

Insurance Uptake among SMEs in Ghana and Factors that Influence SMEs Demand for Insurance Products in Ghana

Alhassan Musah¹ and Emmanuel Kwame Duker²

¹Lecturer: Dominion University College, School of Business, PMB CT69, Cantonments, Accra
E-mail: a.musah@duc.edu.gh

²Finance Manager: Agricultural Manufacturing Group Ltd., E-mail: effutuquay@hotmail.com

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Abstract: Aim: The present study examines the level of insurance uptake among SMEs in Ghana and their awareness of insurance and other factors that affect the demand for SMEs in terms of insurance products in Ghana. The study, through the stratified sampling technique, sampled 384 SMEs in Accra and covered more than five different sectors. It used a questionnaire as the main instrument for data collection. The collected data was then analyzed using descriptive statistics and probit regression analysis. **Research Design:** The study relied on quantitative research design through the use of probit regression as the main statistical tool. **Findings:** The results showed that the level of insurance uptake among the SMEs surveyed is 72%, which is higher as compared to previous studies in micro-insurance in Ghana, even though they focused on households. The study also revealed a moderately high level of insurance awareness among SMEs in Ghana. The results further revealed that SMEs get insurance to fulfill legal requirement or to mitigate risks. With regards to the variable that affects demand for insurance products, the results show that premium flexibility and nodal agencies as well as knowledge of insurance by the owner or CEO and expectations of businesses are positively associated with demand for insurance by SMEs. The study further showed that the level of education of the owners along with the sales or income level of the business is positively associated with the demand for insurance by SMEs. Additionally, the study revealed that the gender of the owner or CEO, number of employees and age of the business are not significant determinants of demand for insurance by SMEs in Ghana. **Originality:** Reviews of previous studies that studies on determinants of the demand for insurance products have focused on household demand for micro insurance. There is little study globally on factors that influence SMEs demand for insurance products even though researchers agree that insurance is one of the most significant risk mitigating strategies for businesses. **Implications:** The study present the current state of SME demand for insurance product in Ghana, and important factors that influence such demand which is useful to policy makers and industry practitioners

Key words: Insurance, Awareness and Determinants, SMEs, Ghana.

JEL Classifications: B81, E2, E21, G2

1. INTRODUCTION

Business organizations in developed countries have been investing heavily in various insurance policies to reduce the risk of exposure for their businesses

(Park, 2018). In this context, everybody faces a wide range of risks in life that need to be managed, and businesses are no exception (Terungwa, 2012). The degree of risk, however, varies between individual households and big businesses or even small businesses (Angko, 2013). Studies have shown that in the midst of the various risk that individuals and corporations face, insurance is the most prudent option to mitigate such risk (Stevens-Benefo, 2015). Previous studies in Ghana however shows that there is low penetration of insurance with figures as low as 4.1% with the exception of public health insurance (Ackah & Owusu, 2010; Akotey *et al.* 2011). Studies also shows that a small percentage of the population in developing countries benefits from social protection schemes (Akotey *et al.* 2011). The reason for this phenomenon is that most social protection schemes such as insurance in these countries are designed to favor people in the formal sector (Loewe, 2006). Majority of small and medium scales enterprises in Ghana fall under the informal sector.

SMEs play a significant role in most countries both developed and developing countries (Abor & Quartey, 2010) but in developing countries like Ghana, SMEs play the key role of job creation and contribute significantly to Gross Domestic Product (GDP) growth (Musah, 2017. Muneer *et al.* 2017; Musah & Ibrahim, 2014; Karadag, 2015; Jindrichovska, 2013). Studies have shown that the SMEs sector is the fastest growing sector in most economies including Ghana and compliments the impact of larger organizations in these countries (Madurapperuma, *et al.* 2016; Ahiawodzi & Adade, 2012; Muneer *et al.* 2017). Studies have shown that SMEs in Ghana constitute about 90% of private sector businesses and employs up to about 50% of the countries workforce (Musah, 2017; Madurapperuma, *et al.* 2016; BASTIAT Ghana Report, 2014).

Even though all business in everywhere is the world are exposed to some form of risk, the inherent risk of doing business in Ghana especially Accra is very high as a result of businesses exposure to several risks including natural disasters (Akotey, 2015). The study further argues that there is high exposure to floods, fire, and other disasters that affect the future prosperity of several people (Akotey and Adjasi, 2015). For instance, Abbey (2011) reports that the flooding in 2011 resulted in some businesses in the South Industrial Area of Accra where most of the affected companies were automobile companies suffered a loss to the tune of GHC50 million. In the same flood, it was reported that at least 11 people perished. A city like Accra with such high population density and high risk of exposure to natural disasters mean that insurance is very crucial in mitigating all these risks for both businesses and households

(Stevens-Benefo, 2015). The absence of good insurance policies in developing countries to mitigate these risks have resulted in some small businesses relying on resources from kin relationships and social capital to meet these unexpected losses (Stevens-Benefo, 2015; Meze-Hausken *et al.* 2009). In most of the cases resources from these sources are not adequate to cater for the loss resulting in the collapse of some of such affected businesses.

The scope of insurance coverage in developing countries like Ghana is based mostly on consumer purchasing power, institutional framework that support such insurance schemes, availability of financial services and market infrastructure and outreach (Schuster & Holtbrugge, 2012). Availability of insurance products in developing countries have increased in the last few years by 6.5% from an estimate of 39 million policy holders to 500 million policy holders (Churchill & McCord, 2012). Despite this improvement in the availability of insurance policies, the uptake and demand for these products remains very low in developing countries like Ghana (Stevens-Benefo, 2015).

