



# **INSURANCE REGULATORY AUTHORITY**

## **RISKS AND MITIGATION STRATEGIES BY MICRO AND SMALL ENTERPRISES IN KENYA: A CASE OF MERU COUNTY**

**VICTOR MOSE, PILLY OSIEMO AND ROBERT KULOBA**

**Policy Research and Development Division**

**Insurance Regulatory Authority**

**P.O. Box 43505-00100**

**Nairobi**

**July 2013**

## **DISCLAIMER**

The Authority wishes to state that while best standards of data collection, analysis and reporting have been observed and given the fact that the content of this report is expected to inform the insurance industry stakeholders in Kenya and other stakeholders, responsibility of any consequences resulting from any action based on any content of the report cannot be appended to the IRA. Therefore, the Authority advises stakeholders to verify the research findings and recommendations before taking any action; otherwise the IRA will not accept any responsibility for any consequences suffered due to such actions as may be informed by the content of this report.

## **EXECUTIVE SUMMARY**

The role the Micro and Small Enterprises (MSEs) play in an economy is varied and touches on creation of employment, contributing to the Gross Domestic Product, enhancing the supply chain of products and having the potential for innovations among other contributions. It is understood that the MSEs are exposed to various risks from both the external and internal business environment. It is the expectations of good entrepreneurship that the entrepreneurs take stock of the risks their respective businesses are exposed to so as to put in place both preventive and control measures. Against this understanding the Authority carried out a survey to establish the risks and mitigation status in the County of Meru. A total of 223 MSEs were sampled across the County.

Among the key findings the survey established is the fact that these 223 MSEs have employed 903 people and that the business potential is promising based on the forecast that volume of sales, number of branches, scale of operation, asset base and employees are all expected to increase. However, the businesses face a number of challenges top of which include; cost of business, competition, insecurity, low market in some sectors, electricity and capitalization remain as key challenges to the businesses. The following risks emerged as key risks that the MSEs face; theft & burglary, fire, cost of business, competition, drought and insecurity. The enterprises depend on use of business savings, use of savings from other businesses, borrowing money from informal financial institutions, help from friends and family as the main ways of overcoming the risks once incurred. The use of insurance is minimal. The policies most of the respondents are aware of include medical, motor, fire domestic, theft/burglary, personal accident and education. There is potential for the uptake of insurance policies on theft/burglary, motor private, medical, fire, motor, personal accident and education. Top challenges to access to insurance include high premiums, limited reach to branches of insurance companies, poor claims settlement and low awareness. Television and radio rank high as the sources of information about insurance. However, there are gaps in the information received. There is need to improve on clarity of information, expounding on how insurance operates, indicating

premium rates applicable, providing a claims settlement status of the companies and educating the public on benefits of insurance.

In order to improve the risks mitigation by MSEs, it is recommended that awareness is created on risk management by enterprises; including insurance. There is need for insurance companies to carry out a robust marketing of available insurance products and services for MSEs across sectors. Insurance companies should increase their accessibility to their services. The authority should also enhance its services to this to MSEs.

## Table of Contents

DISCLAIMER.....	ii
EXECUTIVE SUMMARY .....	iii
List of Figures .....	vii
ACKNOWLEDGEMENT.....	viii
1. BACKGROUND .....	1
2. OBJECTIVES OF THE STUDY.....	1
3. METHODOLOGY.....	2
4. ANALYSIS AND FINDINGS .....	3
4.1. Respondents' Profile .....	3
4.1.1. Gender, Age, Education and District Representation .....	3
4.1.2. Period of Stay in Meru County.....	4
4.1.3. Respondent Relationship with Business .....	4
4.2. Enterprises' Profile .....	5
4.2.1. Period the Business has been in Existence .....	5
4.2.2. Line of Specialization of the Enterprise.....	5
4.2.3. Employment Potential by MSEs.....	6
4.2.4. Ownership of Business .....	7
4.2.5. Average Income per Month .....	7
4.2.6. Asset Value of Enterprises.....	8
4.3. Business Environment in Meru County.....	8
4.3.1. Potential of Business in Meru County.....	8
4.3.2. Key Challenges Businesses face in Meru County.....	9
4.4. Risks and Mitigation Strategies .....	10
4.4.1. Key Risks Businesses Face in Meru County .....	10
4.4.2. Risk Exposure .....	11
4.4.3. Likelihood of Risk Occurring .....	12
4.4.4. Impact of the Risks if they Occur.....	12

4.4.5.	Risk Ever Occurred .....	13
4.4.6.	Overcoming Risks.....	14
4.4.7.	Risk Prevention and Mitigation Measures in Place.....	14
4.4.8.	Use of Insurance as a Risk mitigation Strategy.....	15
4.4.8.1.	Awareness and Sources of Information about Insurance .....	15
4.4.8.2.	Usefulness of Insurance Information to Decisions Making.....	15
4.4.8.3.	Awareness of Insurance Policies .....	16
4.4.8.4.	Policies Held by Respondents .....	17
4.4.8.5.	Insurance Policies to have in Future .....	18
4.4.8.6.	Challenges Faced while Accessing Insurance .....	19
4.4.8.7.	Interventions to Overcoming Insurance Access Challenges.....	20
4.5.	Businesses Future Prospects.....	20
4.6.	Rating of Insurance Services.....	21
4.7.	What Governments should Consider for Business and Insurance Growth .....	22
5.	CONCLUSION.....	23
6.	KEY RECOMMENDATIONS.....	23

## List of Figures

Figure 1: Characteristics of Respondents .....	4
Figure 2: Period Respondent has stayed in Meru County .....	4
Figure 3: Respondent Relationship with the business .....	5
Figure 4: Duration in which the Business has been in Existence .....	5
Figure 5: Line of Specialization of the Business.....	6
Figure 6: Employment Capacity by MSEs.....	6
Figure 7: Ownership Status of the Enterprises.....	7
Figure 8: Average Income Received by the Enterprises per Month .....	7
Figure 9: Asset Value of MSEs.....	8
Figure 10: Business Environment in Meru County.....	9
Figure 11: Challenges Businesses face in Meru.....	10
Figure 12: Risks Businesses Face in Meru .....	11
Figure 13: Risk Exposure Assessment.....	11
Figure 14: Likelihood the Risk will Occur .....	12
Figure 15: Impact of Risks to Business in case they occur .....	13
Figure 16: Risks Occurrence Status .....	13
Figure 17: Ways of Overcoming the Risks.....	14
Figure 18: Risk Mitigation Measures .....	15
Figure 19: Source of Information on Insurance .....	15
Figure 20: Information Gaps on Insurance .....	16
Figure 21: Awareness on Insurance Products across Insurance Classes.....	17
Figure 22: Insurance Policies Held .....	18
Figure 23: Policies to have in Future .....	19
Figure 24: Challenges to Access to Insurance.....	19
Figure 25: How Access to Insurance Challenges can be overcome .....	20
Figure 26: Future of Business in Meru.....	21
Figure 27: Rating of Insurance Services and Conduct .....	22
Figure 28: Government Considerations for Business and Insurance growth.....	23

## **ACKNOWLEDGEMENT**

The research team would like to thank the respondents, research assistants and peer reviewers for participating in the survey.



## **1. BACKGROUND**

The Micro and Small Enterprises (MSEs) sector plays significant role in the Kenyan Economy. It creates employment, contributes to the Gross Domestic Product, enhances the supply chain of products and has the potential for innovations. According to the Kenya Economic Survey (2012), in 2011 the informal sector constituted 80.8% of total employment and created an additional 445,000 jobs.

Given the importance the MSEs play in the economy, they are key entry point to enhancing financial access and inclusion. As identified in the Kenya Vision 2030 efforts should be put in place to improve the financial services that would improve access by informal businesses, MSEs, youth and women groups and different categories of entrepreneurs.

For significant growth to be realized nationally and in the insurance sector, there is need for an enabling environment to be created in terms of changing behavior of economic agents such as MSE's to in a more productive way contribute to prevention of risk occurrence, improved outcomes and efficiency gains in their operations. It is on this basis that this survey was designed to assess the extent to which the MSE's to mitigate risks to enhance productivity. This will enable the Authority gain insights that will guide the development of strategies to address the risk management needs of MSE's and help enhance insurance uptake.

## **2. OBJECTIVES OF THE STUDY**

The main objective of the survey was to assess risks the MSEs face and the measures put in place to mitigate on the identified risks. The specific objects were:

1. To document the risks that MSEs are exposed to
2. To assess how the MSEs mitigate on the risks they face
3. To determine level of awareness of insurance within the MSE segment
4. To find any challenges the MSEs face in accessing insurance
5. Make recommendations based on findings in objectives 1 to 4.

### **3. METHODOLOGY**

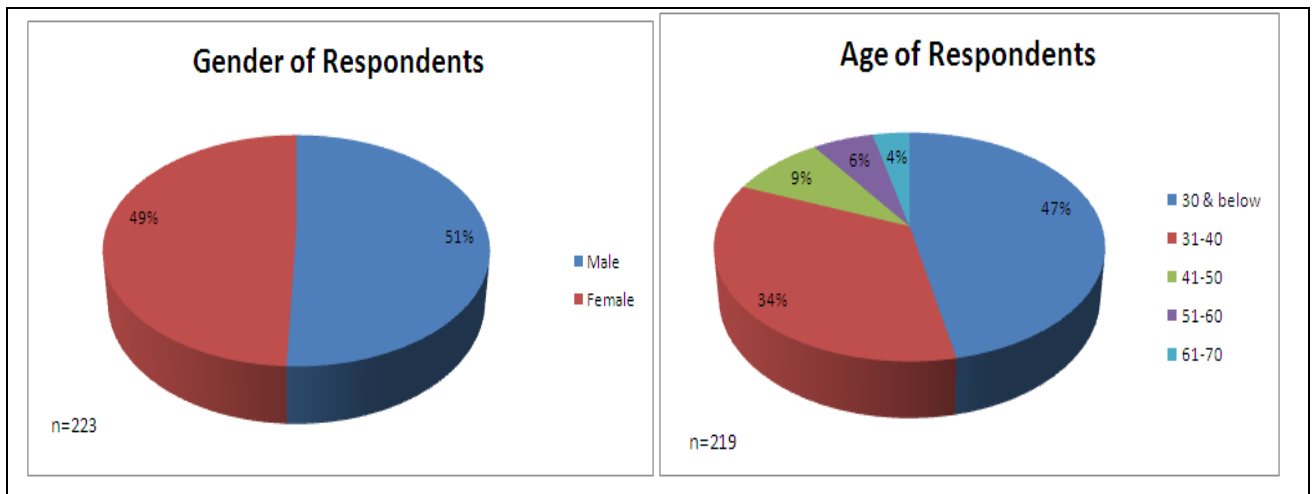
In order address the objectives of the study a quantitative research design was adopted. A structured questionnaire was prepared and administered face to face. A total of 223 MSEs were sampled. Statistics on the population of MSEs in Meru county is not known but given the resources available a sample of 200 was targeted. Purposive sampling was adopted targeting enterprises that seemed to have high capital base within a given town. Data collection was done for 5 days with 4 research assistants and two supervisors. Descriptive analysis was done and its findings are herein reported. This was more of an 'exploratory research' to inform a countrywide survey in future so as to have an inclusive picture on the risks and mitigation measures by MSEs in Kenya.

