



A Study On Analysis Of The Contribution Of Insurance Companies To The Growth Of Smes

G. Chanti Babu

Lecturer in Commerce

Government Degree College, Mandapeta

Dr.B.R. Ambedkar Konaseema District

Abstract:

This paper investigates the role of Insurance in the development of Small and Medium Enterprises (SMEs) in India. SMEs have been accepted as a crucial component of an economy irrespective of the phase of development it is in. It is estimated that more than 95% of the enterprises across the world are SMEs, employing around 60% people in the private sector. The SMEs are considered key elements in the development of every nation. In India, SME sector contributed 28.77% in GDP in 2016-17 with 63 million enterprises and employment of 110 million people. Despite its size, SMEs cumulatively act as foundation of a stable economy and plays a significant role in the sustainable economic growth of a nation. However, the inherent features of SMEs including limited financial and managerial capability cause them to face financial and strategic risks. Sustainability of the SMEs can be supported by eliminating the credit gap and ensuring enhanced access to finance. The provision of financial support by financial intermediaries like banks can be augmented with proper risk management by the SMEs with the help of Insurance Sector. The study concludes that insurance can play a significant role in the development of SMEs by providing them adequate risk protection and thus enhancing their access to finance

Key Words: GDP, SMEs, Insurance, NIC, NICON

INTRODUCTION:

BACKGROUND OF THE STUDY The substantial growth of small and medium enterprises (SMEs) activity clearly marks SME as one of the most remarkable economic phenomena. SME is a business that is privately owned and operated with a small number of employees and relatively moderate volume of sales. The definition of SMEs varies from country to country depending on the level of development and the strength of the economy. The lower limit for small scale enterprises is set at between five and ten workers and the upper limit is set at between fifty and one hundred workers. The upper limit for medium scale enterprises is set between one hundred and two hundred and fifty workers (Hallberg, 2000).

In Uganda there are approximately 1,069,848 SMEs currently in operation and they comprise over 90% of the private sector. They contribute to employment, provision of basic goods and services, and generation of export and tax revenues for national socio-economic development. Their Gross Domestic Product (GDP) contribution to the economy is 75% and they employ about 2,500,000 nationals. The location of these SMEs is mostly in urban areas with 80% located therein. They operate business like restaurants, accountants, hairdressers, conveniences stores and guesthouses (Hatega, 2007).

On the other hand insurance is a contract by which one party undertakes in consideration of a payment called premium to secure the other against pecuniary loss by payment of a sum of money in the event of destruction or damage to property, fire, accidents or death of a person. Economy, investment and finance reports (2010)

defines insurance as a policy from a large financial institution that offers a person, company, or other entity reimbursement or financial protection against possible future losses or damages. An insurance contract is an agreement by which the insurer promises, from a premium or assessment, to make a payment to a policy holder or a third person if an event that is the object of a risk occurs. SMEs often face a variety of problems related to their size. Frequent causes are bankruptcy, theft, fire, death, automobile accidents and workers injuries. For example, National Insurance Corporation Limited (NIC) is an insurance company in Uganda. The company is a leading provider of insurance and risk management services with 19 branches spread throughout the country (Robinson, 2009). NIC was established by Act of Parliament in 1964. The basic function of NIC insurance is to provide security and protection against risks to business. NIC has also undertaken several projects aimed at empowering the development and growth of SMEs in Uganda. Amongst these projects include; organizing public workshops and seminars aimed at enhancing techniques of small scale traders, for example the 2001 conference on marketing insurance, Publishing literature on insurance services covering issues like the need for business to be insured, business growth and financial discipline in business which are of importance to SMEs businessmen and supporting of SMEs in development and training of young businessmen in how to survive competently in the market place. (Mutesasira, Osinde, and Mule 2001).

However, besides NIC contributions to the growth of SMEs, it's unfortunate that most of the SMEs are badly run due to lack of knowledge and skills in insurance policies, (Ocici, 2007), lack of professional and networking, limited knowledge of business opportunities, poor compiled records and accounts and low level of technical and management skills (UNCTAD 2002). In addition, high premium cost is also a major effect on growth of SMEs. It is therefore against this background that the researcher deems it worthy to find out by analyzing the relationship between contributions of insurance companies to the growth of SMEs.

STATEMENT OF THE PROBLEM:

Despite the contribution of insurance corporations to the growth of SMEs in economic development, failure and slow growth still exists and the public doubts its management (Ocici, 2007). Research suggest that 80% of the businesses affected by major incident close down within 18 month, and 90% of those who lose data close down within 2 years. This is due to the failure of small businesses to have adequate insurance cover and proper business continuity plans (cover sure, 2007). However literature has shown that insurance companies are not willing to insure SMEs and it was the aim of this research to establish whether a relationship between these two variables exists.

