
High	110	100	40	50	1.00	2.00
Moderate	80	86.67	50	43.33	0.51	1.03
Low	10	13.33	10	6.67	0.83	1.66
Total					**2.34**	**4.69**
Chi-Square (χ^2)						**7.03**
df						2
Significance (α = 0.05)						χ^2 Critical = 5.991

- The chi-square value ($\chi^2 = 7.03$) exceeds the critical value (5.991) at df = 2, $\alpha = 0.05$.
- This indicates a **significant association** between insurance coverage and perceived financial security.

Findings

1. **Awareness of Insurance:**
   - 40% of respondents had high awareness of insurance products, while 26.7% had low awareness.
   - This indicates that although a significant portion of the population understands insurance, there is still a gap in insurance literacy.
2. **Type of Insurance Coverage:**
   - Life insurance (43.3%) and health insurance (33.3%) were the most commonly held policies, reflecting respondents' priorities in protecting income and health.
3. **Perceived Role of Insurance in Financial Security:**
   - 76.7% of respondents (Strongly Agree + Agree) believe insurance plays a significant role in ensuring financial security.
4. **Relationship Between Insurance and Financial Security:**
   - Chi-Square analysis ($\chi^2 = 7.03 > 5.991$, df = 2, $\alpha = 0.05$) confirms a significant positive association between having insurance and perceived financial security.
   - Insured respondents report higher financial stability than uninsured respondents.
5. **Demographic Influence:**
   - Education and income levels significantly influence both awareness and adoption of insurance products.

Suggestions

1. **Promote Insurance Awareness Programs:**
   - Government agencies, financial institutions, and insurance companies should conduct awareness campaigns to educate the public on the benefits and types of insurance.
2. **Financial Literacy Initiatives:**
   - Educational workshops and online resources can improve understanding of insurance as a financial planning tool.
3. **Encourage Comprehensive Coverage:**
   - Individuals should be encouraged to take combined health and life insurance policies for better financial security.
4. **Target Low-Awareness Groups:**
   - Special focus should be given to populations with lower education or income levels, who often lack awareness of insurance benefits.
5. **Integration with Digital Platforms:**
   - Leveraging digital marketing and online platforms can increase accessibility and adoption of insurance products.

Conclusion

The study concludes that insurance is a vital tool for ensuring financial security. Respondents with insurance coverage exhibit higher financial stability and resilience against unexpected events. Awareness and education play a critical role in influencing insurance adoption, highlighting the need for targeted awareness and financial literacy programs. Insurance not only mitigates financial risks but also encourages disciplined financial planning and long-term economic stability. Strengthening insurance literacy and promoting comprehensive coverage can significantly enhance individual and household financial security.

Authors' Contributions:
The authors contributed equally to this work.

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