A number of studies on micro-insurance in Ghana have focused on individual households ignoring a very important sector like the SMEs sector (Giesbert, 2008; Akotey *et al.* 2011; Angko, 2013; Giesbert & Steiner, 2011; Akotey and Adjasi, 2015; Fofie, 2016; Akotey *et al.* 2011). It is not clear from literature SMEs access to insurance in Ghana and what factors influence SMEs demand for Insurance services. Small and medium scale enterprises need to adopt insurance to mitigate some of the inherent risk of doing business in Accra and Ghana and help improve their sustainability. Fofie (2016) in their study reported that majority of informal sector businesses and individuals in Ghana fail to take up insurance products arguing that God will protect them from all forms of eventualities. The National Insurance Commission in their own survey came to similar conclusion and took a decision to intensify public education on the need for insurance of lives and properties (Fofie, 2016). The extent to which these campaigns have translated to SMEs demanding insurance products has not been empirically established in Ghana. Moreover, the factors that may influence these small businesses to demand these insurance products are also not clearly established in Ghana to help future policy direction. This study is conducted with the objective of finding answers to these questions and making recommendations for future policy direction to help deepen insurance penetration among SMEs.

Several studies have established that micro-insurance is a risk mitigating tool, social protection and helps to fight poverty that arise from shocks and other forms of natural disasters (Akotey, *et al.* 2011; Akter, 2012; Mukhtar,

2013; Janzen & Carter, 2013; Stevens-Benefo, 2015; Akotey *et al.* 2018). All business faces various forms of risk which requires insurance to mitigate those risks and ensure continuous operations of such businesses (Park, 2018). Research has established that despite the importance of insurance in risk mitigation, it is always not accessible and affordable to everybody especially poor households and small businesses (Farooqui, 2013; Stevens-Benefo, 2015). The reason for the exclusion of small businesses and informal sector business from most insurance products is the fact that small business owners do not have the financial muscle to meet the costs of insurance and also lack the needed financial literacy needed to help adopt a particular insurance product (Donfoute *et al.* 2011, Yeboah & Obeng, 2016). The contribution of SMEs to Ghana's economy in terms of job creation and contribution to GDP and the role that insurance play in mitigating risk and contributing to alleviating poverty means that policy markets must take the necessary steps to ensure that all SMEs insure their businesses.

A number of studies have been conducted on micro-insurance in Ghana but most of these studies have focused on households to the neglect of SMEs (Giesbert, 2008; Arun and Steiner, 2008; Steiner *et al.* 2009; Giesbert and Steiner, 2011; Akotey *et al.* 2011; Akotey & Adjasi, 2018). For instance, Giesbert (2008) examined the demand for micro-insurance in the rural parts of Ghana. Arun & Steiner (2008) also the role of micro insurance as an element of social protection in Ghana and Sri Lanka and found that both countries did not have what it takes to extend their social protection to the entire population in the short and medium term. Steiner *et al.* (2009) examined the demand for savings, insurance and credit by households in rural Ghana. Akotey *et al.* (2011) examined the demand for micro insurance in Ghana and found that premium flexibility, income level and nodal agency are potential determinants for the demand for micro insurance in Ghana. This study unlike previous studies in Ghana focuses on SMEs awareness of insurance products and the factor that influence their demand for that products.

Akotey *et al.* (2011) in their study argued that there are limited well-structured micro insurance products in Ghana. The authors further argue that the few well structured products suffers from low patronage. Given the importance of micro-insurance and how it can mitigate risk of SMEs, it is important to understand their level of awareness of these products and what factors influence their demand for the products. Also, just like how previous studies in Ghana examined determinants of household demand for insurance, this study wants to extend previous studies by focusing on SMEs

and their demand for insurance products. In line with the above argument the study examines SMEs awareness of insurance products in Ghana, the level of insurance uptake among these SMEs and the factors that influence their demand for the insurance products.

The study makes significant contribution to literature, policy and practice. In terms of literature, it has been established that previous studies in Ghana on factors that influence the demand for micro insurance have focused on household to the neglect of SMEs. Moreover, the study is an extension of previous studies such as Akotey *et al.* (2011) and Amenyedor (2015) whose studies focused on household in Ghana. The study fills this gap in knowledge by establishing empirically the level of insurance awareness and uptake among SMEs in Ghana. The study however excludes other demographics factors such as gender, education, religious status, marital status, employment status which are all variables used for household studies in Ghana (Fofie, 2016). The results if the study will help policy makers in the insurance industry to understand the level of insurance awareness and uptake among SMEs in Ghana and also factors that influence SMEs demand for insurance policy in Ghana. The results will also help industry players understand the insurance needs of SMEs in Ghana and the strategies they can adopt to increase insurance penetration. The study will also provide an opportunity to educate SME owners and managers on the need to use insurance to mitigate unforeseen risk that may affect their operations. The study will therefore compliment the efforts of the National Insurance Commission to deepen insurance penetration and enhance the sustainability of these businesses.

2. LITERATURE REVIEW

Insurance of SMEs and Businesses.

Businesses faces several risks which need to be managed through systematic process using well-structured instrument and products like insurance. Park (2018) argue that businesses in developed countries purchase substantial amount of insurance because of the need to manage their exposure to risk. The study argues that the purchase of insurance by corporations is to hedge against risk and maximize shareholder value. Gonzales & Yun (2013) argue that the need to manage risk is the primary motivating factor for companies demanding insurance products and services. According to Terungwa, (2012) SMEs faces several forms of risk which require that they use insurance products to manage some of these risks. Douglas (2009) posits that the smartest way to

