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Insurance Awareness and Acceptance: Empirical Evidence among Small and Medium-Sized Enterprises in the Lagos State, Nigeria

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Abstract

Purpose of the article: Insurance awareness in Nigeria needs to be encouraged among entrepreneurs in order to galvanise support for insurance penetration and density.
Methodology/methods: A descriptive approach and survey design were employed. A single-stage cluster sampling technique and interview schedule were both employed. 352 respondents made up of small business and medium-sized operators were drawn from three Local Government Council Areas of Lagos. The statistical instruments employed for this study were the Kolmogorov-Smirnov and Kendall's rank correlation coefficient techniques.
Scientific aim: This study aims at the relationship between insurance awareness and its acceptability among small business and medium-sized operators in the metropolis of Lagos.
Findings: The results of this study assume that insurance products have not gained high popularity among small business and medium-sized operators in the Lagos metropolis. They have also shown that there is a low but slightly positive relationship between insurance awareness and its acceptance among small business owners in the Lagos metropolis. Our formulated hypotheses have been supported.
Conclusions: This study provides a better understanding on the importance of insurance awareness as related to its acceptance among small and medium-sized entrepreneurs This study recommends that greater attention should be placed on small business owners' education of and engagement in the design of insurance products related to their activities so as to allow for the sense of ownership, effective risk management communication and proper risk financing techniques.

Keywords: insurance awareness, insurance acceptance, risk communication, SMEs, and Lagos State

JEL classification: G22, M31

Introduction

Previous studies have shown that enterprises on either small or medium scales are key instruments to the developmental strides of any economy (Abotsi, Dake, Agyepong, 2014; Garg, Makukule, 2015; Terungwa, 2012). Recent studies such as (Abotsi *et al.* , 2014; Ahmed, Abdul-manab, 2016; Chatterjee, Wehrhahn, 2017) have shown that small and medium scale enterprises are the engines to attain the growth objectives of developing countries in terms of mobilising idle funds, being labour intensive, the main source of employment, economic advancement, a revenue-generating source and technology innovation. Estimates, according to Ayyagari, Demirguc-Kunt, Maksimovic (2011), suggested that more than 95% of enterprises around the world were SMEs, accounting for about 60% of the private sector employment.

Chodokufa (2009) stated that the contributory percentage of SMEs in Africa with respect to their business activities and employment generation had been around 90% and 50% respectively.

At this time that the Nigeria's economy is facing turbulent circumstances, the call to awake the desire of many Nigerians toward entrepreneurial drive has been suggested as the way to go. Meanwhile, small and medium-sized enterprises have always been perceived as the vehicle to closing the gap between the downtrodden and the upper class. Such demonstrations, over the years, have been hampered by political, economic and financial instabilities which in turn created different devastating moments around operational activities of virtually a whole lot of SMEs' operators in Nigeria. In situations where risk management guidelines are not in operation among the operators of SMEs, risk communication strategies and tools become complicated and difficult to understand. The Insurance Information Institute (2005) stipulated that most small business owners are at risk of disaster and also do not have a disaster recovery plan. More so, insurance industries in most emerging economies are characterised by poor perception, a low technological leverage, low asset management capacities and poor regulatory framework (Ahmad, Zalina, 2008).

Studies previously conducted by experts in the field of insurance in Nigeria have criticised the industry for a lack of trust and a poor communication system (Yusuf, Gbadamosi, Hamadu, 2009); low popularity and patronage (Nwankwo, Ajemunigbohun, 2013); inadequacy of human capital and professional skills (Babington-Ashaye, 2009). A need for proper risk management guidelines among spheres of businesses at both small and medium levels have not been given due attention either at the federal, state or local government level. This, in itself, has adversely affected the risk management education and knowledge among SMEs' operators in not being able to see through the various existing risk management processes. Mambula (2002) described the incapacity of SMEs' operators to rigorously identify and evaluate numerous risks they are faced with as diminishing their capacity to survival. In the same vein, Mensah (2004) mentioned institutional and legal structures that are supposed to bolster risk management among operators of small and medium enterprises as lacking.

Insurance is the pooling of fortuitous losses by transfer of such risks to insurers, who agree to indemnify the insured for such losses, to provide other pecuniary benefits on their occurrence, or to render services associated with the risk (Redja, McNamara, 2014). Taking an individualistic approach, Vaughan, Vaughan (2014) defined insurance as an economic device whereby the individual substitutes a small certain cost (the premium) for a large uncertain financial loss (the contingency insured against). Insurance is also seen as a technique for financing risks by combining a sufficient number of loss exposure units to make the loss predictable (Outreville, 1998). In short, insurance covers the financial consequences of any impact (Olsson, 2002).

