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Insurance and Post-Covid-19 Development of Small and Medium Enterprises (SMEs) In Abuja, Nigeria

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ABSTRACT: *The study examines the effect of insurance on the development of small and medium enterprises in the post covid-19 era. The study was carried out in Abuja, Nigeria. A descriptive design was used to determine and describe the factors affecting risk management by SMEs and the related insurance policies to mitigate risk. A simple random sampling technique was employed to select 252 SMEs as a sample size for the study. Data were analyzed with the aid of descriptive and inferential statistics. The study reveals that most of the SMEs do not have insurance policies for their businesses, and the level of information on insurance is very low. Furthermore, the finding shows that COVID-19 was a major risk SMEs are battling with, while non-response, non- payment of claims and delay claim payment are the major factors preventing SMEs from adopting insurance as a risk management strategy. Subsequently, it was recommended that the insurance industry should organize seminars, workshops, and conferences in conjunction with SMEDAN and MAN on insurance literacy, in all Areas for SME operators/ managers.*

Keywords: insurance, risk management, SMEs, COVID-19, development

INTRODUCTION

The vital role of the Small and Medium Enterprises (SMEs) in sustainable economic growth and development in terms of job generation, wealth creation, and poverty elimination has been documented and acknowledged by scholars, policymakers, economists, and entrepreneurs across the globe. According to Maryam, Sahar, and Nikmaram (2014), the sector contributes significantly to economic growth and development, technological innovation, and flexibility. The studies confirm that SMEs made up of over 80% of business organizations in both advanced and emerging economies (Henneman, Tansky & Camp, 2000; Kongolo, 2010). In line with assertion, Small Business Administration (SBA) (2014) reaffirms that SMEs assume a crucial job in the United State economy, representing 99.7% of all business firms in the United States and employed over 50% of U.S. laborers while occupations in SMEs represent 67% of absolute work in Europe. In the same vein, the National Bureau of Statistics (2017) reports that SMEs represent 84% of business organizations in Nigeria. As indicated by Bernard (2013), SMEs produce about 79% of occupations and record for 66% of GDP in India and furthermore make about 85% business and record for about half of the GDP in Brazil. This implies the sector is an engine room of the nation's sustainability and the government's assistance is germane to sustaining and growing the sector's contribution.

In spite of laudable and commendable policies and efforts to promote the SMEs, little or no attention is given to the sector to become business recovery conscious in moments when disaster strikes (Aduko, 2011), like fire outbreaks, theft, accidents, and occupational hazards as well as deadly virus have caused the mass extinction of SMEs. IFC (2017) opines that SMEs are more vulnerable compared to larger enterprises. They are vulnerable to the personal risks of their owners and their family members, compounded with the personal risks of their employees. The personal risks affect the business, in addition to the various business-related risks the enterprise faces. In addition, SMEs often suffer from a lack of knowledge on how best to use financial services, how insurance works, or what risks they should seek insurance coverage for. The situation is aggravated by the fact that SMEs face higher exposure to threats and disasters while operating with limited funds for emergencies. For instance, since deadly diseases (COVID-19) have been declared by the World Health Organization (WHO) on 11 March 2020, business organizations across the world have been experiencing hell on earth. For instance, Lambert (2020) confirms that as of April 23, 2020, 26.5 million jobs were lost in the US alone. In the same perception, the report of OECD (2020) reveals that in the United Kingdom, 69% of SMEs experience serious cash flow, while 33% of them fear being out of business if deadly COVID-19 continues. In Canada, 81% of SMEs indicate their operations are negatively affected, while 32% of them worry about the viability of their business over the next year. The report also reveals that 50% of SMEs in Asian countries have a month cash reserves or less, while 30% of them are expected to lay off 50% of their staff (OECD, 2020). To support the prediction, Anudu and Okojie (2020) forecast that over 80% of SMEs in Nigeria will close shop before December 2020 if adequate palliative measures are not provided.

