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ABSTRACT

The purpose of thisstudy was to establish the relationship between the contributions of insurance companiesand the growth of SMEs in NIC basing on the following objectives; to examinemajor factors that affects the growth of SMEs; to assess the contribution ofinsurance companies to the growth of SMEs; to investigate the factorsinhibiting the purchase of insurance cover by SME operators and to determinethe strength of the relationship between insurance companies and growth ofSMEs.

The research wasdescriptive in nature involving quantitative methods which was administeredthrough questionnaires. The total sample comprised of 65 respondents of all themanagers and employees of NIGER INSURANCE CORPORATION. Simple random samplingwas used whereby the researcher went to NIC and administered questionnaire tothe sampled or selected employees. Primary data was obtained from the librarymaterials, textbooks, NIC brochures, internet and journals. Data analysis wascarried out using SPSS and frequency distribution tables.

Findings revealed thatinnovation is a strong empirical evidence for fast growing SMEs, competitionhas a great effect on SMEs industry and credit remains a great challenge to thegrowth of SMEs. Besides that insurance companies mitigate risks and enhanceloan acceptability by SMEs sector with banks. However low income earned bySMEs, high premium cost and paperwork and experience and beliefs inhibit thepurchase of insurance cover by SMEs. Nevertheless, there is a strong positiverelationship between insurance companies and the growth of SMEs at SpearmanCorrelation Coefficient.

It was concluded thatimprovement in business skills increases the performance of SMEs. Howeverinsurance companies do not lowers insurance rates and offer protection to SMEsincome statements. In addition SMEs being small in size and their inability tofully understand the document limits them to get insurance cover. It wasrecommended that management of NIC need to build a great relationship with SMEsas their customers in orders to develop and grow them in trust and also lowerthe premium rates to SMEs in order to improve on their performance. Also NICneed to have a fresh look at the scope and spectrum of services provided toSMEs and has a better understanding on the scale of enterprise sector.

CHAPTERONE

INTRODUCTION

1.0 Background

The substantial growthof small and medium enterprises (SMEs) activity clearly marks SME as one of themost remarkable economic phenomena. SME is a business that is privately ownedand operated with a small number of employees and relatively moderate volume ofsales. The definition of SMEs varies from country to country depending on thelevel of development and the strength of the economy. The lower limit for smallscale enterprises is set at between five and ten workers and the upper limit isset at between fifty and one hundred workers. The upper limit for medium scaleenterprises is set between one hundred and two hundred and fifty workers(Hallberg, 2000).

In Nigeria there areapproximately 1,069,848 SMEs currently in operation and they comprise over 90%of the private sector. They contribute to employment, provision of basic goodsand services, and generation of export and tax revenues for nationalsocio-economic development. Their Gross Domestic Product (GDP) contribution tothe economy is 75% and they employ about 2,500,000 nationals. The location ofthese SMEs is mostly in urban areas with 80% located therein. They operatebusiness like restaurants, accountants, hairdressers, conveniences stores andguesthouses (Hatega, 2007).

On the other handinsurance is a contract by which one party undertakes in consideration of apayment called premium to secure the other against pecuniary loss by payment ofa 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 aperson, company, or other entity reimbursement or financial protection againstpossible future losses or damages. An insurance contract is an agreement bywhich the insurer promises, from a premium or assessment, to make a payment toa policy holder or a third person if an event that is the object of a riskoccurs. SMEs often face a variety of problems related to their size. Frequentcauses are bankruptcy, theft, fire, death, automobile accidents and workersinjuries.

1

1.1Statement of the problem

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

The contributions of insurance companies to the growth of small and medium scale businesses in Nigeria

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