manage uncertainties in business operations in through the use of insurance product and services. SMEs have various assets in the form of property plant and equipment and other transactions that require insurance since efforts to replace are more demanding on the business. This means that property insurance is a necessity for SMEs as it is for bigger corporations (Terungwa, 2012). Generally, insurance for SMEs sector is low and van Boom (2008) argued that the legal framework for underwriting risk and the characteristics of SMEs generally do not support insurance theories. The paper suggested that current insurance products are not tailored towards the type of SMEs in most countries which account for the low patronage of insurance products and service by SMEs. Mubashiru & Musah (2014) in their study argued that SMEs in Ghana forms parts of the vulnerable sectors that needs support schemes like micro insurance to help mitigate some of the risk they are exposed to. The study found that majority of respondents agreed that insurance is the best form of risk coping strategy even though most of the SMEs surveyed in Tamale did not have any insurance product they have signed to. Falkner & Hiebl (2015) argued that their review of literature shows that most SMEs faces several more risks than any other business and as such need good insurance policies and products to help manage some of these risks. The study argued that the characteristics of most SMEs owners influence their risk management strategy especially through the use of insurance. The problem with insurance of SMEs is the fact that they do not have the same risk profile as that of corporations and also have unreliable cash flows. Akotey *et al.* (2011) had argued that insurance premiums in most cases are not flexible to individuals in the informal sector like most SMEs in Ghana and as such they are unable to take advantage of the several insurance opportunities available in the market. SMEs can begin to take up more insurance products as a means to hedging or mitigate against risks and natural disasters if the industry develop specific products that suit their needs. A lot of attention on insurance penetration globally has focused on household micro insurance policies as it has the potential to eradicate poverty and increase the welfare of people (Akotey *et al.* 2011, Akotey, 2015, Akotey *et al.* 2018, Fofie, 2016). SMEs themselves must also begin to see insurance as one of the best approaches to managing risk. The extent to which this can happen depends on the level of financial literacy of the SME owners, and their level of risk averse as insurance products are mostly patronized by people who are risk-averse (Stevens-Benefo, 2015; Bendig *et al.* 2011; Giesbert & Steiner, 2011; Giesbert *et al.* 2011; Yeboah & Obeng, 2016). From the point of view of corporations, SMEs are the vulnerable type of corporations which

mean that the system must help them take up insurance policies to mitigate their risk of operations. Previous studies have shown that most insurance companies do not like to deal with SMEs because of the high risk associated with their operations (Aruwa, 2004; Inang & Ukpong, 2002; Terungwa, 2012). It is this same high-risk profile that makes SMEs unattractive to credit in most countries including Ghana. Given the market potential of the SME sector for insurance companies in Ghana, it will make more business sense if they can develop specific products geared towards SMEs for most of the general insurance products like fire, burglary and theft, and other natural disasters. Park (2018) argued that some businesses especially large corporations take insurance against corporate litigation. This type of insurance protects the company from cost of litigation from list key stakeholders including even employees. Businesses are trying everything possible to reduce risk using every available tool so that they can focus on their core business of delivering goods and service to meet the expectations of their customers. The extent to which these types of risk mitigation measures and insurance products will apply to SMEs will depend largely on the characteristic of those SMEs (Rey, 2012). Even though the original concept of micro insurance was geared towards the needs of households, the overriding consideration is low income groups and vulnerable groups. It can be argued that SMEs have lower incomes compared to bigger corporations and are more vulnerable and less susceptible to shocks and unexpected eventualities. This means that they need insurance more for their sustenance and survival as compared to corporations. Perhaps the low demand for insurance products by SMEs is due to the fact that the regulatory regime as well as products on the market do not meet the specific needs of these SMEs (Rey, 2012). The design of special insurance products for SMEs in Ghana will be a welcome initiative as this will help deepen insurance penetration among the business sector.

Factors that influence SMEs demand for Insurance product/policy

This section presents a review of previous studies that have examined factors that influence demand for insurance products from across the globe. The essence of this section is to present an overview of studies in the area and establishing the research gap that this study intends to address. Some previous studies similar to the current study have been reviewed and presented below.

A lot of the studies in determinants for demand of insurance products are mainly on household micro insurance (Akotey *et al.* 2011; Boateng, 2016; Fofie, 2016). A number of studies both in developed and developing countries

have established that certain social and demographic factors, economic factors, cultural and religious factors as well as structural and institutional factors influence the demand for insurance products.

Amenyedor (2013) examined factors that determine tax drivers' demand for insurance products in Ghana. The study sample 200 taxi driver from a population 5,000 taxi driver union members through the administration of cross-sectional questionnaires. The study adopted a research model similar to that used by Akotey *et al.* (2011) and Giesbert (2008) and data analyzed using descriptive statistics and inferential statistics in the form of probit model. The results of the study revealed that income, price of related products and services, premium flexibility and expectation were positively associated with the demand for insurance products in Ghana. The study further revealed that prompt payments of claims, tailored products to the need of tax drivers, potential benefits in case of eventuality were also positively associated with taxi drivers demand for micro insurance in Ghana.

Fofie (2016) examined factors the influence customer's patronage of insurance products in Ghana. The scope of the study was limited to social and economic factors that influence demand for micro insurance in Ghana. The study sampled a total of 200 public and private sector workers of which 146 responded to the questions. The study adopted similar research model and framework to that of Akotey *et al.* (2011) using probit regression analysis. The results of the analysis revealed a significant relationship between majority of the social and economic variables examined in the study, for instance, the results showed that gender, education, age, marital status, employment status, and number of dependents were positively associated with demand for micro insurance in Ghana. However, the relationship between religion and demand for insurance products was statistically insignificant even though the relationship was negative.

Angko (2013) examined social protection and demand for private insurance in Ghana. The study specifically focused on private insurance companies and the type of products they offer as well as factors that influence demand for life insurance policy and its impact in their lives. The study was an exploratory study relying on questionnaire as the main instruments for data collection. The target respondents were customers of existing insurance companies which the study sampled 200 from 5 insurance companies in Ghana. The results of the study showed that the customers had reasonable knowledge of insurance products in Ghana. Customers were also satisfied with some aspects of their company's operations even though a significant number of them still had

issues. Finally, the results show that age of the customer, income level of the customer, level of risk appetite, medical history of the customer are the key determinants of life insurance products in Ghana.

Yeboah & Obeng (2016) examined the effect of financial literacy on the demand for micro insurance for market operators in Ghana. The study sampled 612 commercial market operators across six different market in Ghana ranging from the south to the northern part of the country. The study used the Heckman's two-step estimation technique to achieve the objective of the study. The results of the study showed that financial literacy of market operators influenced their willingness to demand insurance product in Ghana. The study further revealed that marital status, number of dependents, savings, trust, income levels and premium flexibility were significant determinants of the willingness to demand fir micro insurance products in Ghana.