The contribution of insurance to public and private organizations especially to the survival and success of small businesses has been identified in advanced nations (Aduke, 2011). According to Brainard (2008), insurance transfers risk by no means eliminates the possibility of misfortune and also complements the role of banks and other financial institutions in an efficient mix of activities than would be undertaken in the absence of risk management instruments. Agbaje (2005) argues that micro-insurance is a business of pooling resources together to pay compensation to the insured or assured on the happening of a specified event in return for a periodic consideration known as a premium, therefore, an insurance contract is usually evidenced by a document called the insurance policy which is usually signed at the foot by the insurer or assurer or his agent. Therefore, the need to possess appropriate insurance policy cover is germane for the sustainability of SMEs in Nigeria during and post COVID-19.

Many studies have assessed the extent of SMEs adoption of insurance as a risk management strategy for SMEs in developing countries such as South Africa (Chodokufa & Chiliya, 2014), Malaysia (Jadi, Manab, & Ahmad, 2014), and Ghana (Aduke, 2011). None or little studies had been carried out in Nigeria. Academically, there is a paucity of studies that examined the impact of insurance on the survival of SMEs in Nigeria. This current study, therefore, intends to fill the existing gap in the literature by assessing the extent to which SMEs adopt insurance as a risk management strategy during and after COVID-19.

However, the study intends to achieve the following objectives. The main objective of the study is to examine the effect of insurance on the development of SME's in post COVID-19 pandemic. However, the study explores the following specific objectives which are.

i. To examine the level of awareness of insurance on the development of SMEs in post COVID-19 era in Abuja.
ii. To assess the risk of insurance on the development of SME's in post COVID-19 era in Abuja.
iii. To examine the challenges of insurance on the development of SME's in post COVID-19 era in Abuja.

LITERATURE REVIEW

Conceptual Clarification

Small and Medium Enterprises (SMEs)

There is no universally accepted definition of SMEs, it varies from country to country, from agency to agency, and from author to author. For instance, In China, SME is defined as having up has up to 2,000 employees; while a medium-sized business has between 301 and 2,000 employees; and a small business has less than 300. European Union defines small and medium business as an enterprise that has not exceeded two hundred and fifty employees and a total turnover of not more than €50 million. It also maintained that the share of the enterprise in another enterprise(s) should not exceed 25 percent (Auckey, 2019). According to World Bank (2015), a medium enterprise is an enterprise that employs a maximum of 300 employees with a maximum of 15 million dollars annual turnover. World Bank went further to say that small enterprise consists of less than fifty employees with an annual turnover of not more than $3 million. Therefore, it referred to small-enterprises as firms that employed a maximum of 10 persons with an annual turnover of $100,000 dollars. In Cambodia, firms that employ between 11 and 50 employees and have fixed assets of $50,000 to $250,000 are categorized as small. Firms with 51- 200 employees and fixed assets of $250,000 to $500,000 are medium-sized.in Indonesia, firms that employ fewer than 100 employees. In Lao People's Democratic Republic, Small enterprises are those having an annual average number of employees not exceeding 19 persons or total assets not exceeding two hundred and fifty million kip or annual turnover not exceeding four hundred million kips. In Viet Nam, SMEs are independent production and business establishments that are duly registered according to the current law provisions, each with registered capital not exceeding VND 10 billion or annual labour not exceeding 300 people (OECD, 2005). According to the World Bank (2006), SMEs are conceived as enterprises that have at most 300 employees and an annual turnover not exceeding 15 million US dollars. In the UK, sections 382 and 465 of the Companies Act, 2006 define SMEs as one with a turnover of not more than £22.8 million, a balance sheet total of not more than £11.4 million, and not more than 250 employees. The definition of SMEs in Kosovo is regulated by Law no. 02/L-5 for small and medium enterprise support. Article 4, paragraphs 2 and 3, determine that: a small enterprise is an enterprise that employs up to nine (9) employees during the previous 12 months and had a total turnover of EUR 500,000 or less, while a medium enterprise is an enterprise which employs between (ten) to 10 (forty-nine) and 49 employees during the previous 12 months had a total turnover of 2.4 million Euros or less (Akingunola, 2011). In Nigeria, SMEs as entities with asset-based on N5 million and not more than N500 million excluding land and buildings with employees between 11 and 200 (World Bank, 2015).

