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ABSTRACT

The purpose of this study was to establish the relationship between the contributions of insurance companies and the growth of SMEs in NIC basing on the following objectives; 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 and to determine the strength of the relationship between insurance companies and growth of SMEs.

The research was descriptive in nature involving quantitative methods which was administered through questionnaires. The total sample comprised of 65 respondents of all the managers and employees of NIGER INSURANCE CORPORATION. Simple random sampling was used whereby the researcher went to NIC and administered questionnaire to the sampled or selected employees. Primary data was obtained from the library materials, textbooks, NIC brochures, internet and journals. Data analysis was carried out using SPSS and frequency distribution tables.

Findings revealed that innovation is a strong empirical evidence for fast growing SMEs, competition has a great effect on SMEs industry and credit remains a great challenge to the growth of SMEs. Besides that insurance companies mitigate risks and enhance loan acceptability by SMEs sector with banks. However low income earned by SMEs, high premium cost and paperwork and experience and beliefs inhibit the purchase of insurance cover by SMEs. Nevertheless, there is a strong positive relationship between insurance companies and the growth of SMEs at Spearman Correlation Coefficient.

It was concluded that improvement in business skills increases the performance of SMEs. However insurance companies do not lower insurance rates and offer protection to SMEs income statements. In addition SMEs being small in size and their inability to fully understand the document limits them to get insurance cover. It was recommended that management of NIC need to build a great relationship with SMEs as their customers in order to develop and grow them in trust and also lower the premium rates to SMEs in order to improve on their performance. Also NIC need to have a fresh look at the scope and spectrum of services provided to SMEs and has a better understanding on the scale of enterprise sector.

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, convenience 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

1.1 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 suggests that 80% of the businesses affected by major incident close down within 18 months, 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.

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

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