Boateng (2016) examined the level insurance uptake among residents of Kumasi metropolis and the factors that influence their demand for insurance products. The study adopted a cross sectional survey sampling 400 respondents from different communities within the Kumasi Metropolitan Assembly. The result of the study revealed that 77% of the sampled population have subscribed to some form of micro insurance products. The predominant form of insurance being patronized was health insurance. The results also showed that most households surveyed had reasonable knowledge about various insurance products in Ghana. On the determinants of household demand for micro insurance product in Ghana, the study revealed that income levels. Premium flexibility, financial literacy, risk aversion, trust, quality, coverage and accessibility of service were significant determinants of micro insurance. These findings exclude determinants of demand for national health insurance.

Akotey *et al.* (2011) examined factors that influence informal workers demand for micro insurance products and service in Ghana. The study adopted a quantitative research design relying on questionnaire as the main instruments for data collection. A total of 100 respondents were sample for the study and analysis was done using probit regression. The results of the study showed that nodal agency, premium flexibility, knowledge of insurance, expectation of trust, and marital status had a positive and significant association with the level of demand for micro insurance products. The study also found that the level of formal education was not a significant determinant for the demand for micro insurance among informal sector workers in Ghana.

Rey (2012) examined determinant of business insurance take-up among SMEs in South Africa and the effect of business insurance on financial

performance of these SMEs. The study adopted the quantitative approach relying on probit regression model and ordinary least square regression model. The results of the study showed that race, life assurance, funeral, education level, level of business income, and the size of the business were significant determinants of the demand for insurance products. The study also found a positive relationship between the use of business insurance and performance of SMEs in South Africa.

Giesbert & Steiner (2011) conducted a qualitative study through focus group discussion on the perception of micro insurance among low income groups in Ghana. The results from the focus groups showed that there is positive perception about insurance in Ghana. On the other hand, the study revealed that many people perceptions about insurance products were based on incomplete information. Also, the opinion of their peers influenced their perception about insurance products in Ghana.

Abdullah (2012) examined factors that influence household demand for insurance products and services in Malaysia. The study relied on secondary data from reliable data base of the Malaysian Department of Statistics. The study used the multiple regression analysis to achieve the objectives of the study. The results of the study showed that education level, savings and religion were significant determinants of the demand for insurance products and services in Malaysia. Savings and religion negatively affect the demand for life insurance products.

Dror et al (2007) studied the demand for insurance products using information from a game bidding conducted on more than 300 family units in India. The results showed that the demand for insurance product was significantly associated with income level or financial status. Similarly, the level of family dependents was also a significant determinant of the demand for insurance. Similar studies by Gine *et al.* (2008) and Cole *et al.* (2013) in India revealed that the income levels were significant determinants of the demand for micro insurance. Also, the level of trust were also significant determinants for the demand for insurance products in India.

However, beyond all of the above studies, Eling *et al.* (2013) conducted an in-depth review of literature on factors that influence demand for micro insurance products and listed a number of factors that the studies reviewed used and found them to be significant determinants. Some of these factors include gender, age, quality of service, risk exposure, financial literacy, informal risk sharing, religious believes, peer effects and trust, risk aversion, non-performance risk, price and wealth. Not all these factors might apply to

SMEs as some if these factors are personal factors which might not apply to businesses. The factors to be considered as potential determinants for the demand of insurance products by SMEs in Ghana will be limited to the factors as adopted by Akotey *et al.* (2011) in their study on household's demand for micro insurance in Ghana. These factors include premium flexibility, the income level, knowledge of insurance or the level of financial literacy, expectations and age which is an additional variable included in this study etc. The definition of these variable however might differ a little bit from the business point of view as compared to individuals as used in Akotey *et al.* (2011).

Age of the firm and demand for insurance policy

The relationship between age and demand for insurance products and service in previous literature appears inconclusive (Eling *et al.* 2013; Boateng, 2016). A number of studies have found a positive association between the demand and purchase of insurance products and age (Cao & Zhang, 2011; Chen *et al.* 2013; Rey, 2012; Fofie, 2016). Other studies rather reported a negative association between age and demand for insurance products and service (Gine *et al.* 2008; Bendig & Arun, 2011) while other found no significant relationship between the two variables (Cole *et al.* 2013). Majority of the studies conducted on micro insurance in the Ghanaian context rather produced positive relationship between age and demand for insurance products whether life assurance or non-life assurance (Bendig *et al.* 2011; Giesbert *et al.* 2011; Giesbert, 2010). Fofie (2016) study on determinants of insurance patronage in Ghana reported a positive association between age and demand for insurance product. Among all the study, its only Rey (2012) whose study examined the effect if age and demand for insurance products by SMEs and reported a positive relationship. Following on the findings of these studies, it is expected that older SMEs will likely demand insurance products as compared to new firms. Older SMEs will have the needed structure and financial ability to afford insurance as a means to mitigate their operations against important business risk. Also, older SMEs will have the experience to understand risk and financial literacy use the right tools such as insurance products in this regard.

Premium Flexibility and Demand for Insurance

Akotey *et al.* (2011) argued that the flexibility of premium payment makes them affordable for vulnerable people to afford and hence demand more of insurance products. Flexible premium also means that the insurance products must be affordable to vulnerable group which include SMEs in this case

(Cole *et al.* 2013). Most SMEs do not have regular income like the bigger corporations and as such will like insurance premiums that are affordable and flexible payment of premiums (Akotey *et al.* 2011). Previous studies have suggested that premium payments should be structured for persons and entities with irregular income to be able to patronize these insurance products (Tenkorang, 2001; Sinha, 2002; Guha-Khasnobis & Ahuja, 2004; Akotey *et al.* 2011). In this same regard, Patt *et al.* (2010) argued that determinants of micro insurance studies should include this variable so that policy makers can know how important flexibility of premiums can influence the demand for insurance products. When premium payments are not aligned with business operations in terms of their cash flows, it will be difficult if not impossible for such businesses to patronize the insurance product in the first place. In effect, this study also supports the view that for SMEs in Ghana to subscribe to an insurance policy, the premium payments must be flexible in line with their business seasons and cash flows. Akotey *et al.* (2011) in their study found a positive and significant association between insurance premium flexibility and demand for micro insurance by household in Ghana. It is expected that there will be a positive association between premium flexibility and demand for insurance products.

