

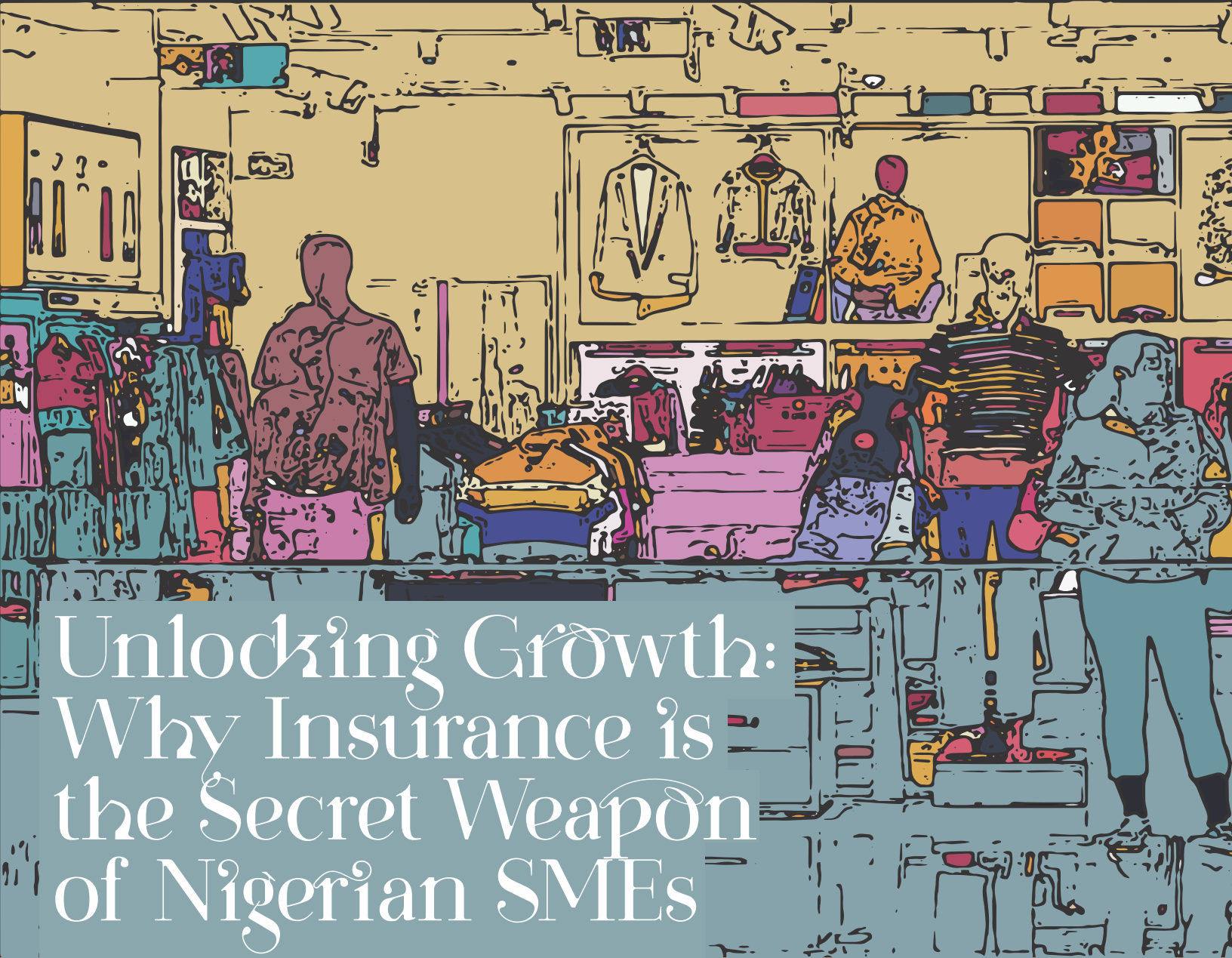
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ENHANCING ~~DISASTER~~ RESILIENCE IN MSME BUSINESSES: A SUSTAINABLE INSURANCE FRAMEWORK FOR MITIGATING RISKS IN NIGERIA





Unlocking Growth: Why Insurance is the Secret Weapon of Nigerian SMEs

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Synopsis:

Nigeria's thriving small and medium-sized enterprises (SMEs) face a major hurdle: low insurance penetration. This leaves them vulnerable to financial shocks and hinders their growth. The good news? A wave of innovation is bridging the gap between traditional insurance and the specific needs of Nigerian SMEs.

One evening, King's Super Market owner Mrs. Kehinde Soremekun received a call indicating that a fire had broken out in the store next to hers, consuming the surrounding businesses. The fire was too wild to put out even with the fire extinguishers and other precautions in place. Sadly, her entire investment was lost in a matter of hours. The financial hit may have forced her to completely shut down her dream business, but, this story has a happy ending, as

she was back in business in just a matter of months thanks to her insurance coverage.