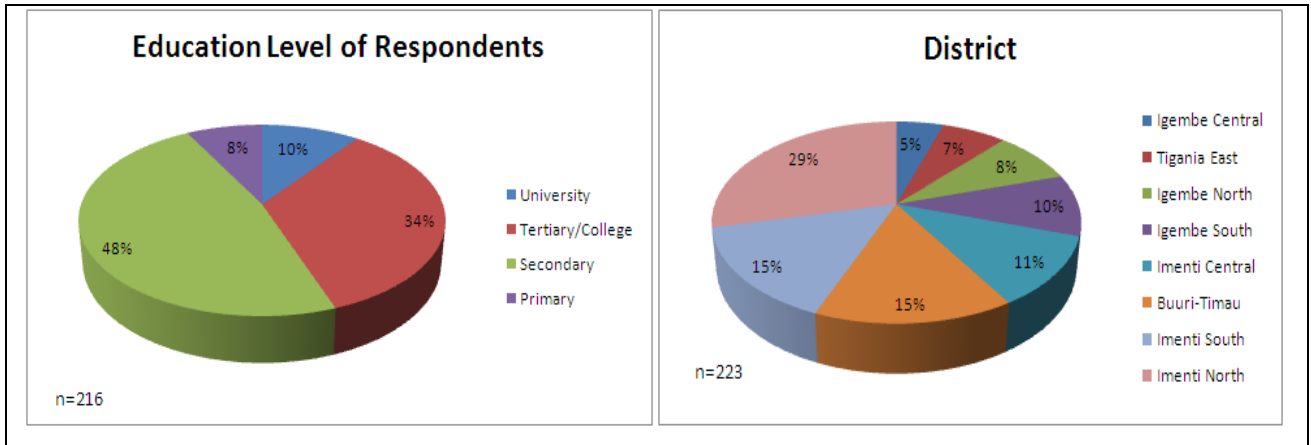
## 4. ANALYSIS AND FINDINGS

### 4.1. Respondents' Profile

#### 4.1.1. Gender, Age, Education and District Representation

The male respondents were 51% and female 49%. As regards to age a large percentage (47%) of the sample was of 30 years of age and below. This age set together with those between the age 31-40 make 81%. This implies that the middle aged class of the society is the most active class in MSEs. The education levels of the respondents indicated that a majority of persons running the business on a day to day basis, 92% have accessed secondary education and above. Those with university education are 10% while those with tertiary education and primary education as their highest level of education are 34% and 8% respectively. The district representation by the enterprises across the County included; 5% of Igembe Central, 7% of Tigania East, 8% of Igembe North, 10% of Igembe South, 11% of Imenti Central, 15% of Buuri district, 15% of Imenti South and 29% of Imenti North. See more details in figure 1.

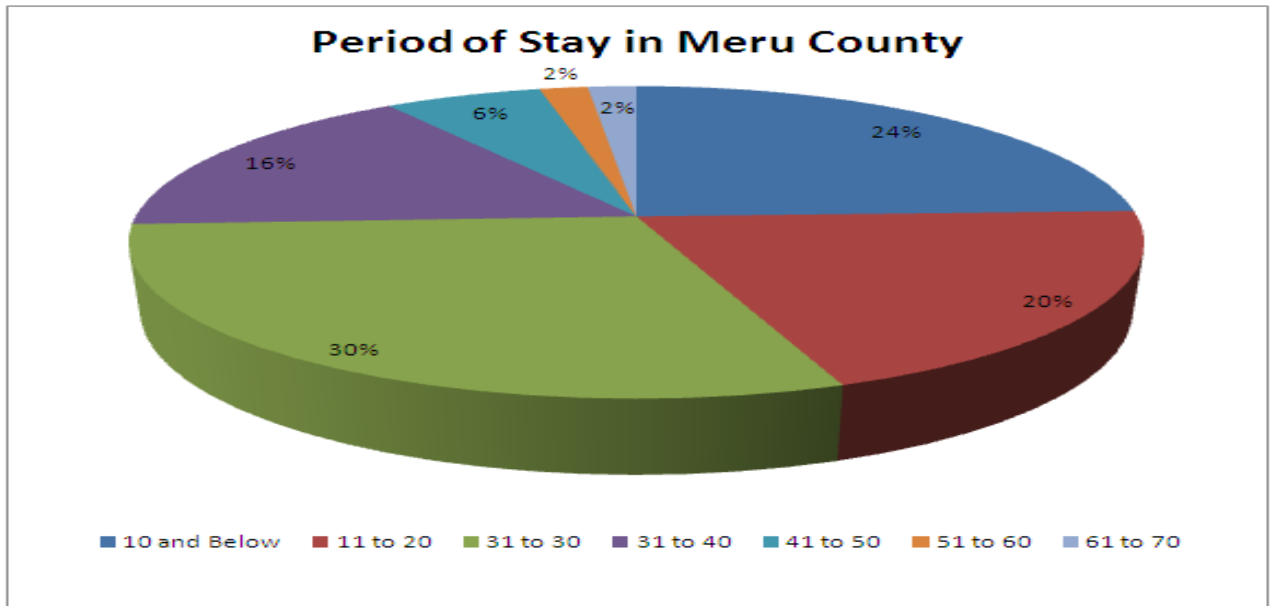




**Figure 1: Characteristics of Respondents**

#### 4.1.2. Period of Stay in Meru County

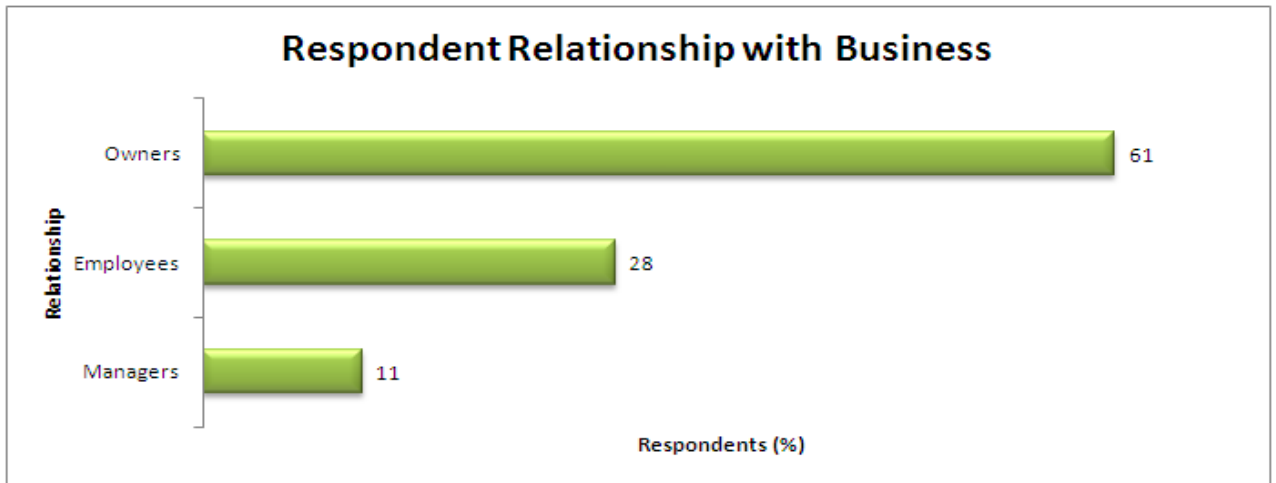
As shown in figure 2 over 56% of the respondents have stayed in Meru County for more than 30 years. Around 24% of the respondents doing business have stayed in Meru County for less than 20 years.



**Figure 2: Period Respondent has stayed in Meru County**

#### 4.1.3. Respondent Relationship with Business

As indicated in figure 3, a large percentage, 61% of the respondents are owners of the businesses. The rest 28% were employees and 11% were Managers.

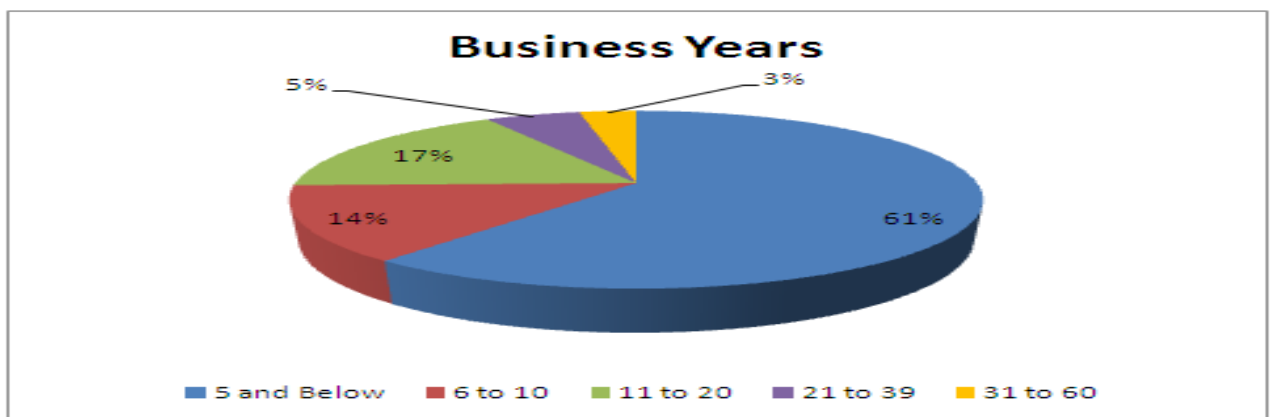


**Figure 3: Respondent Relationship with the business**

## 4.2. Enterprises' Profile

### 4.2.1. Period the Business has been in Existence

On average, 61% of the enterprises have been in existence for a period not exceeding 5 years. The rest 14% have done business for period between 6-10 years. The businesses that have been in existence for 11-20 years, 21-30 years and for over 30 y3qrs makes 17%, 5% and 3% respectively as shown in figure 4.