The level of Income and Demand for Insurance Products

The levels of income determine their affordability which can influence demand for insurance products (Fofie, 2016). Akotey *et al.* (2011) supported this view and argued that the level of income determines the capacity of the person to afford an insurance product. In the context of SMEs, the level of income will be determined by the turnover or revenue base of the business. Matul (2005) argued that the level of income does not only affect affordability as effective management of financial resources impacts access to micro insurance. Previous studies have found a positive association between income of household and their demand for insurance products (Akotey *et al.* 2011; Fofie, 2016; Boateng, 2016). From the business point of view, Rey (2012) found a positive association between income levels of SMEs and demand for insurance products in South Africa. The sales turnover can also be a measure of size as large business will have higher turnover and vice versa. On the basis of the above arguments and findings from previous studies, it is anticipated that SMEs with high turnover can afford insurance products and as such are likely to subscribe to one as compared to SMEs with lower sales turnover. The income the business generates from its operations defines their affordability.

Nodal Agency and demand for insurance products

Guha-Khasnobis & Ahuja (2004) posits that nodal agency play a significant role in the provision of affordable micro insurance products to address the pressing needs of low-income people. A nodal agency could be any type of organizations, a women group, a civil society organization, informal economy trade unions, small entrepreneur's association or industry associations etc (Akotey *et al.* 2011). These organizations are usually aware of the specific need of their members and as such work to help them address or meet those needs. For instance, SMEs who belong to specific organizations can be encourage by their union to take up certain type of insurance products to mitigate special risk that affects their operations. Nodal agencies could provide specific roles such as premium collection, product design, control of adverse selection as well as distribution (Guha-Khasnobis & Ahuja, 2004). The analysis above shows that SMEs that belong to a nodal agency is more likely to demand insurance product. It is anticipated that SMEs who belong to these groups will demand insurance products in Ghana

Expectations and demand for Insurance Products

Expectations in this context encompasses trust, prompt payment of insurance claims as well as the potential benefits that will accrue to the person or business in this case (Akotey *et al.* 2011). Trust is very important when it comes to demand for insurance products and services (Patt *et al.*, 2009; Patt *et al.* 2010; Dercon, 2008; Basaza *et al.* 2008; Boateng, 2016). Insurance companies must always work towards meeting the expectations of their clients in order to win their trust (Akotey *et al.* 2011). When people trust the insurance company will honour their obligations in case of eventuality, they will likely demand insurance products. Sometimes, this trust issues are influenced by speculations but can still affect demand for insurance products and services. Previous studies have found positive association between expectations or trust and demand for insurance products (Akotey *et al.* 2011; Rey, 2012; Cole *et al.* 2013; Amenyedor, 2013). In line with the findings of previous studies, it can be deduced that SMEs will demand more insurance products if they trust the insurance companies and their expectations met as well. The study there anticipate a positive association between trust/ expectations and demand for insurance product by SMEs in Ghana.

Knowledge of Insurance Products and demand for insurance products

This variable is seen as one of the principal determinants of demand for insurance products even though some studies prefer to call it the level of

financial literacy. Akotey *et al.* (2011) posits that low-income people think that they do not need insurance which attribute to lack of knowledge or financial literacy. They further argue that their experiences with micro insurance shows that many people don't even understand the concept of insurance. People see insurance as something for the rich or something that is not necessary or its too costly and unfair (McCord, 2008; Matul, 2005; Herrera & Miranda, 2004; Akotey *et al.* 2011). Previous studies have reported a positive relationship between financial literacy or knowledge of insurance and demand for micro insurance (Akotey *et al.* 2011; Cole *et al.* 2013; Cai & Song, 2011; Norton *et al.* 2011; Rey, 2012). On the basis of the above findings, it can be deduced that SME owners with knowledge of insurance or have financial literacy will more likely demand insurance products than those who do not.

3. RESEARCH METHODOLOGY

This study adopts the quantitative approach in line with previous studies in the area (Akotey *et al.* 2011; Fofie, 2016; Boateng, 2016). The quantitative research design allowed the researcher to examine how the potential determinants of the demand for insurance as discussed in the literature review apply to SMEs in Ghana based on the data collected from SMEs through the questionnaires. The population of the study includes all SMEs operating in Accra. There is no reliable estimate of the population of SMEs in Accra. One of the reasons for this problem is the difficulty in defining what constitute and SMEs since various institutions and government agencies have their own definition of what constitute an SME. In terms of sampling technique, the study adopted purposive sampling technique. Purposive sampling technique allows the researcher to choose respondents who fits the objectives of the study by way of meeting the criteria set for respondents for data collection purposes. Even though there are numerous definitions of SMEs in Ghana, this study defines SMEs as any well-structured functioning business which is not listed on the Ghana Stock Exchange and not in the process of being listed and have a staff between 5 to 10 and more. All other companies that fit the above definition is automatically part of the sample frame for this study. The sample size of 500 is reasonable as some previous studies have used sample size of 100 or less for their studies (Akotey *et al.* 2011; Mubashiru & Musah, 2014). However, the study was only able to retrieve 384 questionnaires accounting for 76.8% of the target sample. The study relied on structured questionnaire as the main research instrument for data collection. The questionnaire has both open-ended questions and closed-ended questions. The closed-ended

questions provided possible response options to respondents to choose from. In some cases, respondents were asked to rank their view on factors identified in literature and how it applied to their business in terms of their demand for insurance product or their willingness to demand for insurance product as a business. The questionnaire was administered personally by the researcher.

Probit regression model involves a regression model that has the dependent variable as a dummy variable (Akotey *et al.* (2011). The study seeks to examine factors that determine demand for insurance products by SMEs and the dependent variable (y) is measured by finding out whether the SMEs in questions will buy an insurance policy or not. This is to say that the study is measure ability and not desire (Akotey *et al.* 2011). To measure this variable (Demand for insurance), the dummy variable to be used include;

1 if the firm will demand insurance product

0 otherwise

The empirical regression model is therefore presented below;

$$\text{DEMAND}_{\text{INS}} = b_0 + b_1 \text{PREM} + b_2 \text{NODAL} + b_3 \text{INSKNW} + b_4 \text{EXPEC} \\ + \beta_5 \text{GENDER} + \beta_6 \text{SALES} + \beta_7 \text{EDUC} + \beta_8 \text{SIZE} + \beta_9 \text{AGE} + \varepsilon$$

Where;

β_1 to β_6 are the coefficient of the respective factors that influence demand for insurance product by SMEs.