The aim of this study is to examine the relationship between insurance awareness and insurance acceptance among small and medium-sized enterprises in the Lagos metropolis. The study has the following specific objectives which include investigating the level of popularity of insurance products among small and medium enterprises in the Lagos metropolis and examining the relationship between insurance awareness and insurance acceptance among small and medium enterprises in the Lagos metropolis. This paper then, attempts to provide answers to the following research questions: what level of popularity has insurance products gained among small and medium enterprises in the Lagos metropolis? And what is the relationship between insurance awareness and insurance acceptance among small and medium enterprises in the Lagos metropolis? The authors therefore make the following hypothetical propositions for the study:

H_1: Insurance products have not gained high popularity among small and medium enterprises in the Lagos metropolis.

H_2: There is no positive relationship between insurance awareness and insurance acceptance among small and medium enterprises in the Lagos metropolis.

1. Literature Review

The term "business risk" is described as the totality of all risk a business entity encounters in the process of conducting its business activities (Dafikpaku, 2011). In an earlier submission by Olsson (2002), it is seen as the peril of failing to attain needed business target as a result of unsuitable strategies, limited resources, or economic/competitive environmental changes. Dickinson (2001) described it as the degree to which the resultant effect from company's corporate strategy deviate from those stated in its organisational objectives.

Kleffner, Lee, McGannon (2003) defined business risk management as the management of operational and financial risk simultaneously in a bid to maximise the cost effectiveness of risk management within the limitations of the organisations tolerance for risk. Gatzert, Martin (2013) see it as aggregates all the risks across the entire firm, thereby taking into account interdependences between risks, which allows for a better assessment of the firm's risk situation and later enhances the decision process with respect to strategic and operative developments. Yazid, Razali, Hussin (2012) believed that integrating and coordinating all types of risks across the entire company could effectively be used to minimise such company's operational risks.

According to Labodova (2004), risk management is a useful process that SMEs can adopt to improve their chances of sustained and successful longevity. Fatemi, Glaum (2000) earlier asserted that the primary aim of risk management is to ensure the survival of the organisation. Neneh, Van Zyl (2012) mentioned that the practices of managing business risk is a combination of purchasing insurance, maintaining cash reserves, installing security systems, diversification, recruiting, safety, training, coaching, policy and procedure development, dealing effectively with employee complaints of harassment or discrimination, and uniform termination procedures. According to earlier submission by Turpin (2002), most SMEs have no significant risk strategy to delegating risk management competencies to employees.

The unique nature of insurance service is that it is purchased at the present time only for the value to be realised in the future. Ikupolati (2008) stipulated that insurance service is characterised by inseparability, intangibility, variability and transferability. According to Idris *et al.* , (2012), the intangible nature of insurance services plays a decisively challenging role in convincing customers as to the value of insurance product.

The earlier study by Capgemini (2007) postulated that insurers should express readiness in assigning values to segmented customers; predicting customer's behaviour and implementing techniques that accomplish satisfaction and retention of customers; and identifying and maximising opportunities to improve sales.

An earlier study by Toran (1993) ascribed quality as a focal point in measuring insurance service. Walker, Baker (2000) believed that customer's expectation formed the basis for insurance quality measurement. Nwankwo, Ajemunigbohun (2013) suggested that insurance companies should clarify their value and expectations in dealing with prospective and existing customers, as well as making efforts towards customers' attraction and retention. According to an earlier study by King (1992), insurance quality measurement is said to embrace the insurer's reputation, financial stability, integrity of the agent (s) and quality of information and guidance from the agent.

The acceptance of an insurance service breeds its demand. Therefore, the basic demand for insurance arises from the satisfaction 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 Beck, Webb, 2003; Browne, Chung, Frees, 2000; Esho, Kirievsky, Ward, Zurbruegg, 2004) 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, 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 (Cummins, Danzon, 1997). Therefore, an earlier work by (Beenstock, Dickson, 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 Browne, Kim (1993); Diacon (1983); Nyce (2007), 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, 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.

2. Methodology

This study employed a descriptive research approach. The motivation for its application was because it describes the variables in a situation of interest to the researcher and thus examines the happenings around the sample subjects which are devoid of any attempt of manipulation (Asika, 2008; Sekaran, Bougie, 2016). In a bid to achieve the research objectives, data collection was conducted through a cross sectional survey design among selected small and medium-sized enterprises whose activities cut across manufacturing, trade, education, accommodation and food services, construction, agriculture and other services with the assistance of an interview schedule. The choice of the targeted areas is due to the fact that they are an indispensable hub in the economic advancement of any nation. The usage of the data collection tool was because of its appropriateness in terms of being able to collect information in a timely manner, gaining direct contact with respondents, getting more relatively accurate information, and engaging research assistants who can interpret questions when necessary (Kothari, Garg, 2016).