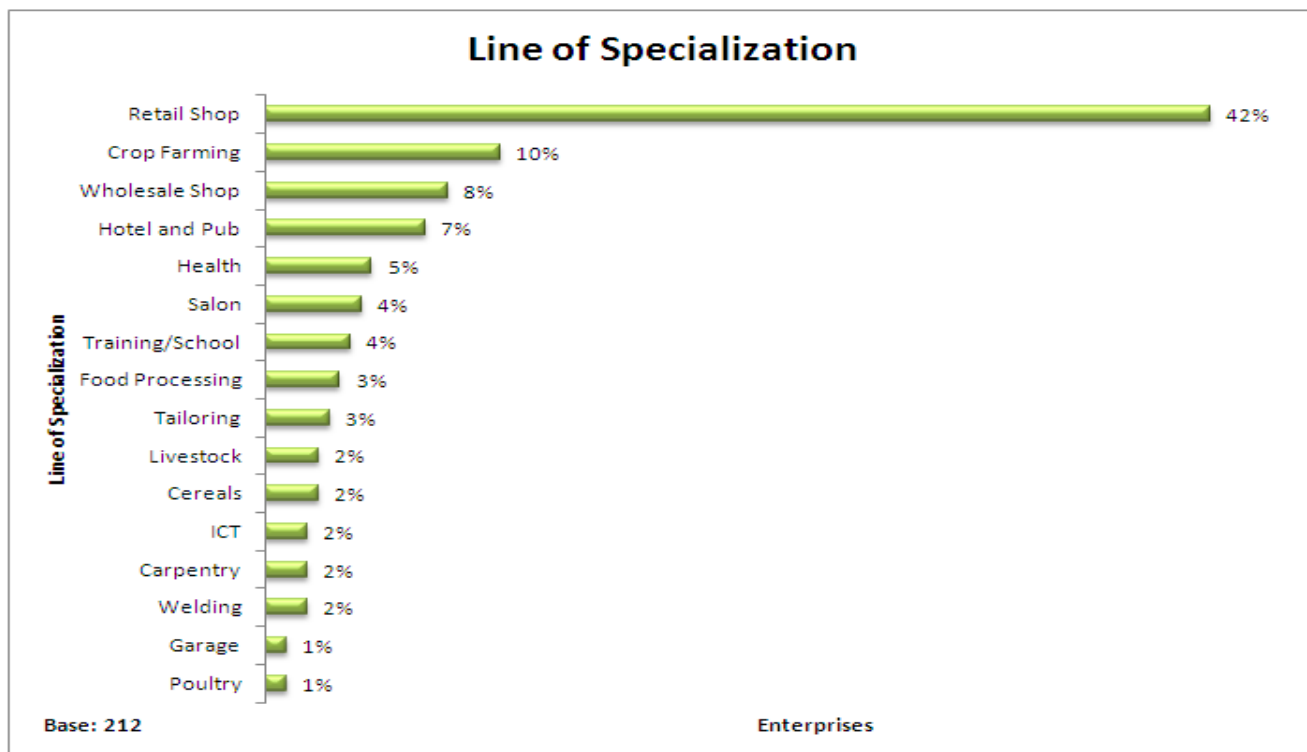


**Figure 4: Duration in which the Business has been in Existence**

### 4.2.2. Line of Specialization of the Enterprise

About 42% enterprises were dealing mainly in retail business, 10% in crop farming, 8% in wholesale business and 7% in hotel and pubs, 5% in health facilities, 4% in

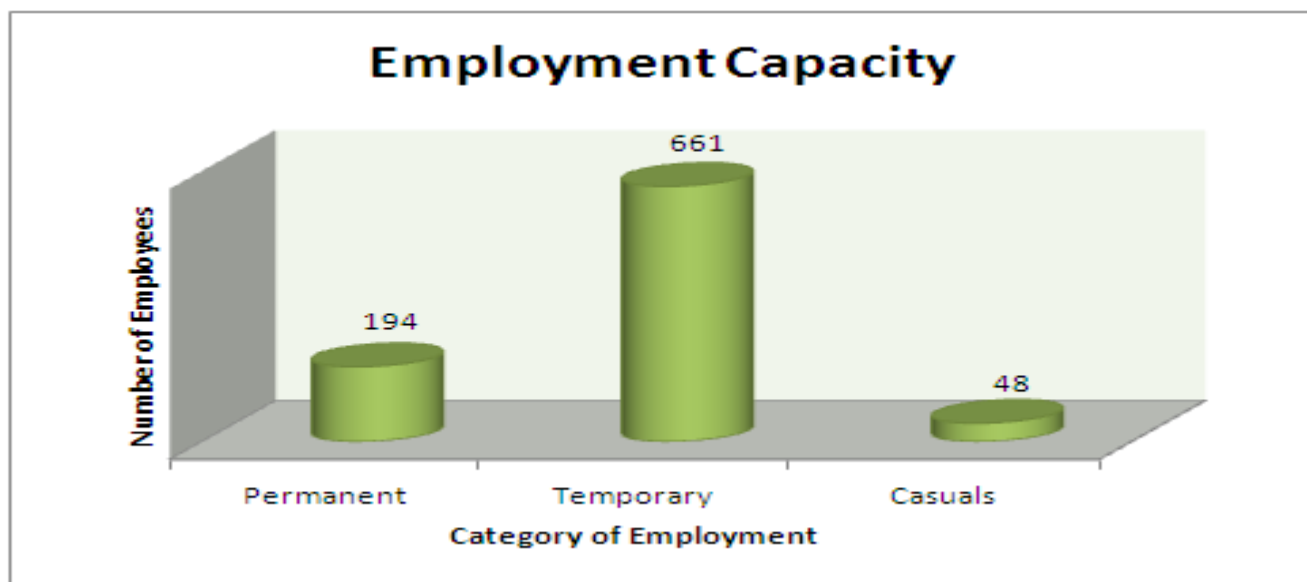
salons and 4% in computer training institutes as shown in figure 5.



**Figure 5: Line of Specialization of the Business**

#### 4.2.3. Employment Potential by MSEs

In figure 6, the 223 MSEs demonstrate the capacity for employment where the enterprises have employed 194 permanent employees, 661 temporary employees with 48 casuals.



**Figure 6: Employment Capacity by MSEs**

#### 4.2.4. Ownership of Business

Most enterprises, 91%, are sole proprietorships. The rest are as follows 4% were companies, 3% are partnerships while 2% are cooperatives as reflected in figure 7. In addition it was established that most of the MSEs depend on only one business to an extent that 80% of the businesses do not have any other business.

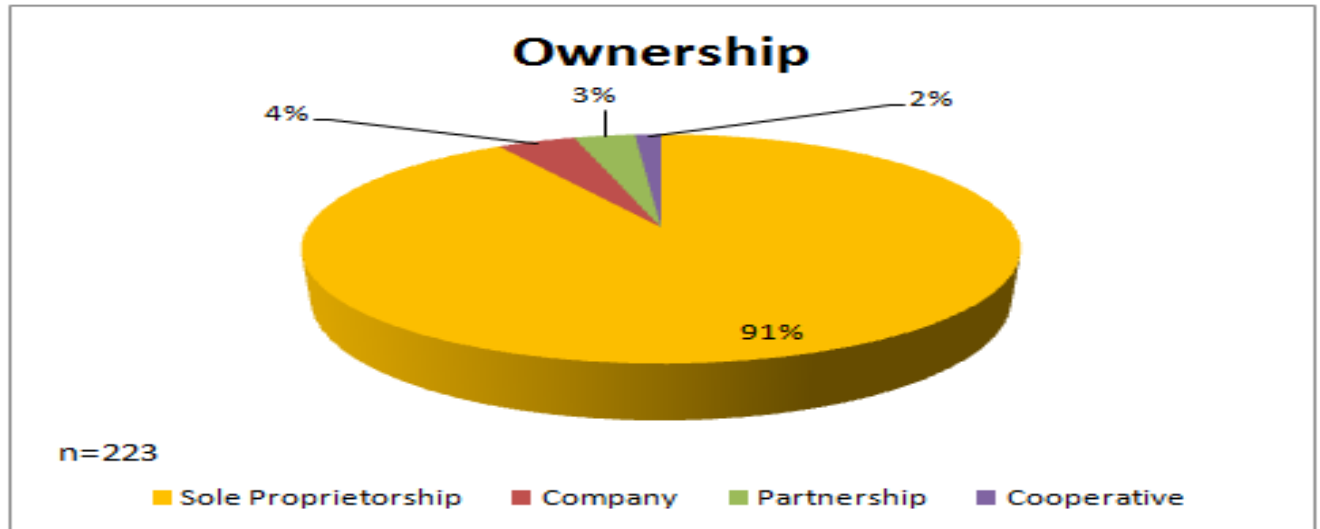


Figure 7: Ownership Status of the Enterprises

#### 4.2.5. Average Income per Month

The incomes earned per month by the MSEs in Meru County are varied. A majority 64% earn less than KES.50, 000 per month. However there are about 13% enterprises which earn between KES. 100.000 and 1 million per month and around 2% earn over a million. These and more information is shown in figure 8.

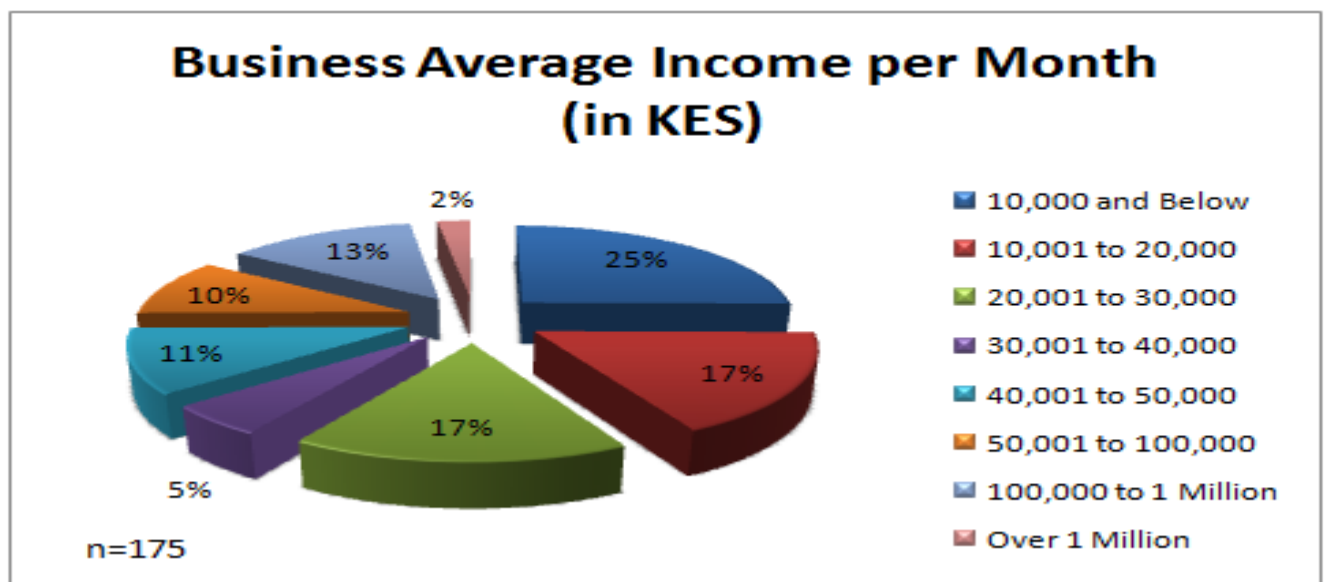


Figure 8: Average Income Received by the Enterprises per Month

#### 4.2.6. Asset Value of Enterprises

As shown in figure 9, 46% of the MSEs have asset value falling between KES.100, 000 to KES.500, 000. There are 19% MSEs with over KES. 1 Million Asset base and 27% of the MSEs have less than KES. 100, 000 asset value.