SMEs Risk Management

Neneh and Van Zyl (2012) stipulated that the practices of controlling risk are a combination of diversification, recruitment, training, policy advancement, safety consciousness, cash reserve maintenance, purchasing insurance and directional termination process. Abotsi, Dake, and Agyepong (2014) opined that the ability of managers of SMEs to address the dynamics of the emerging market is substantially influenced by their ability to cautiously identify and assess the types of risks their enterprise encounters and then to evaluate the core mechanisms to controlling them. Janney and Dess (2006) as cited in Obalola and Ajemunigbohun (2017) mentioned that SMEs are not conscious of adopting positive technique towards risk management due to a number of difficulties such as inadequate infrastructure, deficiency in financial and intellectual resources, restricted managerial and technical skills, weak information systems, and inadequate amount invested in research. Dupre (2009) came up with an allusion that owners-managers of SMEs in South Africa are substantially oblivious of the kind of business to operate and also unaware of risks that confront their businesses. He stated further that very scanty SME ownermanagers are risk averse and thus put forward risk-related efforts to 'loss control' methods concerning fire, health, security, and quality assurance. Rao and Marie (2007) had argued that the mismanagement of risks can cause financial loss, reputational loss, reduced shareholder value and destruction of the whole business. Abotsi, Dake, and Agyepong (2014) stated that SME operators face both internal and external risks in their business, which threaten their profitability, performance and survival. Among the external risks encountered include disaster, political risks, war, civil commotions, and government policies; while internal risks include risk to compete in the marketplace, high labour injury, risk of reduced demand for goods and services, and risks to financial growth.

Insurance

The main concept of insurance is that of spreading risks. Insurance facilitates investment by reducing the amount of capital that businesses and individuals need to keep at hand to protect themselves from uncertain events. According to some scholars, insurance is a barometer of economic activity in a country and thus, protects the success of emerging economies. Insurance in Nigeria can be traced back to the 20th century when Nigeria's economy was solely dependent on agriculture. There was a need for merchants to transport their cash crops to Europe and also reducing the risk of such transportation. This majorly contributed to the dominance of marine insurance in Nigeria at that time. Insurance is often defined as the act of pooling funds from many insured entities in order to pay for relatively uncommon but severely devastating losses that can occur to these entities (Omoke, 2012). The insured entities are therefore protected from risk for a fee, with the fee being dependent upon the frequency and severity of the event occurring (Dickson, 2006) hence, it is a commercial enterprise and a major part of the financial services industry. Over the years, the Nigerian insurance industry has been regarded as the largest in the African continent and is among the largest leading market in third world countries. The Nigerian insurance industry is ninety - three years old this year 2014. It started in 1921 when the Royal Exchanged Assurance (Nigeria) Plc was established in Nigeria. The administration and accounting of claims were the main operations of the industry. The reinsurance sector was established in Nigeria with other three private re-insurance companies between 1983 and 1987 to supplement the activities of the government-owned Nigerian Reinsurance Corporation Plc. The insurance industry is a service industry that exists mainly to provide the insuring public with a system of protection against death and financial loss arising from accidental and unexpected events.