Unfortunately, this fairy-tale ending is not too common amongst Nigeria's thriving community of small and medium enterprises (SMEs). While large corporations often have robust insurance strategies, many SMEs remain uninsured or underinsured. The National Bureau of Statistics (NBS) reports that only 0.5% of Nigerian businesses have any form of insurance, a figure dwarfed by the global average of 54%. This stark disparity translates to a massive protection gap, leaving Nigerian SMEs highly vulnerable to a multitude of risks, hindering their growth potential and overall economic contribution. However, a new wave of innovation is brewing, with insurtech companies and forward-thinking insurance



brokers bridging the gap between traditional insurance and the specific needs of Nigerian SMEs.

ZER Consulting Africa is on a mission to empower African SMEs to compete on the global stage. As a pan-African management consultancy, we see insurance as a critical tool for ensuring their success. In this article, we dive deep into the challenges and opportunities within the SME insurance landscape, drawing insights from industry experts and real-world case studies.

The Challenge: A Disconnect Between Needs and Offerings

Nigeria boasts a thriving SME sector, yet insurance penetration amongst them remains low. The low insurance penetration rate amongst Nigerian SMEs can be attributed to a complex web of factors that create a significant disconnect between the needs of businesses and the offerings of traditional insurers. Here's a breakdown of the key challenges:

Distribution Challenges: Reaching geographically dispersed SMEs, particularly those operating in remote

areas, has been a persistent hurdle for traditional insurers. Reliance on brick-and-mortar distribution channels proves ineffective in capturing this vast and dynamic market segment.

Lack of Sector Understanding: Traditional insurance products tend to be designed with large corporations in mind. These one-size-fits-all solutions often fail to cater to the unique risk profiles and financial constraints of SMEs. For instance, a manufacturing business might require coverage for machinery breakdown, while a digital marketing agency might need protection against cyber threats. Traditional offerings may not address these specific needs or come with hefty premiums that are out of reach for many SMEs.

Misaligned Value Chain: A fundamental disconnect exists between the traditional insurance value chain and the way SMEs operate. Traditional insurers often lack a deep understanding of the specific risks and vulnerabilities present across different SME sectors. This limited understanding translates to a mismatch between the products offered and the actual needs of SMEs. Businesses are left with generic insurance packages that may not provide adequate coverage for their specific operations.

Communal Support: The extended family system or close-knit nature of Nigerian society often leads business owners to rely on their family, friends, and colleagues for support in times of unfortunate accidents or losses to their business, rather than utilizing insurance. This sense of interconnectedness fosters a reliance on personal relationships rather than formal institutions like insurance companies. The adage, 'experience is the best teacher', does not come into play here because familiar networks are available to assist business owners in their time of need.

Impact of the Disconnect

The consequences of this disconnect are far-reaching. A 2021 report by the Lagos Chamber of Commerce and Industry (LCCI) revealed that over 70% of SME closures in Nigeria are directly linked to financial shocks caused by unforeseen events like fire outbreaks, theft, or business interruptions. The lack of adequate insurance leaves these businesses exposed, hindering their ability to recover from setbacks and jeopardizing their long-term survival. This, in turn, stifles economic growth and job creation, as SMEs are critical drivers of innovation and employment in Nigeria.

Beyond the statistics, the human cost is equally significant. Happy stories like King's SuperMarket are sadly not the norm. The financial and emotional toll of an uninsured

loss can be devastating, forcing business owners to close their doors and leaving employees jobless.

By bridging this gap between SME needs and insurance offerings, we can unlock a future where Nigerian SMEs thrive, protected from unforeseen circumstances and empowered to chase their entrepreneurial dreams. This is where innovative insurtech companies and forward-thinking brokers are stepping in...

Case Study 1: Casava Microinsurance

Addressing the distribution challenge

Basix, a microfinance institution deeply rooted in rural India, faced challenges selling insurance through agents. Recognising the need for a different approach, Basix partnered with a micro insurer to refine their agents' understanding of insurance products and the customers' psychological biases. The agents underwent training in behavioral economics, focusing on biases such as **present bias**, where customers prefer immediate rewards over future benefits, and **optimism bias**, which leads to underestimating the likelihood of adverse events. This training enabled agents to tailor insurance offerings to meet customer needs. Additionally, to combat **loss aversion**-a tendency to prefer avoiding losses over acquiring gains-Basix introduced incentives like quarterly premium discounts for no claims despite premiums being 10% higher. This strategy significantly resonated with the villagers' risk-averse nature, resulting in a notable 10.1% increase in insurance adoption within a year.

Leveraging similar strategies in Nigeria, Casava, a leading Nigerian insurance startup, developed *BusinessGro* in partnership with a Federal Government agency. This product, aimed at micro-business owners and sold digitally through a government portal, combines insurance with digital business training and loan referrals. By addressing present and optimism biases, Casava achieved a 250% uptake increase in the first six months.

"Addressing biases like the 'optimism or Jesus bias' observed in Nigeria involves framing insurance not just as a safeguard against negative events but as an aspirational and gratifying product", says Bode Pedro, Founder & CEO at Casava. "Our progress at Casava underscores the importance of behavioral economics in the development and distribution of insurance products."