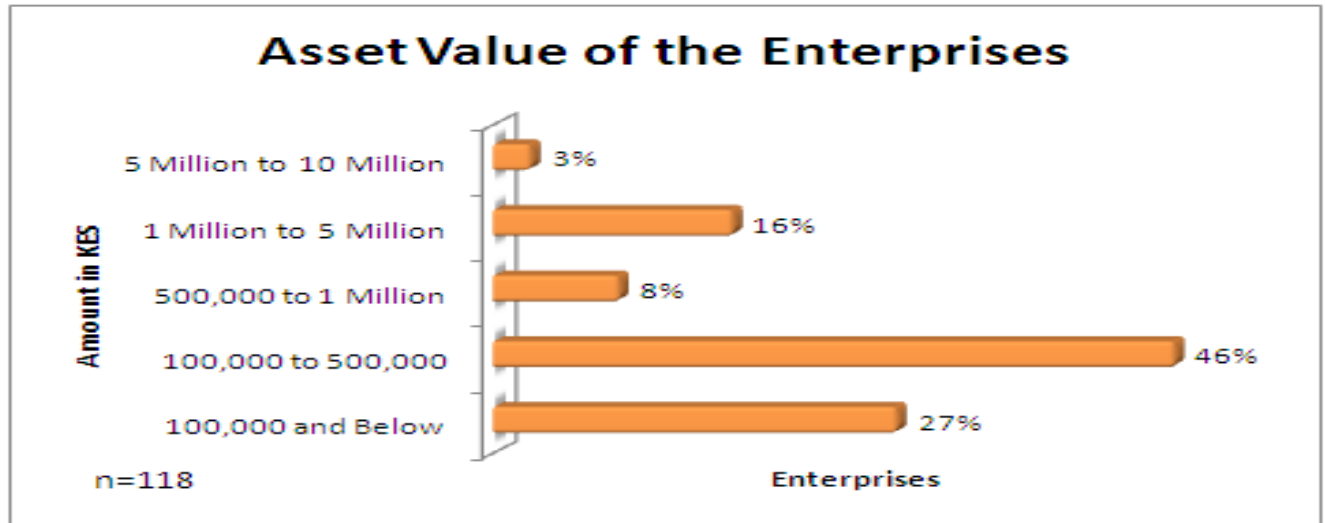


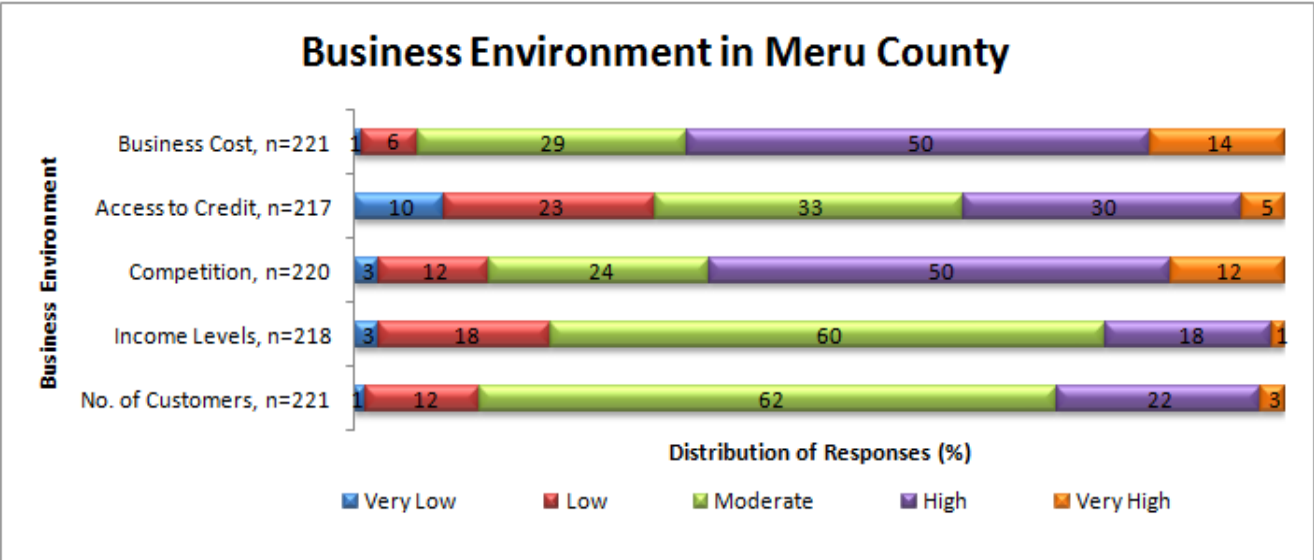
Figure 9: Asset Value of MSEs

#### 4.3. Business Environment in Meru County

##### 4.3.1. Potential of Business in Meru County

Access to credit is seen by 63% as being between moderate and high. The income levels among the people of Meru are seen as moderate by 60% of the respondents. Competition according to 62% of the respondents is high. About 64% of the respondents consider the business costs in the county to be high. Finally, with respect to the number of customers, a tune of 87% enterprises see their customer base to be between moderate and higher. See figure 10 on information on the distribution of the responses.

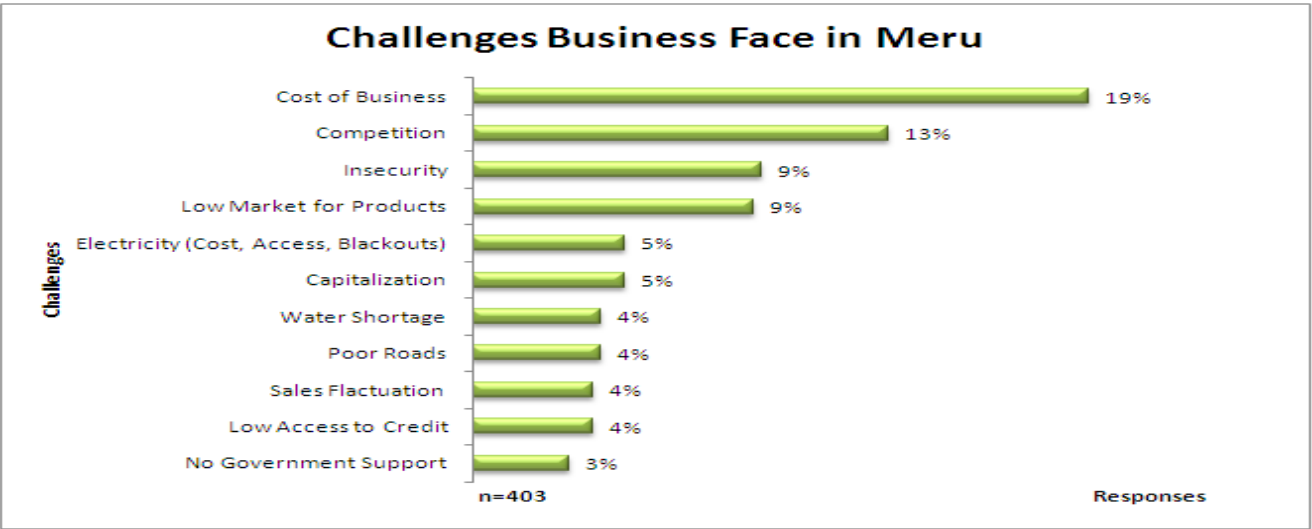




**Figure 10: Business Environment in Meru County**

**4.3.2. Key Challenges Businesses face in Meru County**

The cost of business at 19%, competition at 13%, insecurity at 9%, low market at 9%, electricity (blackouts, costs and low access) at 5% and capitalization at 5% remain as key challenges to the businesses. Other challenges as shown I figure 11 include; water shortage (4%), poor roads (4%), sales fluctuation (4%), Low Access to Financial Services (4%) and low government support (3%). Unemployment, poor sanitation, culture, low crop yield, seasonal source of income, perishable goods, theft and burglary, debtors, premises, fraud, low income, fire, pests and diseases all had (2%) while weather/climate, counterfeits goods, unskilled labour, low awareness, irregular supply of stock had (1%) each as challenges.