Insurance Buying Behaviour

The acceptance of an insurance service encourages its buying behaviour. Therefore, the basic buying behaviour for insurance arises from the utility that a consumer gains from the increase in financial security achieved by transferring the risk of loss to an insurer. Quite a number of empirical studies (such as Ajemunigbohun & Adeoye, 2018; Meko, Lemie, & Worku, 2018; Waheed & Ullah, 2017) have shown that the level of insurance acceptance can be influenced by a great number of variables such as political, economic, legal and social factors. In the work of Adeleke, Olowokudejo, and Ajemunigbohun (2016), several factors noted as affecting insurance awareness and are said to include trust, publicity, dread of risk, and choice of insurance products. Similarly, the decision to purchase not only the apparent current condition of the product, but also its future condition is encapsulated in insurance demand (Adeleke et al., 2016). Therefore, an earlier work by Beenstock, Dickson, and Khajurian (1998) mentioned that the consumer widens its economic scope of discretion and opportunity by protecting themselves from financial loss in the event of accident, fire or theft. According to several studies (such as Hagos, Kebede & Shewakena, 2019; Krummaker, 2019; Obi, Okoronkwo, Iloh, Nwonwu, Ogbu, & Yakubu, 2020), factors affecting the demand for insurance are said to include attitude to risk and risk awareness, the insurance price, income and wealth, risk tolerance, insurance regulation, probability of loss, and an individual degree to risk aversion. An earlier study by Rossi and Black (2001) asserted that the demand for insurance make provisions for adequate coverage in terms of loss that decreases the probability of financial crisis when risk crystallises.

Insurance and SMEs development in Nigeria

The recent devastation of novel COVID-19 in Nigeria have caused the mass extinction of SMEs. Evidently, Anudu and Okojie (2020) confirm that since COVID-19 pandemic has been declared by the World Health Organization (WHO) on 11 March 2020, more that 65% of SMEs have closed shop as of June 2020 and they forecast that over 80% of SMEs in Nigeria will close shop before December 2020 if adequate palliative measures are not provided. According to Chodokufa and Chiliya (2014), risk is one of the recurrent problems that makes SMEs unattractive to investors. Insurance has been recognized has only sector that can assist SMEs to avert their risks especially now Nigeria is experiencing economic crunch. OECD (2010)' report confirms that the culture of risk aversion constrains the growth of the SME sector among low-income entrepreneurs. The report further states that positive attitude towards insurance provides a hedge against risk. Brink and Berndt (2004) are of the opinion that the success of SMEs lies on the adoption of insurance policies because insurance company accepts the risk in return for a series of payments, called premiums.

SME's Challenges and COVID-19 pandemic

Small and medium enterprises (SMEs) have faced significant hurdles in maintaining and growing revenue during the COVID-19 pandemic. Reduced demand was eminent due to lockdowns, social distancing, and economic uncertainty that led to a sharp drop in customer demand for many SMEs. Supply Chain Disruptions also in the supply chain have made it difficult for SMEs to acquire necessary materials and inventory. Operational Challenges Restrictions and safety protocols have increased costs and reduced productivity for many SMEs.

