

Determination of Factors Influencing Micro and Small and Medium Enterprises from Taking Insurance as a Risk Management Tool

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Abstract:

The Micro, Small and Medium Enterprises (MSME) is the largest employer of the informal sector in Zambia. According to a research from the Bank of Zambia (BoZ) and the International Labour Organization (ILO), SMEs account for 70% of Zambia's GDP and 88% of the employment, hence the importance of this sector cannot be over emphasized. Sadly, In the recent past, the sector has experienced disasters such as fires, for example the Kapalala Market in Ndola and the City Market in Lusaka. One of the main ways of mitigating against the risk of sure loss is Insurance. Insurance in Zambia is one of the most rapidly growing sector with over 20 companies. Therefore, one would expect MSMEs to ensure their business against such losses. Unfortunately, proprietors and their employees of these businesses have mourned every time there are such calamities. The sector has always cried to Government or other stakeholders to assist resuscitate their business. There is need to find out the factors that prevent MSMEs from taking up insurance as a risk mitigating measure. This research main objective is investigating the major reasons for MSMEs failure to insure their businesses. A survey was done in Ndola where data was collected from 120 MSMEs. Descriptive statistic was used to analyse the data, among the factors considered were 1) lack of knowledge of insurance, 2) Cost of insurance policy, 3) government policy of insurance for MSME, 4) lack of confidence in the insurance companies, and 5) lack of insurance products for MSMEs. The the research revealed that lack of insurance products for SMEs ,lack of government policy and lack of confidence in insurance companies were the major factor preventing small business from taking insurance. This research is significant as it has provided empirical evidence to policy makers and insurance companies on how this important sector of MSMEs can be protected.

Keyword :MSMEs, Insurance ,Risk Management tool

1. Introduction

It is an internationally recognised fact that Micro, Small and Medium Enterprises (MSMEs) play an important role in the economic development of many countries. The aggregate contribution of MSMEs to national development cannot be overlooked. The development of MSMEs is viewed as one sustainable way of reducing the levels of poverty and improving the quality of life of households through wealth and job creation. The contribution of MSMEs to employment, growth, and sustainable development is a widely acknowledged fact. Micro, Small and Medium Enterprises (SMEs) are the main source of economic growth in developing countries (Kilonzo, 2011). They contribute largely to the employment sector of Zambia. According to the MSME policy of 2010 MSMEs are classified according to the sales turnover and the number of employees. Micro are those with less than 10 employees and with the sales turnover of less than K150,000 (\$27,000). Small Enterprise are those with employees between 11 and 50 with the annual sale of K150,000-K250,000 (\$27,000-\$45,000) while Medium Enterprise employee between 51 to 80 employees and annual sales turnover of K300,000 to K800,000 (\$54,000-\$145,000). Like in any business MSMEs face many risks in their operations which if not well mitigated can result in the closure of small business. One of the ways of mitigating risk is by risk transfer, which in many cases is done through insurance. Insurance in Zambia is one of the most rapidly growing sectors with over 20 companies. Therefore, one would expect MSMEs to ensure their business against such losses. Unfortunately, proprietors and their employees of these businesses have mourned every time there are such calamities. The sector has always cried to Government or other stakeholders to assist resuscitate their business. There is need to find out the factors that prevent MSMEs from taking up insurance as a risk mitigating measure. This research main objective is investigating the major reasons for MSMEs failure to insure their businesses.

2. Literature review

A number of studies carried out in this area have revealed the factors that prevent SME from taking insurance as a risk mitigation tool. Gibbons et al, (2010) using a survey of 150 SME decision makers drawn from a carefully constructed sample from Kenya. A questionnaire specifically addressing the risk management practices and insurance perceptions of SMEs was prepared. They found that lack of information and confidence in the insurance companies discouraged them from taking insurance covers.

In a similar study from Poland by Gorzeń-Mitka,(2015) gender and lack of information were factors that reflected in the approach to risk management by SME owners. The study was conducted using a mixed survey-monographic method where a sample of 299 companies were purposefully selected. The survey research was use of questionnaires which were addressed to both manufacturing and service enterprises.