**Figure 11: Challenges Businesses face in Meru**

**4.4. Risks and Mitigation Strategies**

**4.4.1. Key Risks Businesses Face in Meru County**

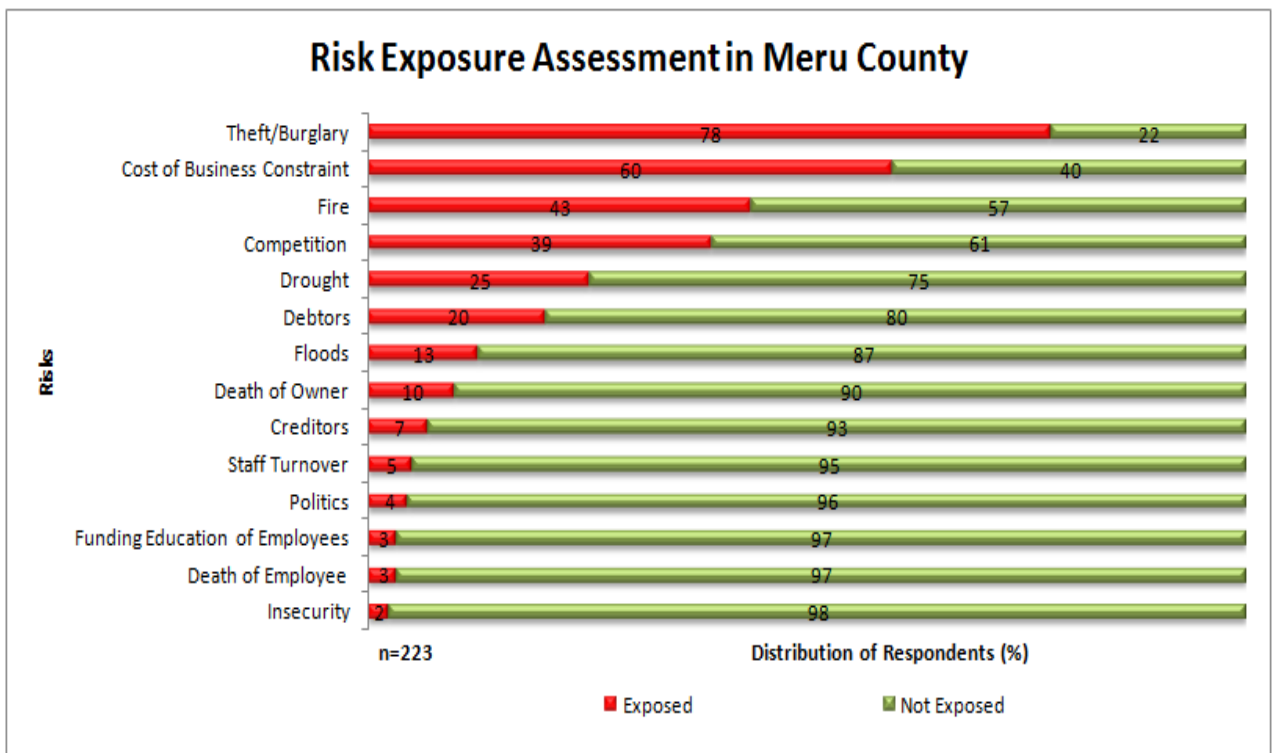
The commonly mentioned risks that the MSEs are facing include; theft & burglary (33%), fire (33%), cost of business (11%), competition (9%), drought (8%) and insecurity (7%). Others risks though with small percentages include; sales reduction (4%), pests and diseases (4%) and Climate changes (3%). Waste disposal, crop failure, counterfeit seeds and money, creditors, debtors, electricity downs, counterfeit money, premises issues (rent & eviction), professional services are Low, each had 1% mention. These details are summarized in captured in figure 12.



**Figure 12: Risks Businesses Face in Meru**

#### 4.4.2. Risk Exposure

The top 5 risks the businesses are exposed to include theft/burglary, cost of business, fire, competition and drought. Out of the total 223 MSEs, 78% are exposed to theft/burglary, 60% are exposed to cost of business constraint, 43% are exposed to fire, 39% are exposed to stiff competition and 25% are exposed to drought. The rest of the risk exposures assessment is in figure 13.



**Figure 13: Risk Exposure Assessment**

### 4.4.3. Likelihood of Risk Occurring

The MSEs assessment of the likelihood that the risks the businesses are exposed occur show wide variation. In the top 5 mentioned risks that the businesses are exposed to 66% of the respondents consider theft/burglary as a risk of medium to high likelihood, 88% and 87% see the likelihood of increase in cost of business and competition respectively to be between medium to high, On the other hand 39% of the respondents see fire to have moderate to high likelihood of occurrence. The distribution of the rest of the likelihood assessment is shown in figure 14.

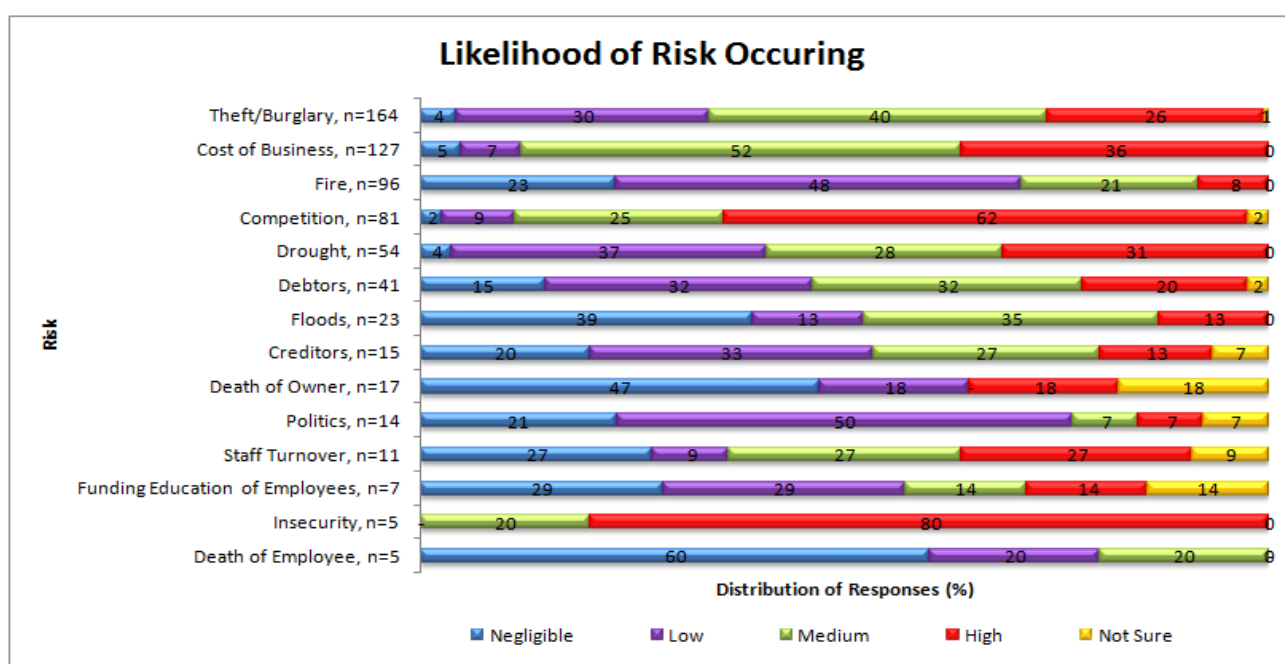


Figure 14: Likelihood the Risk will Occur

### 4.4.4. Impact of the Risks if they Occur

In the top five risks businesses are exposed to, if the businesses incur the risks, the following respondents oversee high impact on their respective businesses; 70% on theft/burglary, 49% on rise cost of business, 75% on fire, 65% on competition and 67% on drought. The distribution of the rest of the impact assessment is shown in figure 15.

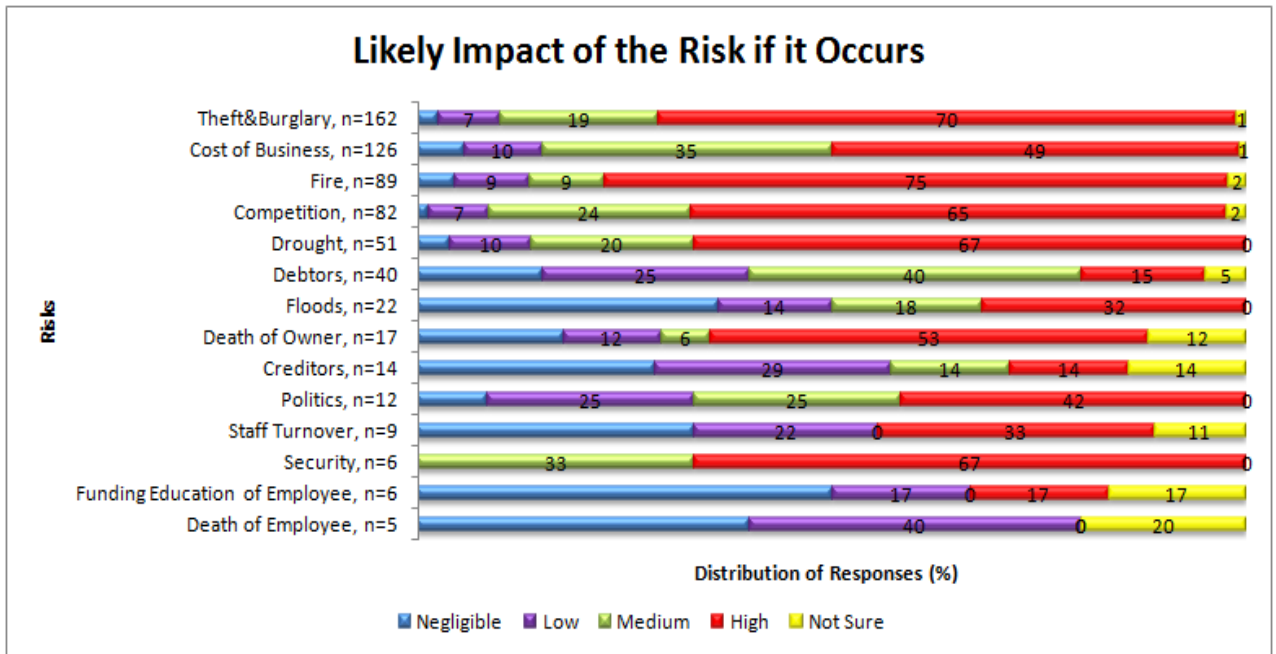


Figure 15: Impact of Risks to Business in case they occur

#### 4.4.5. Risk Ever Occurred

Out of 223 respondents, 41%, 18% and 15% have incurred losses on theft/burglary, increase in cost of business and drought risks respectively. The respondents who have encountered losses due to competition, floods, debtors, and fire are 85, 7%, 5% and 3% respectively. Only 1% respondents have each suffered loss at least due to politics, creditors and death of employee. The chart in figure 16 shows other results.