Table 3.1
Research variable and their measurements

<i>Variable</i>	<i>Meaning</i>	<i>Measurement</i>
DEMAND _{INS}	Demand for insurance	Dummy, 1 if firms has insurance policy, 0 otherwise
INCOME	Turnover of the firm	Natural logarithm of firm turnover
PREM	Premium flexibility	How flexible insurance premiums are to SMEs
INSKNW	Knowledge of insurance	Firms CEO level of knowledge of insurance
NODAL	NODAL	Use of intermediary or industry association who facilitates insurance transaction
EXPECT	Expectations	SMEs perception and trust in insurance products
SALES	Income of Business	Average monthly sales of SME
EDU	Education of Owners	Measured on a scale of 1 to 5 where 1 represent basic education, 2 secondary education, 3 diploma/HND, 4 First Degree and 5 Post-Graduate
SIZE	Firm Size	Number of Employees
AGE	Age of the firm	Age of the business

4. ANALYSIS AND DISCUSSION OF FINDINGS

The first objective of the study examined the level of insurance awareness among SMEs in Ghana. To achieve this objective, the study asked respondents to rate their level of awareness or knowledge of certain basic information about insurance products in Ghana. The rating ranged from 1 to 5 with 1 being strongly disagree and 5 strongly agree. The result of the analysis on SMEs level of awareness of insurance is presented in table 4.1 below

Table 4.1
Awareness of Insurance Product

<i>Awareness of Insurance</i>	<i>Mean</i>	<i>Std. Dev</i>
Insurance schemes are free	1.043	0.012
Insurance subscribers are required to pay premium	4.542	0.124
There is the need to pay regular premium	4.708	0.243
Our business doesn't need insurance because we don't face disasters	2.375	0.156
Insurance can be used to mitigate business risks	2.625	0.172
It is compulsory to insure all public building in Ghana	4.250	0.195
I have reasonable knowledge of insurance products that apply to my business	2.917	0.185

Source: Field Data, 2019

The first statement on SMEs awareness show a score of 1.043 suggesting that respondents disagreed with the statement which is the correct response. The second question mean score of 4.5 suggest that SMEs owners know the basics of insurance or how insurance products works. Respondents further agreed on the need to pay regular premium which is an important feature of every insurance product. On the other hand, majority of respondents felt their business did not need any form of insurance as they did not face significant risk which had a mean score of 2.38. This response is contrary to the assertion earlier that SMEs owners and managers have good awareness of insurance products. This also translated into the responses on the fact that insurance can be used to mitigate risk in businesses which also showed a mean score of 2.6. SMEs manager's inability to understand that insurance can be used to manage risk means that they will hardly be motivated to subscribe to insurance products.

On the other hand, respondents agree that it is compulsory to insure all public building in Ghana even though they earlier indicated that they felt their business did not need insurance. This response suggest that SMEs do not see their business premises as public building and as such did not have to comply with the law. The response of SMEs owners and managers view of

their knowledge of insurance products that apply to their business sums up their level of awareness. This mean score of 2.9 for this statement suggest that many SMEs owners do not know insurance products that are applicable to their business or industry. It can be deduced from the findings that respondents had general knowledge or awareness of insurance but does not know how it can be applied to their business. This suggest that insurance awareness among SMEs in Ghana is low which have effect on their patronage. A number of studies on micro-insurance in Ghana have also reported low level of insurance awareness the Ghanaian populace (Stevens-Benefo, 2015; Fofie, 2016; Ackah & Owusu, 2012; Akotey *et al.* 2011).

The second objective focused on the level of insurance uptake among SMEs in Ghana. The focus is to examine how many SMEs demand for insurance products and the types of insurance products these SMEs demand. The first question asked respondents to indicate whether their company has subscribed to any insurance product. The results in the figure suggest that 72% of the respondents have insurance products whiles the rest do not have. The results show a higher level of insurance uptake among SMEs in Ghana compared to household micro-insurance. For instance, Fofie (2016) found that 62% of respondent sampled for his study have not subscribed to any form of insurance excluding national health insurance.

The study further examined the type of insurance products that these SMEs have subscribed to in their responses to the first question above. The results of analysis are presented in figure 4.5 below.

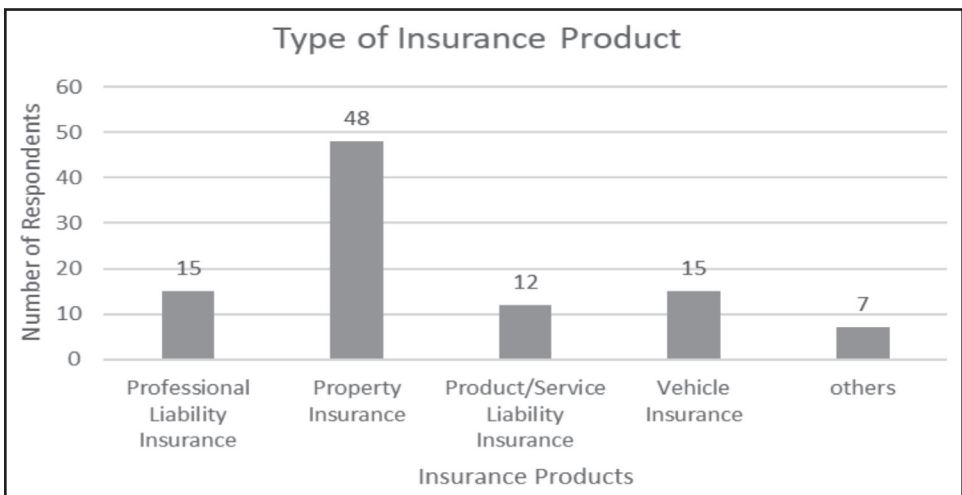


Figure 4.5: Type of Insurance products SMEs subscribe

The results suggest that property insurance was the most subscribed insurance products by SMEs in Ghana. This was followed by vehicle insurance and professional liability insurance. The results seem to suggest that demand for insurance by SMEs in Ghana is driven by legal requirement and not necessarily because they want to mitigate risk.