Watkins, (2012) in his review of risk management techniques by SMEs in South Africa reported that a lack of structured risk identification by SMEs and SMEs unaware or unplanned risk exposure to their limited financial resources contributed.

A study from Ghana by Abotsi et al,(2014) found that business related demographic factors like knowledge of business owners, government policies on risk and business characteristics such as type of business influenced the decision on risk management by SME owners . The research adopted a quantitative approach through the use of survey responses from owners and managers of SMEs and used regression to analyse the data.

3. The Conceptualized Critical Factors Research Model

A conceptual framework is a group of concepts that are broadly defined and systematically organized to provide a focus, rationale and a tool for integration and interpretation of information (Achtenberg & Vrines, 2002). The model of concepts adopted to help during help us choose the most appropriate variables and associations that include the greatest probability relevant for this study (Miles and Huberman, 1994). Here, the lessons from the literature reviewed were used in the study to create a framework to assist in the data collection exercise and in answering the research questions raised in the introduction. From the literature reviewed (Gibbons et al, (2010) Gorzeń-Mitka,(2015) , Watkins, (2012). It was observed that among the factors that influence the SMEs owners' desire of taking insurance as a risk management tool were 1) lack of knowledge on insurance, 2) Cost of insurance policy, 3) government policy of insurance for SME, 4) lack of confidence in the insurance companies, and 5) lack of insurance products for SMEs. These five attributes were used as the independent variables for which any change or manipulation of the variable results in a change of the dependent variable, thus increasing or decreasing the ability of SMEs desire take insurance. Figure 1 below depicts the research model conceptualized to assist in analysing the factors at play that influenced the SMEs owners' desire for taking insurance as a risk management tool.