Conceptual Framework

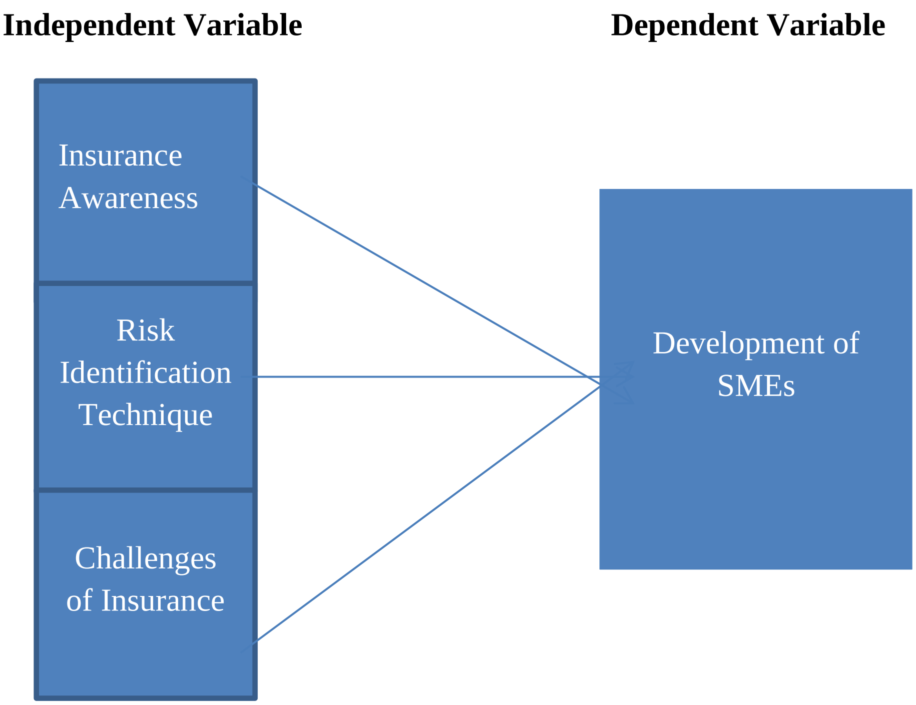

Figure 1. Conceptual Framework
Source: *Developed by the Researchers (2024)*

Theoretical Review

There are numerous hypotheses around economic shock, terrorism, and pandemic. Real options theory, events systems theory, resource dependency theory, institutional theory, structural inertia, resource-orchestrated theory, prospect theory, and game theory are a few of these. Games theory has been shown to be relevant in SMEs' decision-making during pandemics of this kind, according to Craighead et al. (2020). Despite the few theories mentioned above, the current study is based on two main theories, namely the prospect theory and the game theory, which are each proposed by the prospect and game theories, respectively.

Game theory

Theorists Von Neumann and Morgenstern (2007) predicted that games theory uses a set of rules and guidelines on how stakeholders react to circumstances and information while relating to or engaging with one another. According to game theory, decisions are always made out of self-interest. However, Bo (2018) argued that ongoing relationships among the parties involved would result in cooperation, knowing full well that a selfish act would trigger future retaliation.

Games theory has been used to examine a variety of topics, including the adoption of new technology (Zhu & Weyant, 2018), decisions about distribution routes (Xia, Xiao, & Zhang, 2018), production volumes, and optimal pricing (Gao et al., 2018). The game theory assumes that because defecting has a large penalty, companies with competitive aims are more inclined to cooperate during a pandemic (Craighead et al., 2020).

Prospect theory

Prospect theory, according to Tversky and Khneman (1992), becomes applicable and practical for making decisions in uncertain situations. Positive situation presentation is frequently preferable than a negative one (Craighead et al., 2020), which encourages the choice of riskier solutions. Prospect theory makes it possible to foresee how a management will respond in the near future in the event of a pandemic.

Empirical Review

Previous studies on the constructs were reviewed because of their relevance to this current study. For example, Babbuli and Bello (2018) using simple percentages and chi-square to analyze the impact of insurance companies on the development of business enterprises. They found out that insurance companies have no significant influence on SMEs' development. In the same direction, Aduko (2011) assess the level of insurance policy adoption by SMEs. The results revealed that most of the SMEs do not have insurance policies for their businesses, and the level of information on insurance is relatively low. Panigrahi (2012) also examines the risk management adopted by SMEs to improve their business sustainability and chances of successful longevity. The study established that risk management practice is less developed within the small business sector due to a lack of risk expertise and understanding of the subject matter. Jadi, Manab, and Ahmad (2014) also assess the extent of adoption of insurance as a risk transfer mechanism by SMEs. They discovered that some SMEs facing issues such as lack of good risk management strategy, inadequate insurance protection, non-insurance, non-compliance, and lack of awareness. Adeyele and Osemene (2018) also assess the risk exposures of SMEs in Nigeria and they established that the relationship between SMEs' operators understanding of business with risk mitigation, and record backup system are significantly low. Chodokufa and Chiliya (2017) also examine the relationship between SMEs and insurance providers in South Africa. They discovered that there is a strong relationship between SMEs and insurance providers. However, Longenecker, Moore, and Petty (2003) argue that insurance providers are not eager to insure SMEs and even turn them down in some cases. In the same perception, Mthimkhulu (2008) laments that the insurance industry prefers to deal only with established businesses instead of SMEs. Therefore, the following hypothesis emerged:

METHODOLOGY

A descriptive design was used to determine and describe the factors affecting risk management by SMEs and the related insurance policies to mitigate risk. A simple random sampling technique was employed to select 252 SMEs out of 2,890 SMEs registered with SMEDAN as of 2015 in Abuja. The sample size was determined by the formula recommended by Mugenda and Mugenda (2003). The data collection instruments were a set of questionnaire design for the study. The questionnaires were chosen on the ground that they enabled a broader survey of the population, less stressful than one on one interview, people were more willing to be truthful because their anonymity was guaranteed, and they were easier to analyze. The test-retest method was used in order to establish the reliability of the instrument while the validity of the instrument was determined through the face and content validities in which the instruments was given to professionals for scrutiny and evaluation. Data were analyzed with the aid of descriptive and inferential statistics.

RESULTS AND DISCUSSIONS

The results generated from the questionnaire distributed to the respondent of various SMEs gave a quite interesting outcome as regards to insurance and the level of knowledge about it. Some SMEs were only focused on making money and growing their businesses without caring about other factors that guarantees the success of their businesses. This lack of awareness has been the cause of the quick folding of businesses across Abuja. The results are presented in tables and the discussions are done just immediately after the table

Table 1: Level of awareness of Insurance Policies among SMEs

Level of awareness of Insurance Policies among SMEs	Frequency	Percentage
Very high	12	4.76
High	23	9.12
Very Low	52	20.06
Low	165	66.06
Total	252	100
Mean 38.98		
Standard Deviation 8.76		

Source: Authors' Computation, 2024

Table 1 depicts that one hundred and sixty-five (66.06%) of the respondents confirm that the level of insurance policies is very low, fifty-two (20.06%) of the respondents confess that the level of insurance policies is very low; twenty-three (9.12%) of the respondents agree that the level of insurance policies is high, while only twelve (4.76%) confirm that the level of insurance policies is very high. The mean level of awareness of insurance policies score of the respondents was 38.98 and the standard deviation was 8.76. From this, it is clear that the majority of the respondents are not aware of insurance policies. This development indicates that the majority of the SME operators did not adopt insurance as a risk management strategy. The study concurs with Jadi, Manab, and Ahmad (2014) that majority of SMEs lack awareness of insurance policies. In another study, Aduko (2011) also confirms that most of the SMEs do not have insurance policies for their businesses, and the level of information on insurance is relatively low. In the same vein, Panigrahi (2012) laments that risk management practice is less developed within the small business sector due to a lack of risk expertise and understanding of the subject matter. The situation, therefore, called for the insurance industry to team up with the SMEDAN, and Manufacturers Association of Nigeria (MAN) to enhance its education and significance.

Table 2: Distribution of respondent by Risk that SMEs faced in Abuja

Statement	Observation	Mean	Rank
Fire and Allied perils	**252**	**3.82**	**4th**
Burglary and theft	**252**	**3.90**	**3rd**
Accident and injuries	**252**	**3.01**	**5th**
COVID-19	**252**	**4.03**	**1st**
End Sars	**252**	**3.93**	**2nd**
Average mean	**3.73**		

Source: Authors' Computation, 2024

Table 2 summarizes the risks SMEs facing in Nigeria as listed in items 1-5 falls within the real limit of agreed. Thus, the grand mean of 3.73 indicates that the above lists are the risks SMEs facing in Nigeria. Furthermore, the study reveals that COVID-19 is a major risk SMEs are battling with, burglary and theft, fire and allied perils, and accident and injury with mean values of 4.03, 3.93, 3.90, 3.82, and 3.01 respectively. The implication of this finding is that for SMEs to remain competitive and wax stronger amid COVID-19 syndrome, the sector should embrace insurance as a risk management strategy.