The study further analyzed the reasons behind SMEs subscribing to these insurance products. The results to this question are presented in Figure 4.6 below.

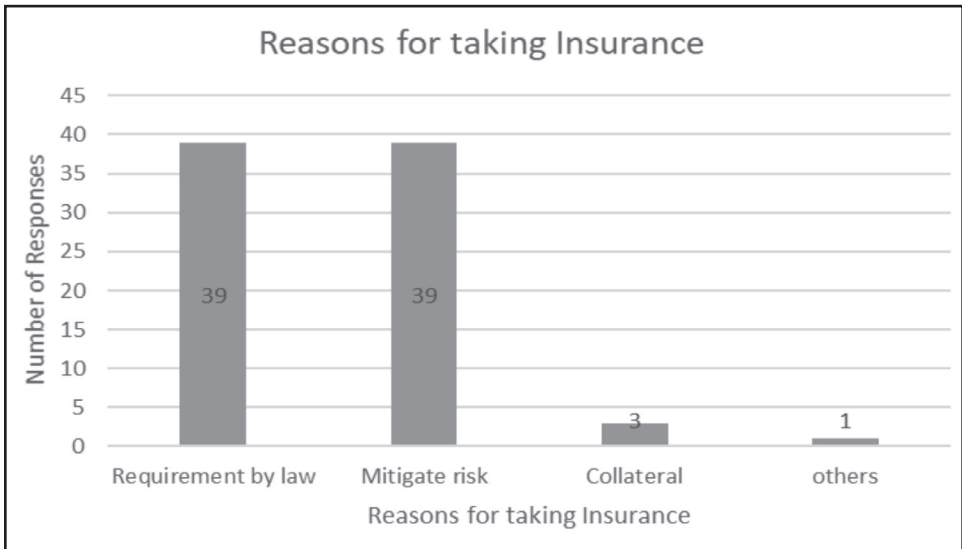


Figure 4.6: Reasons for SMEs taking insurance products

The results from Figure 4.6 show that legal requirement and to manage risk are the two main reasons why SMEs take insurance in Ghana. The result is in line with assertion of Fofie (2016) and other studies who argue that insurance is a risk mitigating mechanism for both businesses and households. Other reasons for SMEs subscribing insurance products in Ghana also include collateral.

Factors That Influence Demand for SMES In Ghana

The third and main objective of the study examined the factors that influence SMEs demand for insurance products in Ghana. The study first presented descriptive statistics of the variables used to run the probit regression before undertaking the regression analysis. The results of the descriptive analysis are presented in table 4.2 below

Table 4.2
Descriptive Statistics of Variables

<i>Variable</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>
Demand(ins)	0.72	0.45	0.00	1.00
PREM	3.48	0.70	1.00	5.00
NODAL	3.95	1.05	1.00	5.00
INSKNW	3.74	0.73	1.00	5.00
EXPEC	4.07	1.03	1.00	5.00
GENDER	0.64	0.48	0.00	1.00
SALES	1587292.16	8.46	208.33	74037030.25
EDUC	3.49	1.18	1.00	5.00
RISK	0.13	0.34	0.00	1.00
SIZE (No. of Employees)	9.20	13.76	2.00	75.00
AGE (of Business)	10.26	6.03	1.00	27.00

Source: Field Data, 2019

The results of the descriptive analysis show that 72% of SMEs surveyed have subscribed to some form of insurance policy. The result is similar to the findings of Akotey *et al.* (2011) who reported demand for micro insurance by household in Ghana to be 71%. The means for PREM, INSKWN EXPEC showed a mean of 3.48, 3.95 and 4.07 out of a maximum score of 5 suggesting that respondents agree these variables affect the demand for Insurance by SMEs in Ghana. The results are similar to the findings of Akotey *et al.* (2011) who reported 3.98, 4.01 and 3.81 for PREM, NODAL and INSKWN respectively.

The mean value for gender is 0.64 suggesting majority of respondents sampled were male. The mean monthly sales revenue for sampled SME is over 1million Ghana cedis even though the lowest was just a little over 200 Ghana cedis.

The mean score for education is 3.49 which suggest that on average SME owners or CEOs had a diploma and HND qualification. This shows a higher level of education as compared to findings of Akotey *et al.* (2011) where the mean revealed that basis education was the average. This means these SME owners have tertiary education which will enable them take good business decision including managing risk through insurance.

The study also used RISK to examine the occurrence of any form of risk or disaster to an SMEs in the last 6 months to 1 year. The results show that only 13% of SMEs surveyed had any form of risk in the last 6 to 1 year.

The average number of employees for SMEs surveyed was 9.2 which fall within the definition of SMEs as any business not listed on the Ghana Stock

Exchange that have between 5 to 10 employees. However, the minimum score of 2 suggest that some SMEs sampled did not have up to 5 employees.

Finally, the study also examined the age of the business or how long the business has been operating. The mean score for this variable from table 4.2 is 10.26 suggesting that on average most SMEs surveyed had operated for 10 years. The minimum years of operation is 1 year while the maximum was 27 years.

Probit Regression Analysis

The study used probit regression analysis to examine the factors that influence demand for insurance products by SMEs in Ghana. The use of probit regression was in line with the study by Akotey et al (2011) and also because the dependent variable (Demand for Insurance) was a dummy variable. The results of the regression analysis are presented in table 4.3 below.