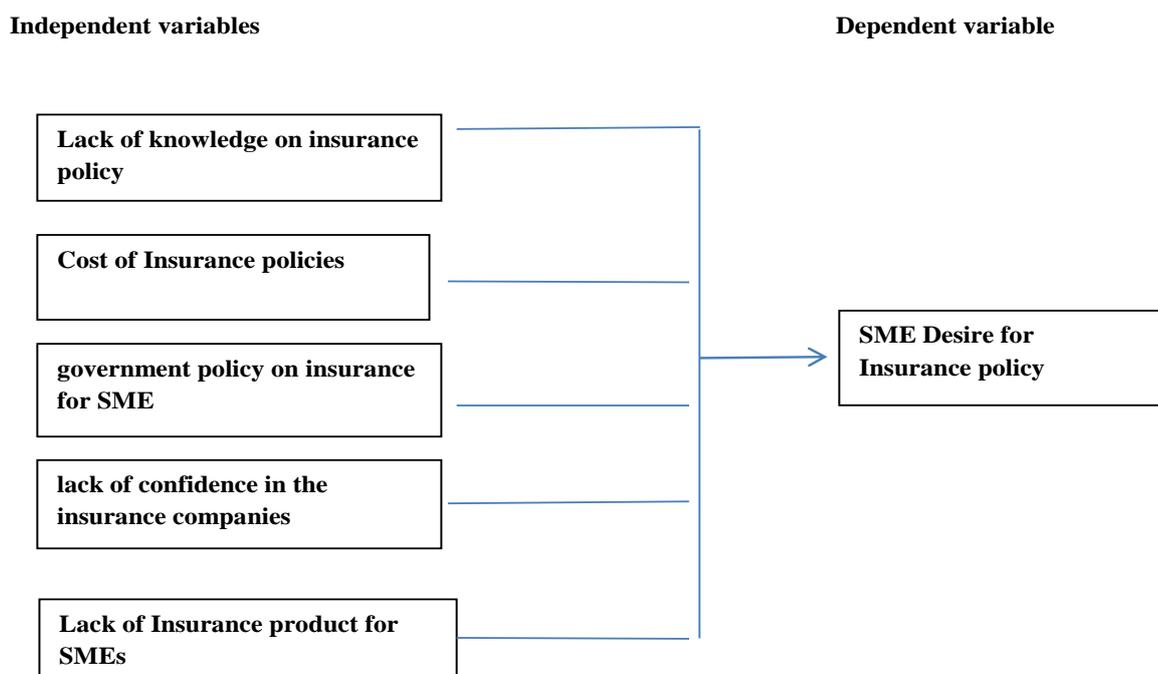


Figure1. The conceptual framework

3.2 Definitions of variables

Lack of knowledge of insurance policy

Salman et al (2017) defined knowledge on an insurance policy as the awareness and understanding insurance services offered by insurance companies .In a similar way, this study has conceptualized Lack of knowledge on an insurance policy as the lack of awareness by MSME on the policies which are being offered by insurance companies to cover risks relating to MSMEs.

Cost of Insurance policies

In this study Cost of Insurance policies was defined as way price and other related costs that pay for the policy. In most cases MSMEs perceive insurance policies as being too expensive, especially those MSMEs which are run by families. They think buying an insurance policy is a waste of resources, because for them risks do not usually happen. Gibbons et al, (2010) noted that in reasonably competitive economic conditions, the decision to purchase insurance is a “make or buy” question, analogous to outsourcing.

Lack of government policy (Insurance is not required by law)

This was defined as the perception that SMEs have that it is not mandatory for SMEs to insure their business. Insurance is usually not required by law, except in most cases, unless those with motor vehicles where it is mandatory to have an insurance policy for the motor vehicle. Therefore MSMEs are not bothered even inquiring about insurance because it is not mandatory; they usually go for those things which are mandatory like the trading certificate, tax issues, and statutory contributions. Robert, Simon and Andre (2010) stated that Insurance demand may be less sensitive to price when other motivations enter the calculation. For example, when the law requires owners of motor vehicles to carry third party liability insurance, their only choice is to buy insurance, to dispose of the vehicle, or to violate the law. Given those choices, most people will buy insurance even though they think the price is too high. Thus the presence of non-economic decision factors can mask the economic performance of the insurance market.

Lack of confidence in insurance companies

The concern which most people have (MSMEs included) is that insurance companies are slow in making payments for the claims which are made, or in some cases, they may never even payed. Thus MSMEs take it that even if they take an insurance policy, the insurance companies may never pay when a claim is made.

Lack of insurance products for SMEs as a factor to returns

This was defined as lack of awareness about the insurance products which are available for MSMEs , or where there are no insurance policies especially for MSMEs.

3.2. Measurement of Variables

The Variables Mentioned Above Were Measured Using The Likert Scale. The respondents were asked to rate Their Views On How The Factors 1)lack of knowledge of insurance ,2) Cost of insurance policy, 3)government policy of insurance for MSME, 4)lack of confidence in the insurance companies, and 5)lack of insurance products for MSMes affected their desire to insure their business .They were rating their views On Five (5) Likert Scale From strongly agree which was rated five (5) to strongly disagree which was rated one (1).

4. Methodology

Like in similar research (Watkins, (2012), Gorzeń-Mitka,(2015)), This study adopted a descriptive survey to get the perception of MSME owners and managers s about their insurance and risk management practices. The study was based in Ndola. The population for this survey was 1,055 Micro, Small and Medium Enterprises in Ndola an estimate based on the records of the Ndola Chamber of commerce, 4 insurance companies based in Ndola and the Ndola Chamber of commerce, Ndola .A sample size of 150 MSMe was purposefully picked from an estimated population of 1055. The sample size was calculated using the using the Yamene (1967) formula.

$$n = \frac{N}{1+N(e)^2}$$

Where n is the sample size, N is the population size, and e is the level of precision. In this formula, N is 1055. e is the error term which was put at 0.07%. Hence the study distributed sample 170 MSE question ears of which 120 were returned indicating the response rate of 70%

5. Results

5.1 Survey respondent by size

10 or less employees	83
Between 11-50 employees	29
Between 51-100 employees	8

The table above shows that most of the companies were falling in the bracket of micro enterprises.