OBJECTIVE OF THE STUDY:

The main objective of the study was to investigate the contribution of insurance companies the growth of SMEs in Nigeria. Other objectives the study sought to achieve are: I. To examine major factors that affects the growth of SMEs. II. To assess the contribution of insurance companies to the growth of SMEs. III. To investigate the factors inhibiting the purchase of insurance cover by SME operators. IV. To determine the strength of the relationship between insurance companies and growth of SMEs.

Objective of the study The main objective of the study was to investigate the contribution of insurance companies in the growth of SMEs in Uganda. The study also sought:

1. To examine major factors that affects the growth of SMEs.
2. To assess the contribution of insurance companies to the growth of SMEs.
3. To investigate the factors inhibiting the purchase of insurance cover by SME operators.
4. To determine the strength of the relationship between insurance companies and growth of

1.4 RESEARCH HYPOTHESES HYPOTHESES ONE Ho: There is no relationship between insurance companies and growth of SMEs Hi: There is a relationship between insurance companies and growth of SMEs

HYPOTHESIS TWO Ho: Insurance companies have not improved SMEs in Nigeria Ho: Insurance companies have improved SMEs in Nigeria

SIGNIFICANCE OF THE STUDY:

This research will be undertaken as an academic requirement by for the University before the degree of Bachelor of Commerce can be awarded. The researcher places prestige in the successful completion of the study. It's only through research that ideas and approaches will be developed and tested. This research will generate information to be used as basis for further research in to the contribution of insurance in other business segments. The study will increase public awareness on the operations of National Insurance Corporation hence making it convenient for the public when dealing with the corporation. This research will provide data to policy makers that will assist towards formulating for appropriate policy for policy makers operation. This will permit specific plans and policies geared towards promoting SMEs.

SCOPE AND LIMITATION OF THE STUDY:

This study is primary concerned with the contribution of insurance companies to the growth of small and medium scale businesses. This study/project work covers National Insurance Corporation of Nigeria (NICON). The researcher encountered some constraints, which limited the scope of the study. These constraints include but are not limited to the following

a) AVAILABILITY OF RESEARCH MATERIAL:

The research material available to the researcher is insufficient, thereby limiting the study b) TIME: The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

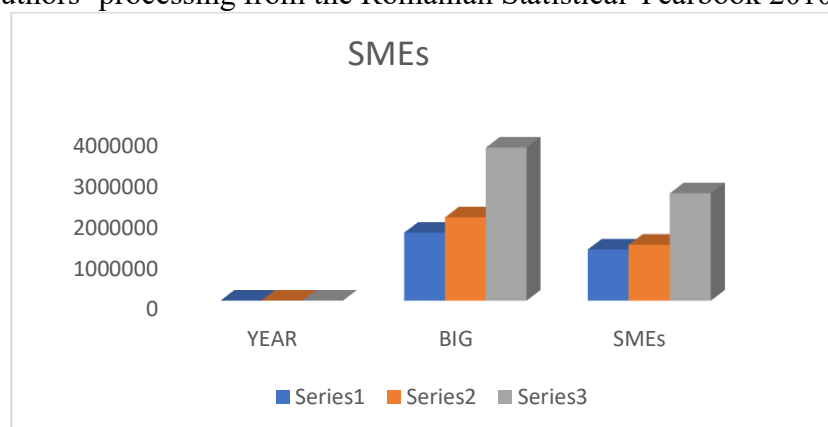
DEFINITION OF TERMS INSURANCE COMPANY:

A business that provides coverage, in the form of compensation resulting from loss, damages, injury, treatment or hardship in exchange for premium payments. The company calculates the risk of occurrence then determines the cost to replace (pay for) the loss to determine the premium amount. SMES: Small and medium-sized enterprises (SMEs) are non-subsidary, independent firms which employ less than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees as in the European Union.

expenditures on innovation of SMEs and big enterprises (mil Lei).

YEAR	BIG	SMEs
2012	1,663,447	1,253,844
2014	2,038,974	1,369,763
2016	3,732,421	2,623,607

Source: Authors' processing from the Romanian Statistical Yearbook 2010–2017 [76].

**ORGANIZATION OF THE STUDY:**

This research work is organized in five chapters, for easy understanding, as follows Chapter one is concern with the introduction, which consist of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study . Read more at: <https://www.grossarchive.com/project/entrepreneurship/8349-the-contribution-of-insurance-companies-to-the-growth-of-small-and-medium-scale-businesses>

Research question

1. What are the major factors affecting the growth of SMEs?
2. What contributions do insurance companies responsible for the growth of SMEs?
3. What factors inhibit SME operators from purchasing insurance cover?
4. How strong is the relationship between insurance companies and growth of SMEs?

Purpose of the study The study established the contribution of insurance companies and the performance of SMEs in Uganda. **1.5 Scope of the study** **Geographical scope** The study focused on Insurance companies in Uganda- National Insurance Corporation Limited (NIC) which is an insurance company in Uganda. The company is a leading provider of insurance and risk management services with 19 branches spread throughout the country (Robinson, 2009). NIC was established by Act of Parliament in 1964.