In markets like Nigeria, where biases such as optimism bias influence perceptions, Casava finds it crucial to frame insurance as an aspirational product. Emphasizing the value of partnering with distributors that are trusted within their community and committed to product innovation and agent training is key to bridging the demand gap and enabling effective insurance distribution,

ultimately improving the quality of life of customers.

Case Study 2: ETAP (Easy as Taking A Picture)

Bridging the value chain disconnect

In today's dynamic business landscape, insurance plays a crucial role in mitigating risks and fostering growth for Nigerian SMEs. ETAP, Africa's leading digital insurance provider, is at the forefront of revolutionizing how SMEs perceive and leverage insurance.

By offering affordable and accessible insurance solutions tailored to the unique needs of SMEs, ETAP empowers these businesses to thrive in an increasingly competitive market. From comprehensive coverage for assets and liabilities to innovative products like ETAP for Business, which simplifies fleet management and insurance administration, ETAP is a game-changer for Nigerian SMEs.

"Through strategic partnerships and cutting-edge technology, ETAP is driving financial inclusion and resilience among SMEs, enabling them to navigate uncertainties and seize opportunities with confidence", explains Ibraheem Babalola, CEO of ETAP. "As we continue to champion the cause of SMEs, ETAP remains committed to aggressively leveraging advanced technology to transform the insurance landscape and empower Nigerian businesses to reach new heights of success."

Case Study 3: Boff & Company Insurance Brokers Ltd. (Boff & Co.)

Building sector understanding

Boff & Co., an Ibadan-based firm with a long-standing reputation, understands the unique needs of SMEs and the importance of establishing trust through personalized service. Their team of experienced brokers goes beyond simply selling policies. They work closely with SMEs to conduct a thorough risk assessment, identify potential vulnerabilities, and develop a customized insurance plan that offers comprehensive protection. By partnering with insurance companies, they offer bespoke policies that directly address the specific operations of each business, moving away from the outdated concept of one-size-fits-all insurance.

Experience has shown that the distrust of the SMEs is because of inadequate reimbursement following losses, typically stemming from gross underinsurance. This occurs when businesses insure assets at low values but expect full compensation in case of a claim. Premium rates are determined scientifically, and incomplete premium payments result in partial claim settlements. Boff & Co. also prioritizes educating business owners not

only about the claims process but also about the need to insure adequately for full compensation in the event of a claim.

Insufficient documentation poses another challenge for SMEs seeking full compensation during claims. Many businesses fail to maintain proper records of invoices, receipts, and purchase orders, hindering their ability to support their claims effectively.

"SMEs are the backbone of the Nigerian economy, but they are often exposed to a multitude of risks," says Chief Babajide Olatunde-Agbeja, Chairman of Boff & Co. "Our role is to serve as trusted advisors, guiding SMEs through the complexities of insurance to secure the right coverage at the right price. We believe that informed and protected businesses are better positioned to succeed."

The Policymaker's Role: Fostering an Enabling Environment

While innovative insurtech platforms and dedicated brokers are making significant strides, the government has a crucial role to play in fostering a more enabling environment for SME insurance adoption. By implementing strategic policies and fostering collaboration between stakeholders, policymakers can help bridge the gap between SME needs and insurance offerings, ultimately propelling the growth and resilience of Nigeria's vibrant SME sector. Here's how policymakers can contribute:

Promote Risk-Based Supervision (RBS): Currently, a one-size-fits-all regulatory approach often burdens SMEs with excessive compliance requirements. Implementing RBS can revolutionize the landscape. RBS encourages a data-driven approach, tailoring regulations to the specific risk profiles of SMEs. This allows insurers to develop more innovative and inclusive insurance products that are

more relevant and affordable for smaller businesses. For example, a low-risk online retailer might face less stringent capital requirements compared to a high-risk manufacturing company. This flexibility allows insurers to create targeted products priced competitively for the SME market.

Facilitate Innovation: The rise of insurtech presents a game-changing opportunity for SME insurance penetration. However, existing regulatory frameworks may not adequately address the unique needs of these digital platforms. By fostering a more innovation-friendly regulatory environment, policymakers can encourage the development and deployment of digital insurance solutions. This could involve streamlining licensing procedures for insurtech startups and creating regulatory sandboxes that allow them to test and refine their offerings in a controlled environment.

Support Capacity Building: Knowledge is power, especially when it comes to insurance. A significant barrier for SMEs is the lack of awareness and understanding of the benefits of insurance and the claims process. Policymakers can play a crucial role in promoting financial literacy initiatives specifically geared towards SMEs. This could involve collaborating with industry bodies and educational institutions to develop training programs that educate business owners about risk management strategies and the importance of insurance in safeguarding their businesses. Additionally, initiatives can be designed to simplify insurance policies and claims procedures, making them more accessible and user-friendly for SMEs.

Building a Sustainable Future

By working together - insurers, insurtechs, brokers, and policymakers - we can equip Nigerian SMEs with the secret weapon of insurance, unlocking their full potential and propelling them to become the driving force of a vibrant and resilient economy.