According to the Small and Medium Enterprises Development Agency of Nigeria (2013), the total number of micro, small and medium Enterprises (MSMEs) as of 2013 stood at 37, 067,416 with 36,994,578 micro, 68,168 small, and 4, 670 medium enterprises. The Lagos State, the area of study, is said to have the highest number of small and medium enterprise (SMEs) recorded at 11,663. Therefore, the population of the study comprises 11,663 firms, as adapted from SMEDAN. 10 local government council areas out of the 20 approved local government councils were used as research grounds with the adoption of a single-stage cluster sampling technique. The choice of these areas was due to the number of businesses and their economic importance in the Lagos State. The rationale for employing this sampling technique was because it allowed the researchers to divide the population into convenient clusters; randomly choosing the required number of clusters as sample subjects and investigated all the elements in each of the randomly chosen clusters. It is also advantageous for those researchers whose subjects are fragmented over a large geographical area, as it helps to save time and money (Wilson, 2014). The total sample size for the study was statistically determined by Yamane's (1967) formula as cited by Ajay, Masuku (2014) as follows:

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

$$n_T = \frac{11.663}{1 + 11.663(0.05)^2} = 386, \qquad (1)$$

where:

n the sample size,

N the population size,

e the acceptable sampling error,

*95% confidence level and p=0.05 are assumed.

Judging from the above generated sample size, the researchers considered this number to be a sizeable representation of the entire population under study. The period of data collection was between October 2017 and December 2017. Ultimately, out of the 387 copies of the interview schedule conducted for data collection, 352 copies were found useful for analytical results, providing 91% response rate. The Kolmogorov-Smirnov test and Kendall's rank correlation coefficient techniques were employed in data processing. Five Likert-scaling measurements of "strongly agree", "agree", "undecided", "disagree" and "strongly disagree" were adopted.

In order to accomplish the intention for the adoption of the data collection instrument, a pilot study was conducted so as to test its reliability measure. The test result produced a Cronbach alpha of 0.7813, indicating that the standard requirement of 0.70 was surpassed. The study took cognizance of the validity of the research with the adoption of logical and constructs validity. The former was embarked upon by the schedule distribution to a few selected SMEs owners/operators and members of the academia in the field of insurance, business and entrepreneurship profession. These experts gazed through the data instrument and offered laudable comments that helped the researchers' presentation of the instrument for clearer comprehension of the respondents. The latter took measures of the examined variables from relevant and well-thought out literatures.

3. Results and Discussion

Hypothesis 1

Insurance products have not gained high popularity among small and medium enterprises in the Lagos metropolis. Table 2 below proves an outcome of the calculated D value of the point of the greatest difference between the cumulative distributions and cumulative observations, standing at –0.2368. The calculated D value via the Kolmogorov-Smirnov test techniques is provided as follows:

$$|F_o(X) - F_r(X)| \, , \tag{2}$$

where:

$F_o(X)$ observed cumulative frequency distribution of a random sample of n observations,

$F_o(X)$ k/n = (Number of observations ≤ X)/(Total number of observations),

$F_r(X)$ the theoretical frequency distribution.

The critical value of D is found from the K-S table values for one sample test or determined as follows:

$$D = \frac{\alpha}{\sqrt{N}} = \frac{1.36}{\sqrt{352}} = 0.0724 \, , \tag{3}$$

where:

D calculated value,

α alpha,

N population size.

Acceptance Criteria: If the calculated value is less than critical value accept null hypothesis.

Rejection Criteria: If calculated value is greater than table value reject null hypothesis.

With the situation above, it shows clearly that the calculated D value (–0.2368) is less that the critical value of 0.0724, meaning that the null hypothesis (Ho) that insurance products have not gained high popularity among small and medium enterprises in the Lagos metropolis is accepted at α = 0.05 (see Table 2). This then showcases that the alternate hypothesis that insurance products have gained high popularity among small and medium enterprises in the Lagos metropolis is rejected in accordance with the participants' responses. This result corroborates the study of Obalola, Ajemunigbohun (2017), whose findings found that the risk transfer method (*i.e.* insurance) was the least used risk management technique among the SMEs, as the majority of operators/owners were ignorant of the workability of risk transfer mechanism and its financial cost implications on their business operations. Also, the result was contrary to the opinions of Chatterjee, Wehrhahn (2017), who noted that permitting insurers to carefully provide loans to MSMEs could create significant synergies, curtailing distribution costs and creating additional income.

Table 1. Responses to the testing of Hypothesis 1.

Scaling measurements	Responses	Percentage (%)
Agree	261	74.1
Indifferent	57	16.2
Disagree	34	09.7
Total	352	100

Source: Authors' own study.

Table 2. Kolmogorov-Smirnov Frequency Table for Hypothesis 1.