5.2 Survey respondents by economic sector

Clothes	30
Foodstuffs	35
Electrical appliances	15
Building material	21
Services	7
Others	12

5.2 Survey findings

Most of the SMEs were very acquainted with the risks which they face, Most of the SMEs are aware of the insurance companies but have not taken up any insurance policy. Mainly they said that they were not aware that even they (SMEs) can take insurance. They seemed to be more or well informed of the micro finances were they can get some loans, and that is the only time when they get insurance because the loans are insured.

“Do you as an SME desire to insure the business”

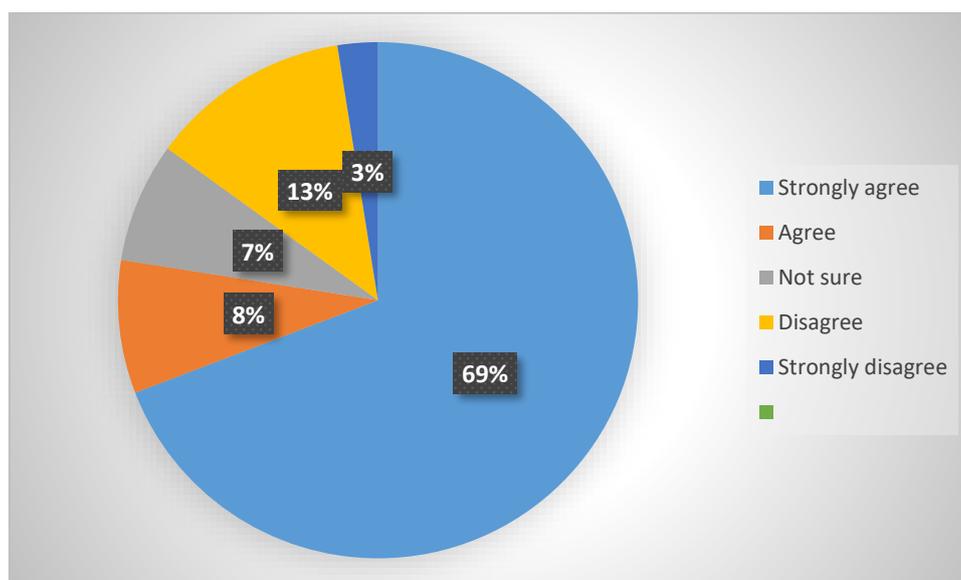


Figure 2 “SMEs desire to insure their businesses”

From the above chart, we can see that more people have the desire to insure their businesses and are willing to put money aside to insure in case of future losses. . 83 respondents strongly agreed (69%), 10 agreed (8%), 9 were not sure (7%), 15 disagreed (13%) and 3 strongly disagreed (3%).

“Lack of knowledge of insurance prevents SMEs from insuring their businesses”