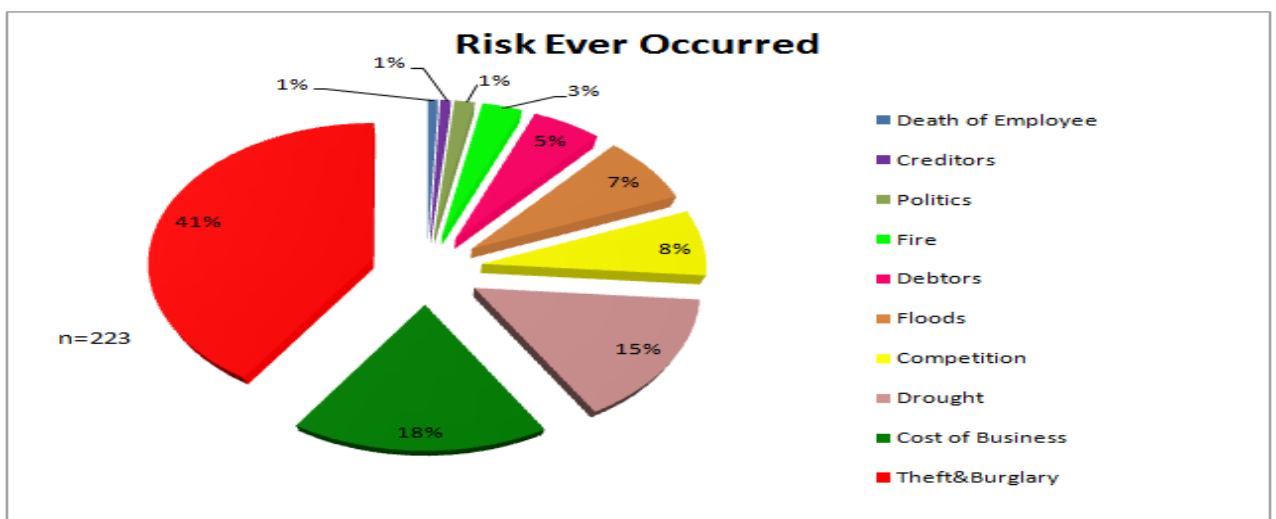


Figure 16: Risks Occurrence Status

#### 4.4.6. Overcoming Risks

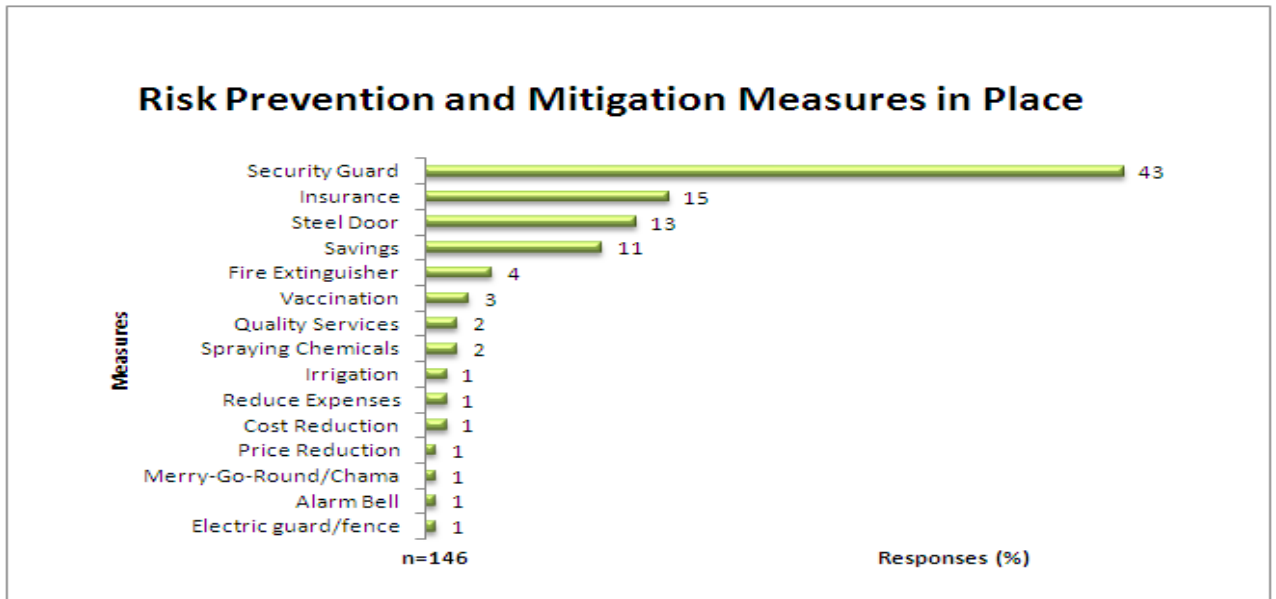
Use of business savings with 32%, use of savings from other businesses with 16%, borrowing money from other businesses with 12%, help from friends and family with 9% are the main ways the MSEs are using to mitigate on risks. Figure 17 shows the other mitigation measures with insurance having only 2%.



Figure 17: Ways of Overcoming the Risks

#### 4.4.7. Risk Prevention and Mitigation Measures in Place

Half of the MSEs have put risk mitigation measures in place. Some of the risk mitigation measures include hiring of security guard with 43%, insurance with 15%, installation of steel doors with 13%, setting aside savings with 11% as shown in figure 18.

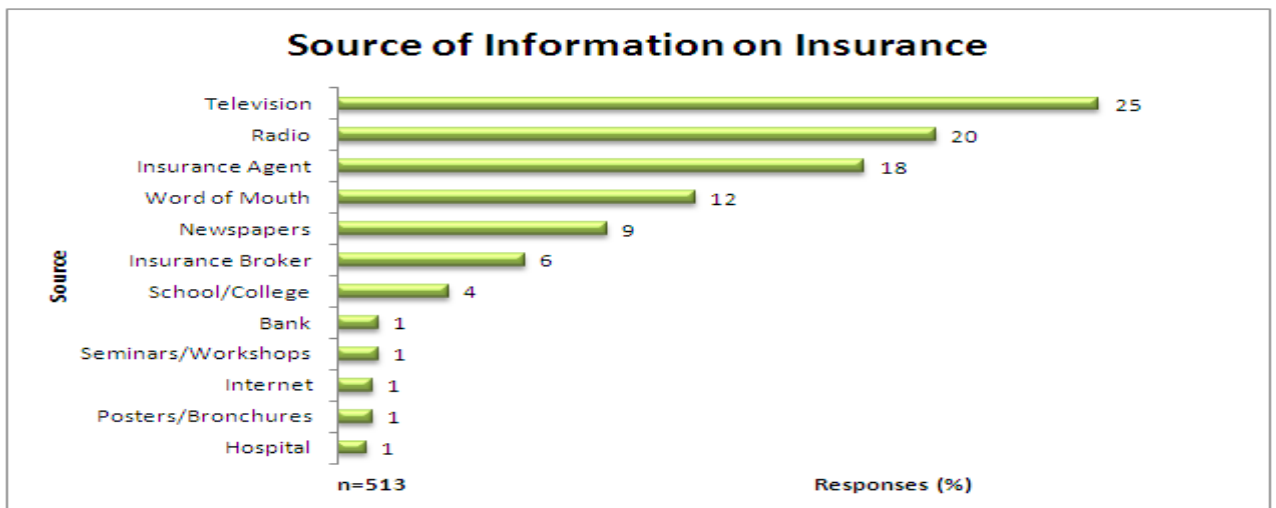


**Figure 18: Risk Mitigation Measures**

#### 4.4.8. Use of Insurance as a Risk mitigation Strategy

##### 4.4.8.1. Awareness and Sources of Information about Insurance

The respondents who have heard of insurance are 87%. The survey established that, television, radio, insurance agents, word of mouth, and newspapers are the top sources of information as shown in figure 19.

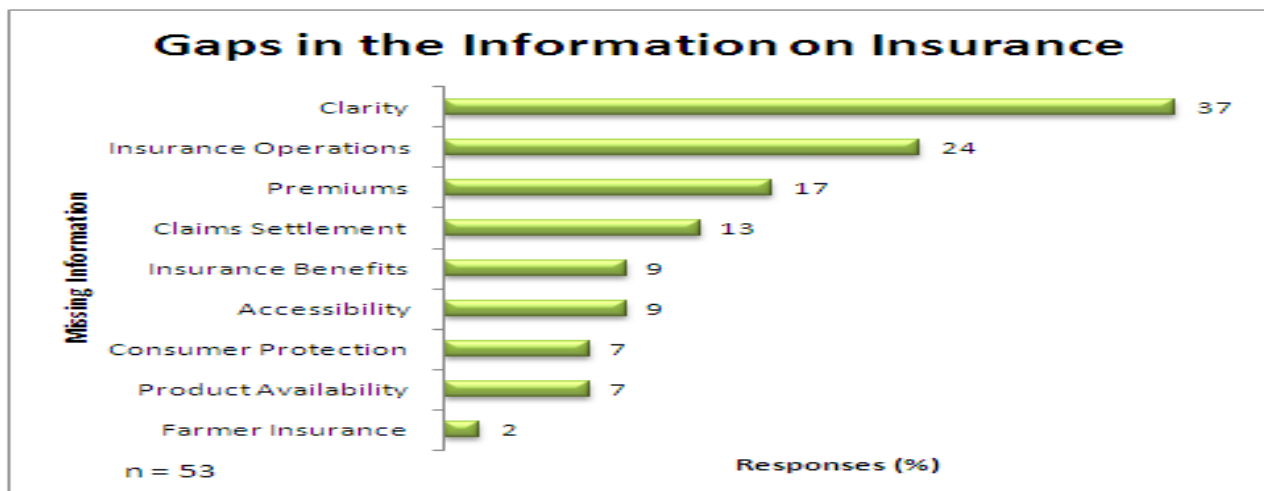


**Figure 19: Source of Information on Insurance**

##### 4.4.8.2. Usefulness of Insurance Information to Decisions Making

The respondents who consider the information they receive through various media as useful to make decisions on insurance are 65%. However, a number of gaps were identified and this included; clarity of information in

adverts/infomercials (37%), information on how insurance operates (24%), premiums rates applicable (17%), claims settlement status of the companies (17%) and benefits of insurance (9%) among others as shown in figure 20.