Content scope The study focused on the efforts that are made by National insurance company to raise the growth of SMEs. Contribution that insurance companies play in the growth and development of SMEs and the relationship between insurance companies and SMEs was also studied. The study targeted the employers and employees of NIC.

Conclusion:

Significance of the study. This research will be undertaken as an academic requirement by Makerere University before the degree of Bachelor of Commerce can be awarded. The researcher places prestige in the successful completion of the study. It's only through research that ideas and approaches will be developed and tested. This research will generate information to be used as basis for further research in to the contribution of insurance in other business segments. The study will increase public awareness on the operations of National Insurance Corporation hence making it convenient for the public when dealing with the corporation. This research will provide data to policy makers that will assist towards formulating for appropriate policy for policy makers operation. This will permit specific plans and policies geared towards promoting.

References

- 1.Obi, J.; Ibidunni, A.S.; Tolulope, A.; Olokundun, M.A.; Amaihian, A.B.; Borishade, T.T.; Fred, P. Contribution of small and medium enterprises to economic development: Evidence from a transiting economy. *Data Brief* 2018, 18, 835–839. doi:10.1016/j.dib.2018.03.126.
- 2.Ndiaye, N.; Razak, L.A.; Nagayev, R.; Ng, A. Demystifying small and medium enterprises' (SMEs) performance in emerging and developing economies. *Borsa Istanbul. Rev.* 2018, 18, 269–281. doi:10.1016/j.bir.2018.04.003.
- 3.Commission, E. Entrepreneurship and Small and Medium-Sized Enterprises (SMEs). Available online: https://ec.europa.eu/growth/smes_en (accessed on August 2019).
- 4.European Parliament. Fact Sheets on the European Union; European Parliament: Bruxelles, Belgium, 2019.
- 5.Perez-Gomez, P.; Arbelo-Perez, M.; Arbelo, A. Profit efficiency and its determinants in small and medium-sized enterprises in Spain. *BRQ Bus. Res. Q.* 2018, 21, 238–250. doi:10.1016/j.brq.2018.08.003.
- 6.Dowling, M.; O'Gorman, C.; Puncheva, P.; Vanwalleghem, D. Trust and SME attitudes towards equity financing across Europe. *J. World Bus.* 2019, 54. doi:10.1016/j.jwb.2019.101003.
- 7.Commission of the European Communities. Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions. In COM(2008); 394 final; Commission of the European Communities: Brussels, Belgium, 2008.
- 8.Yoshino, N.; Taghizadeh-Hesary, F. Optimal credit guarantee ratio for small and medium-sized enterprises' financing: Evidence from Asia. *Econ. Anal. Policy* 2019, 62,342–356. doi:10.1016/j.eap.2018.09.011.
- 9.Luo, P.F.; Wang, H.M.; Yang, Z.J. Investment and financing for SMEs with a partial guarantee and jump risk. *Eur. J. Oper. Res.* 2016, 249, 1161–1168. doi:10.1016/j.ejor.2015.09.032.
- 10.Winfred, A., Jr. Pro-poor economic growth: Role of small and medium sized enterprises. *J. Asian Econ.* 2006, 17, 35–40.
- 11.European Commission. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions; In COM(2012) 573 final; European Commission: Brussels, Belgium, 2012.

12. European Parliament. European Parliament Resolution of 15 June 2010 on Community Innovation Policy in a Changing World (2009/2227(INI)); European Parliament: Bruxelles, Belgium, 2010.
13. European Parliament. European Parliament Resolution of 9 March 2011 on an Industrial Policy for the Globalised Era (2010/2095(INI)); In 2012/C 199 E/16; European Parliament: Bruxelles, Belgium, 2011.
14. European Parliament. European Parliament Resolution of 23 October 2012 on Small and Medium Size Enterprises (SMEs): Competitiveness and Business Opportunities (2012/2042(INI)); In 2014/C 68 E/06; European Parliament: Bruxelles, Belgium, 2012.
15. European Parliament. European Parliament Resolution of 15 January 2014 on Reindustrialising Europe to Promote Competitiveness and Sustainability (2013/2006(INI)); In 2016/C 482/13; European Parliament: Bruxelles, Belgium, 2014.
16. European Parliament. European Parliament Resolution of 5 July 2017 on Building an Ambitious EU Industrial Strategy as a Strategic Priority for Growth, Employment and Innovation in Europe; In 2017/2732(RSP); European Parliament: Bruxelles, Belgium, 2017.
17. European Parliament. European Parliament Resolution of 15 September 2016 on Access to Finance for SMEs and Increasing the Diversity of SME Funding in a Capital Markets Union (2016/2032(INI)); In 2016/2032(INI); European Parliament: Bruxelles, Belgium, 2016. Sustainability 2020, 12, 347