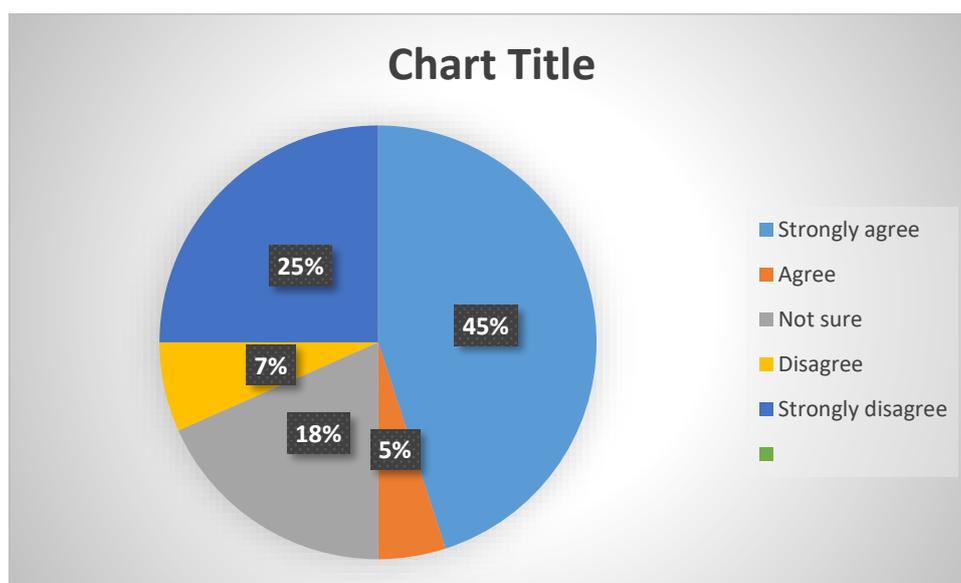


Figure3 “Lack of knowledge on insurance”

Lack of knowledge of insurance prevent some SMEs from insuring their businesses. Most of the SMEs did not insure their businesses not because they do not want, but mostly it is because they do not have the knowledge of insurance that even SMEs can have their businesses insured. As can be seen in figure 3 most SMEs do not have much knowledge about insurance. . 54 respondents strongly agreed (45%), 6 respondents agreed (5%), 22 respondents were not sure (18%), 8 respondents disagreed (7%) and 30 respondents strongly disagreed (25%).

“Does the e cost of insurance prevent you from insuring”

Cost of insurance as can be seen in figure 4 below cost is another factor which prevents SMEs from insuring their businesses. SMEs were arguing that the cost of insurance is too high and usually when an insurance expires, let say a policy for one year, SMEs were suggesting that even if their (SMEs) do not suffer any loss, at least the insurance companies should give them a percentage of the amount they had insured rather than nothing. For them (SMEs), they take it to be a cost where more they do not get anything at the end of the policy. 78 respondents strongly agreed (65%), 6 respondents agreed (5%), 2 respondents were not sure (2%), 24 respondents disagreed (8%) and 10 respondents strongly disagreed (20%).

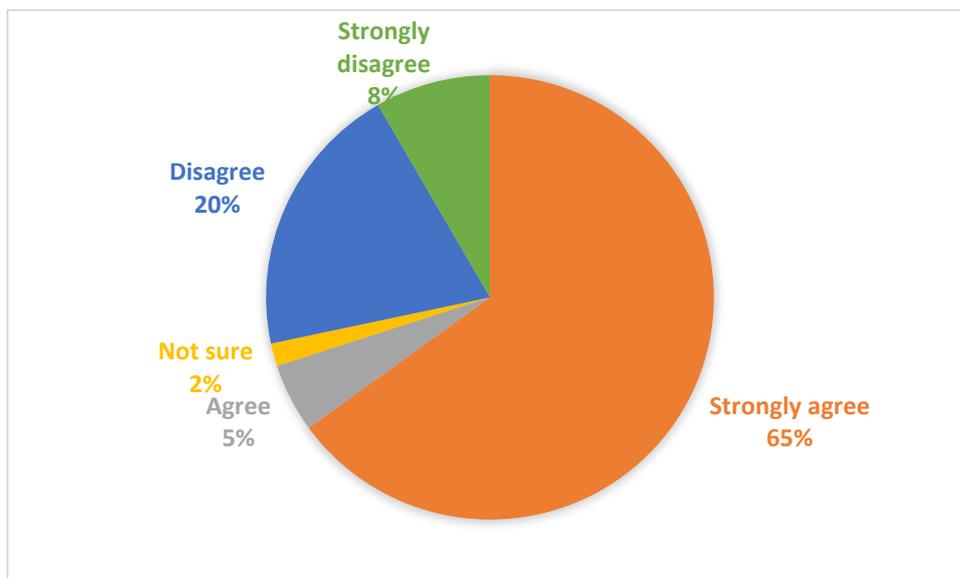


Figure 4 “Cost of Insurance”

Does the fact that insurance is not required by law prevent you from insuring your business

The factor other factor was the was no government policy on law which compels SMEs to insure their business. They were arguing that in their trading places, they pay some amount for trading licences, which is done annually and in some cases quarterly. Now insurance is not required in order for them to conduct their businesses, thus making SMEs not willing to take up insurance. 62 respondents strongly agreed (50%), 33 respondents agreed (26%), 5 respondents were not sure (4%), 11 respondents disagreed (9%) and 14 respondents strongly disagreed (11%).