Hypothesis	Agree	Indifferent	Disagree
F = Insurance products have not gained high popularity among small and medium enterprises in the Lagos metropolis	261	57	34
$F_o(X)$ = Theoretical cumulative distribution of choice Under H_o	0.3333	0.6666	1
$S_n(X)$ = Cumulative distribution of observed choices	0.7414	0.9034	1
$\|F_o(X) - F_r(X)\|$	–0.4081	–0.2368	0

Source: Authors' computation, 2017.

Hypothesis 2

In an attempt to justify the relationship that exists between insurance awareness and insurance acceptance, a Kendall's rank correlation coefficient technique was employed for the data analysis. The commonly known Kendall's tau coefficient (ɽ) is a statistic used to measure the ordinal association between two measured quantities. A tau test is a non--parametric hypothesis test for statistical dependence based on the tau coefficient.

The Kendall's tau b is a popular statistic for describing the strength of the monotonic relationship between two variables. It ranges between plus and minus one.

The test procedure is as follows:

Ho is the null hypothesis that ɽ is zero. Hi represents the alternative hypothesis that the actual ɽ is non-zero. Choosing the value z_{α}, based on the normal distribution, means that the probability of rejecting Ho when Ho is true is equal to a specified value, α.

Interpretation: Using Kendall's tau b, the coefficient value of 0.236 shows that there is a positive but low relationship between insurance awareness and insurance acceptance.

Decision: Since the result is significant at 0.05 level of significance (*i.e.* p-value of 0.000) and the generated result is less than 0.05 significance level of the study, the null hypothesis is thus rejected and the alternative hypothesis is accepted. This indicates that insurance awareness has significant but low relationship with insurance acceptance. This result is in consistence with the conclusions of Chodokufa (2014), Osho, Ademuyiwa (2017), and Yamori (2017), who in their various studies advocated for insurance awareness among SMEs operators in a bid to enhance patronage for security of funds and protection for business entity risk, human capital risk, financial risk, competitive risk, and consumer risk.

4. Conclusions

This study attempted to examine the relationship between insurance awareness and acceptance among small and medium-sized enterprises in the Lagos metropolis. The findings of the study have obviously shown a low level popularity of insurance products and a low but slightly positive relationship between insurance awareness and acceptance among small and medium enterprises. Imperatively, convincing operators/owners of small and medium-sized enterprises as to the value of insurance products is key to decisively meeting up with the challenges of its low popularity and managing opportunities to improve sales. Therefore, embracing insurance as a scientific approach to dealing with numerous risk confronting small and medium-sized enterprises, ranging from loss of life, business interruption, fire outbreak, loss of income *etc.*, will push risk management responsibilities off their owners/operators.

Table 3. Correlations.

			Insurance Awareness	Insurance Acceptance
Kendall's tau b	Insurance Awareness	Correlation Coefficient	1.000	.236**
		Sig. (2-table)		
		N	352	
			.236**	1.000
	Insurance Acceptance	Correlation Coefficient	352	
		Sig. (2-table)		
		N		

***Correlation is significant at the 0.01 level (2-tailed).*

Source: Authors' computation, 2017.

As a recommendation, risk management, as a course of study, should be taken as important as possible in educating business, management and entrepreneurial students, owners and operators in being able to confront the prevailing recessionary economic situation in Nigeria. More so, insurance companies in Nigeria should endeavour to make the business of insurance attractive to SMEs' operators/owners by promoting financial risk control as a financial literacy mechanism. Insurance, representing a scientific approach to managing risk, should be embraced by SMEs owners so as to take the burden of risk management responsibilities off themselves and transfer such responsibilities to insurance experts for adequate financial, economic and business protection. Insurance stakeholders within the academic environment are advised to pull their weight at pushing for the incorporation and implementation of an insurance education curriculum that will promote and encourage business ideology, growth and development among youth. Lastly, greater attention should be placed on small and medium-sized business owners' education of and engagement in the design of insurance products related to their activities so as to allow for the sense of ownership, effective risk management communication and proper risk financing techniques.

As for the research implications, this study contributes significantly to knowledge in that it educates operators/owners of small and medium-sized enterprises of the need to integrate risk management responsibilities into their business plan so as to allow for business survival, success and recovery. It thus serves as an eye-opener for stakeholders in the field of insurance, risk management and business to see reasons why they need to collaborate in a bid to train the minds of young entrepreneurs towards implementing the financial risk control method. This research paper helps apprise insurance practitioners of the need to design insurance products that are strategic to the continuing survival of small and medium-sized enterprises.

The research presupposes on which further studies should focus points at studying factors militating against insurance acceptance among small and medium-sized enterprises. More so, it would be desirable to look into insurance education curriculum vis-à-vis the business education curriculum design. Lastly, future research could also attend to the suitability of insurance products and classes of business.

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