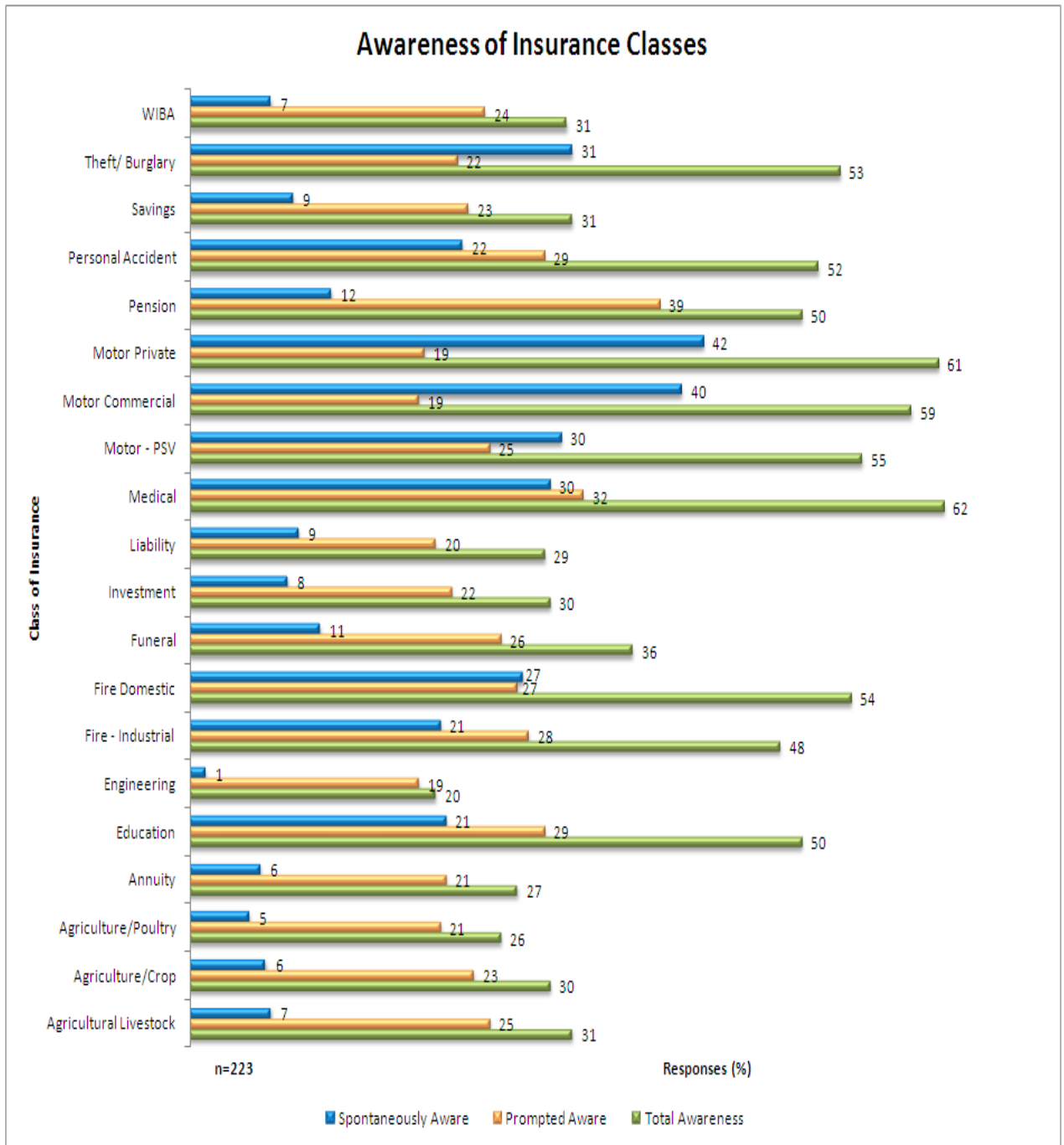


**Figure 20: Information Gaps on Insurance**

#### 4.4.8.3. Awareness of Insurance Policies

Awareness of insurance policies varies across the classes with medical, motor, fire, theft and personal accident policies ranked as the top five insurance policies respectively. Out of the 223 respondents those who are aware of various insurance policies are as follows; medical (62%), motor private(61%), motor commercial (59%), motor PSV (55%), fire domestic (54%), theft/burglary (53%), personal accident (52%), education (50%), pension (50%), fire industrial (48%), funeral (36%), WIBA (31%), savings (31%), investment (30%), agriculture livestock (31%), agriculture crop (30%), liability (29%), annuity (27%), agriculture poultry (26%), and engineering (20%). The level of awareness categorized into spontaneous and prompted awareness is shown in figure 21.

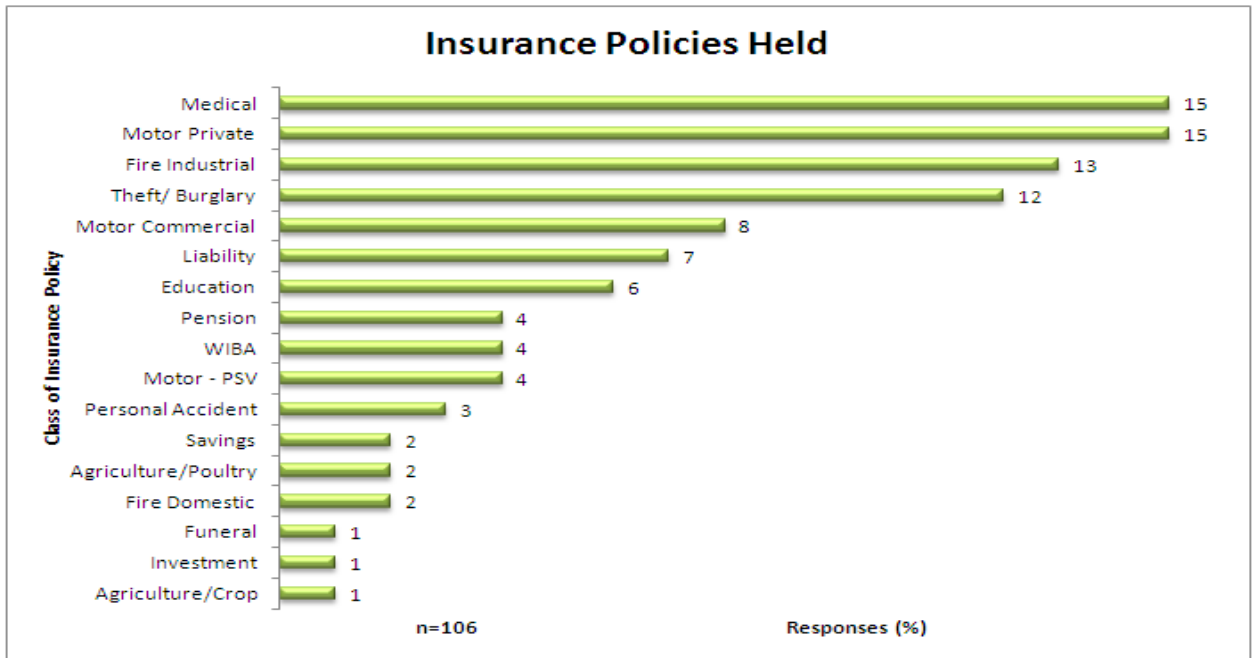




**Figure 21: Awareness on Insurance Products across Insurance Classes**

#### 4.4.8.4. Policies Held by Respondents

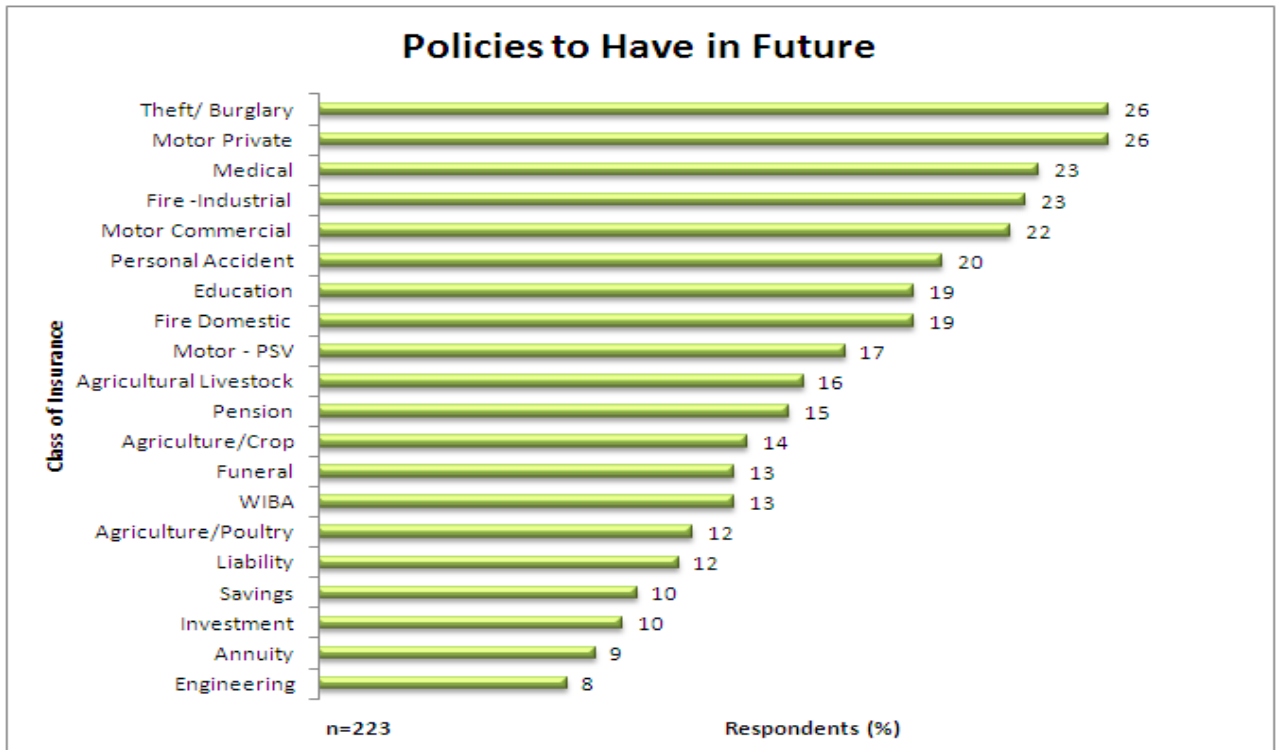
About 25% of the respondents have at least an insurance policy common of these policies being medical, motor, fire industrial, theft and motor commercial as shown in figure 22.



**Figure 22: Insurance Policies Held**

#### 4.4.8.5. Insurance Policies to have in Future

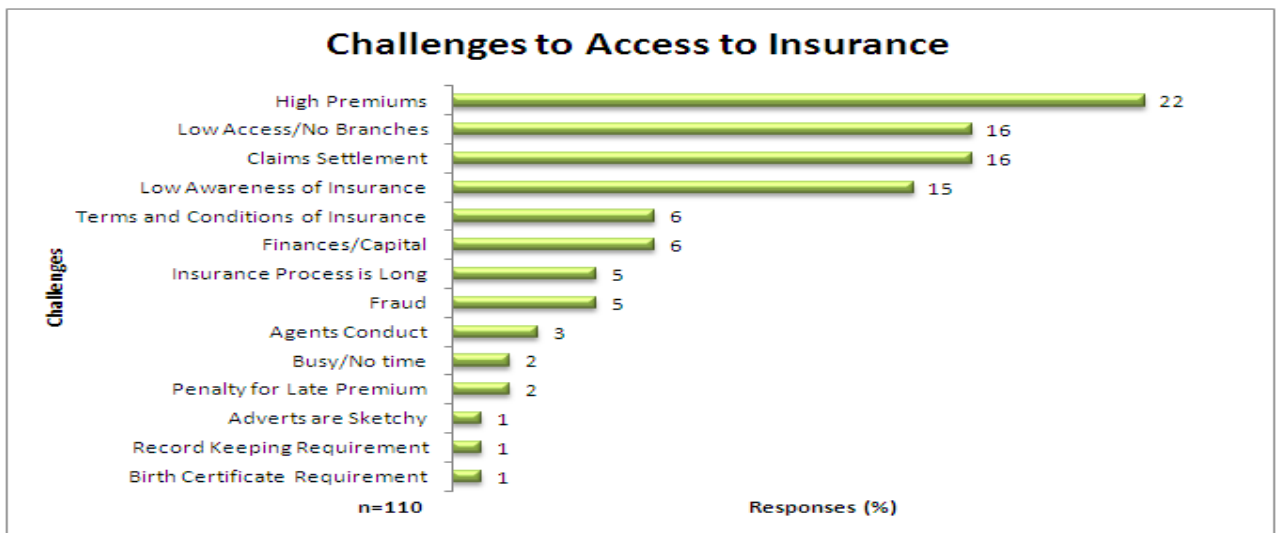
There is high potential for insurance uptake in the region particularly for theft/burglary, motor private, medical, fire, motor, personal accident and education policies. This is because at least 20% of the respondents indicated that they are likely to take these insurance policies as shown in figure 23.