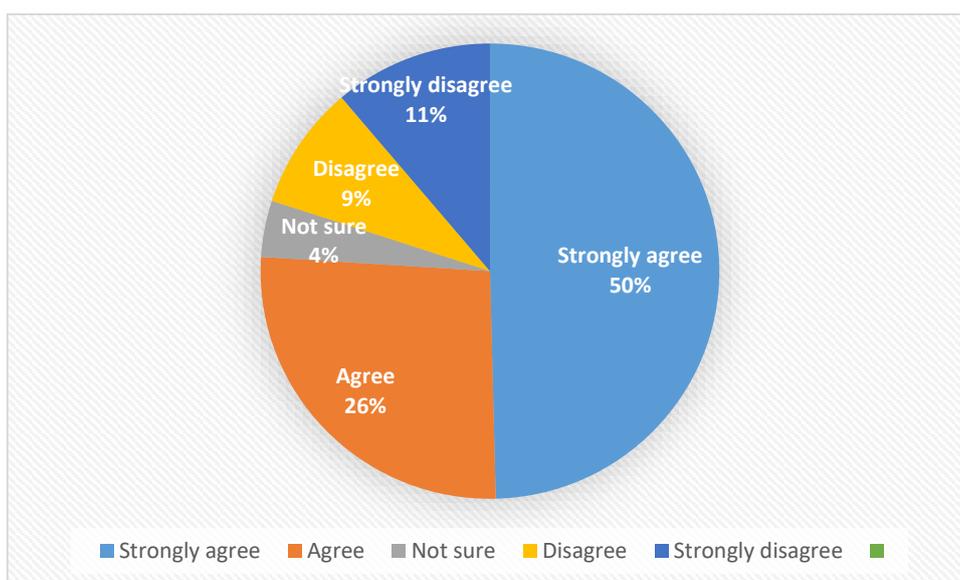


Figure 5 “Insurance not required by law”

Lack of confidence due to insurance companies taking too long to pay

The taking long of insurance companies to make payments for the claims made is, also, another factor which prevents SMEs from taking up insurance. Usually SMEs were of the view that insurance companies take too long to make payments, in some cases which has made some SMEs to put out of business because they have no finances to continue their business, they would rather get a loan or ask for help from family, or get from savings which is faster than wait for the insurance company. 92 respondents strongly agreed (77%), 14 respondents agreed (12%), 5 respondents were not sure (4%), 4 respondents disagreed (4%) and 5 respondents strongly disagreed (4%).