Table 3: Challenges of using insurance by SMEs

Statement	Observation	Mean	Chi-Square	Remark
Non response	**252**	**4.07**	124.993 (P<.05)	**Accepted**
High cost of premium	**252**	**3.57**	117.980 (P<.05)	**Accepted**
Under compensation	**252**	**3.78**	110.682 (P<.05)	**Accepted**
Delay claims payment	**252**	**3.98**	120.047 (P<.05)	**Accepted**
Non-payment of claim	**252**	**4.03**	120.047 (P<.05)	**Accepted**
Grand mean	**3.88**			

Source: Authors' Computation, 2024

Table 3 reveals the challenges of using insurance by SMEs. Thus, a grand mean of 3.88 and p-value of Chi-square which is 0.000 shows high level of acceptance that the above-listed items are the challenges of usins insurance by SMEs in Nigeria. The study, further reveals that non-response, non- payment of claims and delay claim payment of the sector to the claimants who had appropriate insurance covers keep off SMEs from adopting insurance as a risk management strategy. This indicates that the sector has been stereotyped as "legal 419' (fraudster). The study is consistent with Sajuyigbe (2016)'s assertion that the sector is unable to pay claims as to when due, on the ground of inadequacy of capital coupled with lack of technical and managerial skill, and poor insurance regulatory framework. The study of Jadi, Manab, and Ahmad (2014) also affirm that some SMEs facing issues such as lack of good risk management strategy, inadequate insurance protection, non-insurance, non-compliance, and lack of awareness.

Table 4: Result of Analysis of Variance (ANOVA)

Statistical Model	Sum of Squares	Degree of freedom	Mean Square	F	S. value
Regression	323.772	1	323.772	246.491	0.000
Residual	185.207	250	1.314		
Total	508.979	251			

Source: Authors' Computation, 2024

It was so obvious from Table 4 above that the result was statistically significant as the p-value (0.000) < alpha value (0.05) which makes the Hi to be accepted and we conclude that there is a significant relationship between adoption of insurance policies and SMEs' survival. The study is in line with the finding of Chodokufa and Chiliya (2017) that there is a strong relationship between the adoption of insurance policies and SMEs' growth. This implies that if SMEs adopt insurance policies and the insurance providers are eager to insure SMEs, the sector will continue to roaring and wax stronger in the midst of COVID-19 saga.

CONCLUSION AND RECOMMENDATIONS

The study examines the impact of micro-insurance on the development of small and medium enterprises amid covid-19. The study was carried out in Abuja, Nigeria. This location has been chosen to be a state that has the highest number of growing SMEs in Nigeria. .A descriptive design was used to determine and describe the factors affecting risk management by SMEs and the related insurance policies to mitigate risk. A simple random sampling technique was employed to select 252 SMEs as a sample size out of 2,890 SMEs registered with SMEDAN as of 2015 in Abuja. Data were analyzed with the aid of descriptive and inferential statistics. The study establishes that most of the SMEs do not have insurance policies for their businesses, and the level of information on insurance is very low. Furthermore, the study confirms that COVID-19 is a major risk SMEs are battling with, while non-response, non- payment of claims and delay claim payment are the major factors preventing SMEs from adopting insurance as a risk management strategy. The study concludes that there is a strong relationship between the adoption of insurance policies and SMEs' growth.

Subsequently, the study recommends that the insurance industry should organize seminars, workshops, and conferences on insurance literacy in conjunction with SMEDAN and MAN, in all local governments for SME operators/ managers. Also, insurance providers should eager to insure SMEs and the regulatory authority should enforce prompt payment of claims.

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