Table 4.3
Probit Regression Results

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Err</i>	<i>Z</i>	<i>P>Z</i>
PREM	2.37	0.465	5.09	0.000***
NODAL	1.815	0.364	4.98	0.000***
INSKNW	2.947	0.558	5.27	0.000***
EXPEC	1.313	0.761	1.73	0.085*
GENDER	-0.0443	0.52	-0.09	0.932
SALES	0.00108	0.0005	2.1	0.036**
EDUC	0.898	0.276	3.26	0.001***
SIZE (No. of Employees)	-0.4616	0.4668	-0.99	0.323
AGE (of Business)	0.0154	0.0405	0.38	0.704
CONS	-3.089	1.178	-2.62	0.009
LR Chi2 (4)	84.33			
Prob>Chi2	0			
Pseudo R-squared	0.839			

The regression result showed a positive association between PREM and demand for insurance products and the relationship was also statistically significant at 1% significance level. The result suggest that premium flexibility is positively associated with demand for insurance product by SMEs. The result is consistent with the findings of Akotey *et al.* (2011) where they also reported a positive association between premium flexibility and demand for insurance products by workers in the informal sector in Ghana. The result confirms the importance that business owners place on the flexibility of insurance premium

in deciding on taking up insurance policy. Premium flexibility in this context implies that the insurance companies structure their premium to meet the unique cash flows and operations of the companies. The results show that the extent of flexibility increases the demand for insurance products by SMEs in Ghana.

The study also revealed NODAL agency is positively associated with demand for insurance by SMEs and the results is statistically significant at 1% significance level. The result show that nodal associations like professional industrial association as well as industry union influence demand for insurance. These groups who have similar interest can influence their members to buy insurance products by SMEs. These organizations are usually aware of the specific need of their members and as such work to help them address or meet those needs. For instance, SMEs who belong to specific organizations can be encourage by their union to take up certain type of insurance products to mitigate special risk that affects their operations. The result is consistent with the findings of Akotey *et al.* (2011) where it reported that there is a positive association between nodal agencies and demand for insurance by informal sector workers in Ghana. The study further argued that nodal agencies can help reduce transaction costs and improve the relationship between insurance companies and certain industries in the SME sector.

Furthermore, the regression results also revealed a positive and statistically significant relationship between knowledge of insurance and demand for insurance products. Knowledge of insurance means that SME owners know the role of insurance in their business in terms of managing risk and helping to secure their assets. The results show that knowledge of insurance is a significant determinant of the demand of insurance and increase the demand for insurance by SMEs. On the basis of the above findings, it can be deduced that SME owners with knowledge of insurance or have financial literacy will more likely demand insurance products than those who do not. The result is consistent with the findings of several studies who have also reported a positive relationship between knowledge of insurance and demand for insurance (Akotey *et al.* 2011; Cole *et al.* 2013; Cai & Song, 2011; Norton *et al.* 2011; Rey, 2012). The results call for more education on insurance for business and how these businesses can use insurance to mitigate certain business risk and safeguard their assets.

In addition to the above, the study used monthly sales of SMEs to measure income of SMEs and how that affect demand for insurance. The results showed a positive relationship between sales or income and demand

for insurance by SMEs. Sales or income define the level of affordability which have been found to be a significant determinant of demand for insurance. The result is consistent with the findings of several similar studies in Ghana on determinants of demand for micro-insurance (Akotey *et al.* 2011; Fofie, 2016; Boateng, 2016). The result is also consistent with the findings of Rey (2012) who reported a positive association between demand for insurance products by SMEs in South Africa and income levels of SMEs. The result confirms the arguments that SMEs with high turnover can afford insurance products and as such are likely to subscribe to one as compared to SMEs with lower sales turnover.

Finally, the regression result showed that the level of education of the owner is positively associated with demand for insurance by SME in Ghana. The result was also statistically significant at 1% significance level. The result suggests that owners of SMEs or their CEOs who are well educated understand the benefit of insurance and as such will like to use insurance to protect their business assets. The result is consistent with the findings of Fofie (2016) who reported a positive and significant association between household demand for insurance in Ghana and the level of education. The result is however contrary to the findings of Akotey *et al.* (2011) who found a negative but statistically insignificant association between demand for insurance and level of education.

5. CONCLUSION AND RECOMMENDATIONS

The study examined the level of insurance uptake among SMEs in Ghana, SMEs knowledge or awareness of insurance and how it applies to their business and finally factors that influence demand for insurance by SMEs in Ghana. Using a sample of 384 SMEs sampled from Accra across over 5 industries, the result of the study suggests a higher level of insurance uptake as compared to previous studies in Ghana. The results revealed that 72% of the respondents have taken up some insurance. On the level of awareness of insurance, the result showed that respondents generally know about insurance but did not know how it can be used to mitigate risk and secure their assets. The result further showed that some SMEs subscribe to insurance for certain assets because it is required by law and not because they necessarily want to manage risk. On the factors that influence demand for insurance in Ghana, the result showed that flexibility of insurance premium, belong to or the use of nodal agents, knowledge of insurance and expectations of business owners were positively associated with demand for insurance by SMEs in Ghana. The study further revealed that the sales level of SMEs or their income level and the

level of education of the owner or CEO were also positively associated with demand for insurance product and statistically significant. Other variable such as gender, number of employees and age of the business were not significant determinants of SMEs demand for insurance in Ghana.

On the basis of the findings above, the study recommends that;

Players in the insurance industry must take the factors that influence demand for insurance to ensure that SMEs can subscribe to insurance as a means to manage risk and protect their assets in case of disaster. For instance, education of SMEs will help improve their demand for insurance as evidence in the findings and as such industry payers must intensify education using mostly the associations that the companies belong as nodal is also a significant determinants of demand for insurance by SMEs. In this same regard the study further recommends continuous education especially for SMEs using their association to help them understand the benefits of insurance and how it can help secure their assets in case of natural disaster. The study further recommend that insurance companies make premiums as flexible as possible in line with industry business trend to ensure that SMEs are able to afford the premiums. The flexibility of premium in line with business cash flow will improve demand for insurance by SMEs. The use of nodal agents is a significant determinants of insurance demand by SMEs and as such policy market and insurance practitioners should encourage the use of such association to reach out to SMEs as that will be an effective way to get them to subscribe to insurance policies. Also, insurance companies must work to improve their image especially with regards to expectations of the insured to ensure that they correct the erroneous impression about insurance companies not trying to honor their obligations in cases of disaster.

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