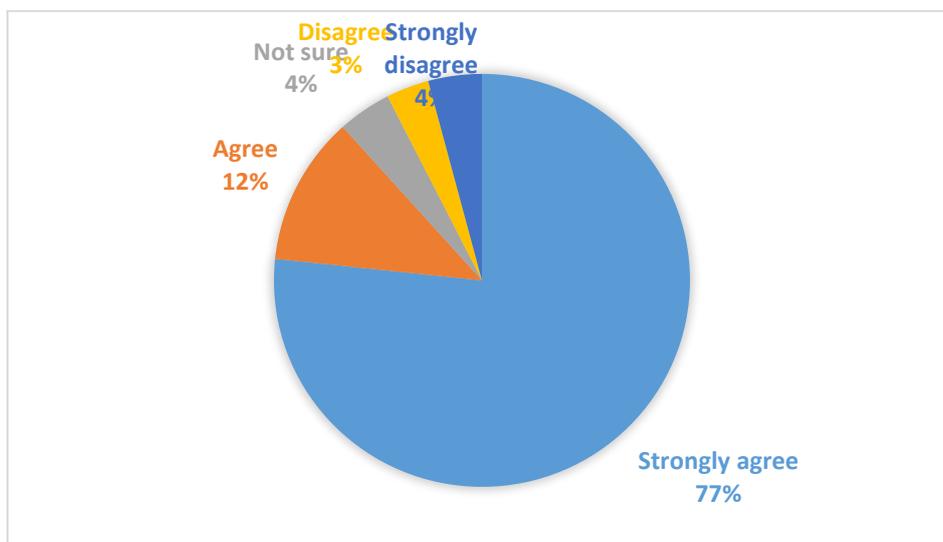


Figure 6 “Insurance companies taking too long to pay”

Summary of Factors

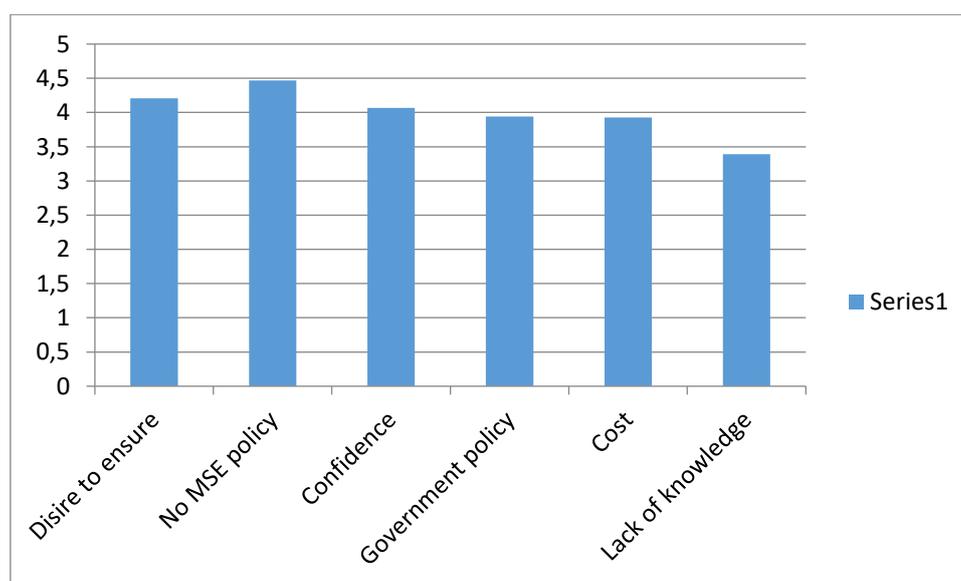


Figure 7. Summary of Factors

The figure 7 above shows, the major factors that have come out is lack of insurance products for SMEs this was supported by the interviews from insurance companies who said that they have few policies that are tailored for SMEs. Insurance companies being slow to pay (confidence) was the second influential factor, insurance is not required by law was third, insurance policies too expensive was fourth and lack of knowledge on insurance policy, insurance is not required by law, lack of insurance products for SMEs and the desire for insurance policy play a significant role in influencing SMEs from taking up insurance as a management tool.

6 .Conclusion and Recommendations

In this study a descriptive statistic was used to analyse the data so as to determine the factors that prevent MSMEs from insuring their companies Among the factors considers were 1) lack of knowledge on insurance,2) Cost of insurance policy, 3)government policy on insurance for SME, 4)lack of confidence in the insurance companies, and 5)lack of insurance products for SMEs. The the research revealed that lack of insurance products for SMEs ,lack of government policy and lack of confidence in insurance companies were the major factor preventing small business from taking insurance.

One of the recommendations is that, just as a trading place needs a trading license, the government should also include insurance to be a mandatory so that businesses are secured, and this will motivate Insurance companies to come up with policies specifically for SMEs so that they are not left out.

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