

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Background**

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 Nigeria 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.

#### **1.1 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.

#### **1.2 Objective of the study**

The main objective of the study was to investigate the contribution of insurance companies in the growth of SMEs in Nigeria.

The study also sought:

- To examine major factors that affects the growth of SMEs.

- To assess the contribution of insurance companies to the growth of SMEs.

To investigate the factors inhibiting the purchase of insurance cover by SME operators.

To determine the strength of the relationship between insurance companies and growth of SMEs.

### **1.3. Research question**

What are the major factors affecting the growth of SMEs?

What contributions do insurance companies responsible for the growth of SMEs?

what factors inhibit SME operators from purchasing insurance cover?

How strong is the relationship between insurance companies and growth of SMEs?

### **1.4. Purpose of the study**

The study established the contribution of insurance companies and the performance of SMEs in Nigeria.

### **1.5 Scope of the study**

#### **Geographical scope**

The study focused on Insurance companies in Nigeria- NIGER INSURANCE CORPORATION Limited (NIC) which is an insurance company in Nigeria. The company is a leading provider of insurance and risk management services with 19 branches spread throughout the country (Robinson, 2009).

#### **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.

### **1.6 Significance of the study.**

Itsthroughlyresearch 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 NIGER 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.

## **ANALYSIS OF THE CONTRIBUTION OF INSURANCE COMPANIES TO THE GROWTH OF SMEs: A CASE OF NIGER INSURANCE CORPORATION**

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