**Figure 23: Policies to have in Future**

#### 4.4.8.6. Challenges Faced while Accessing Insurance

About 39% of 191 respondents have challenges in accessing insurance, 55% do not while 6% have never tried. Among the key challenges identified include high premiums, no branches in the area, information on industry poor settlement of claims and low awareness. Other challenges are shown in figure 24.



**Figure 24: Challenges to Access to Insurance**

#### 4.4.8.7. Interventions to Overcoming Insurance Access Challenges

A number of remedies to the challenges the respondents are facing in accessing insurance were suggested. These include, reduction of premium rates, creation of awareness about insurance, improving claims settlement, opening of more branches by insurance companies, and general focus on improving quality of government services. Other interventions are shown in figure 25.

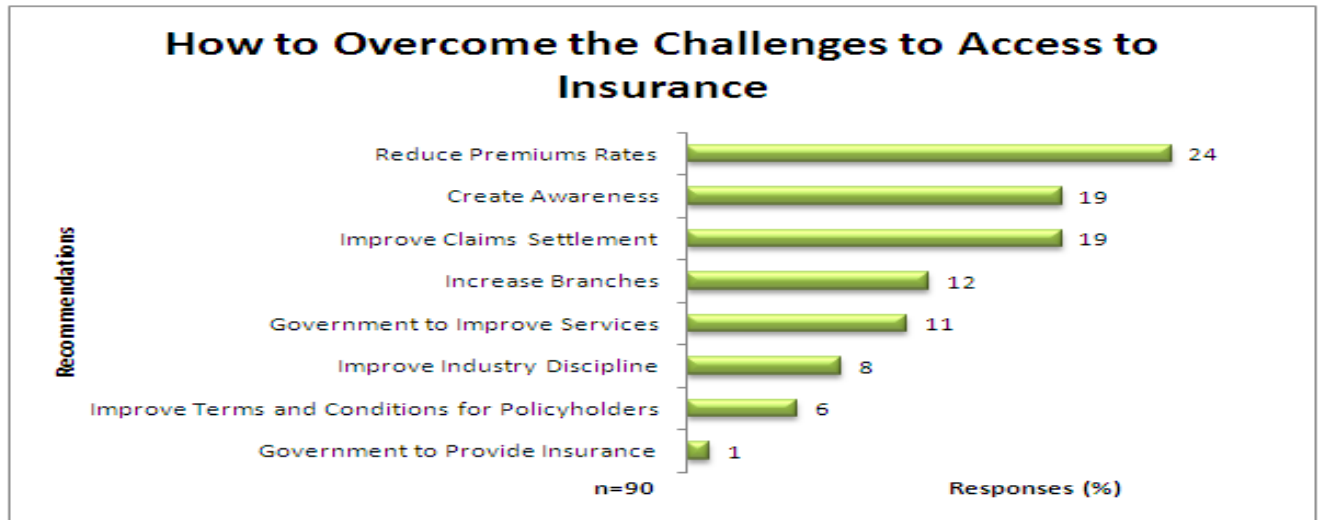
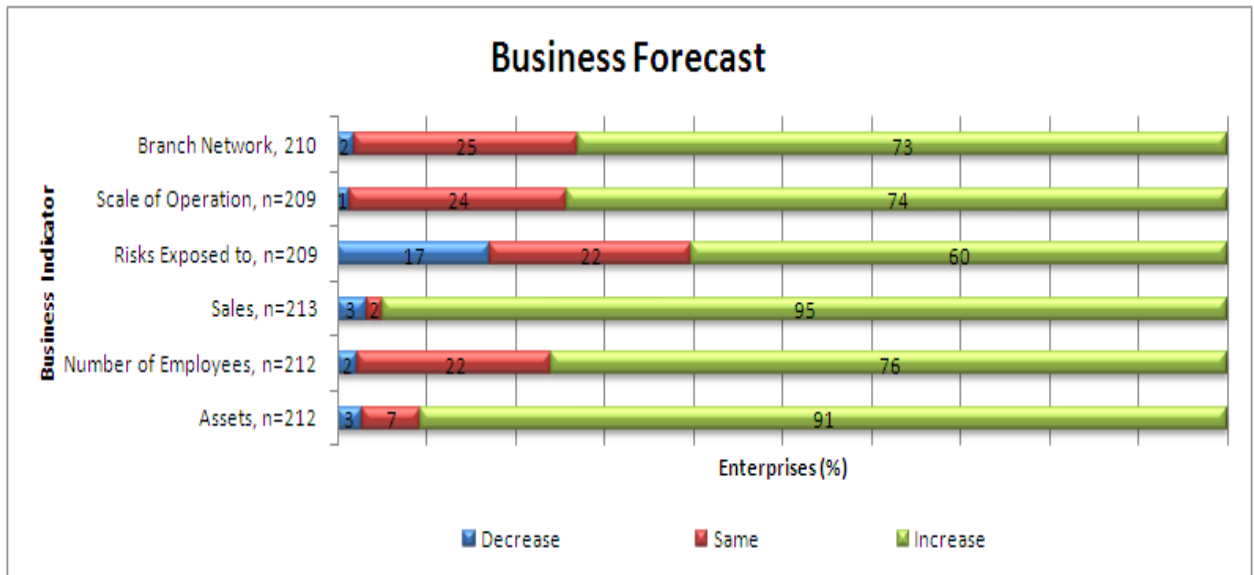


Figure 25: How Access to Insurance Challenges can be overcome

#### 4.5. Businesses Future Prospects

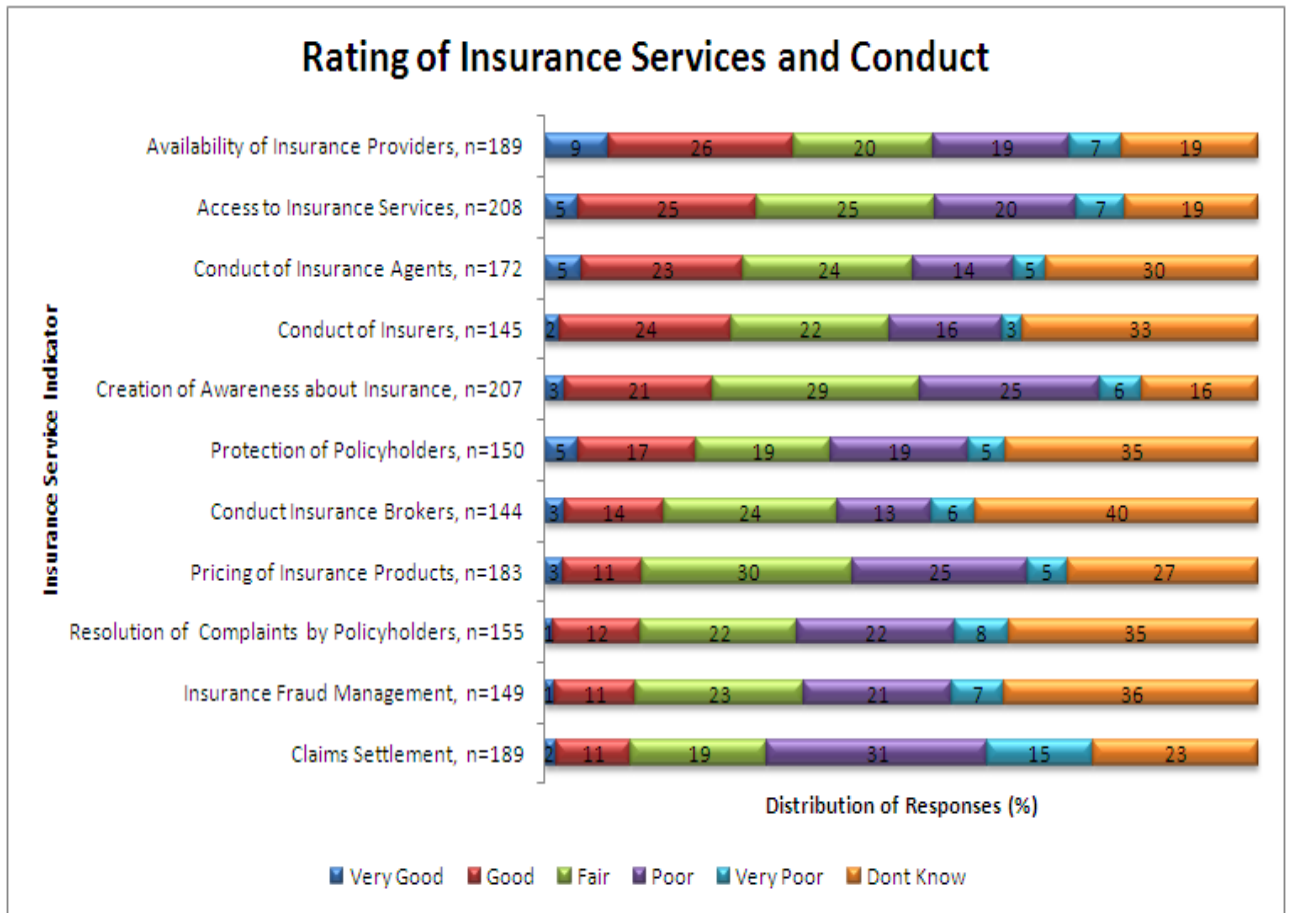
The future of the businesses in Meru County looks promising. This is because 73% of the MSEs showed that their branch network is likely to increase, 95% said the volume of sales is likely increase, 74% said their scale of operation will increase, 76% would employ more people, and 91% foresaw that the asset base will also increase. In addition, 60% said that risks will increase which demonstrates their awareness on the risks involved when businesses grow. See figure 26 for more details.



**Figure 26: Future of Business in Meru**

#### 4.6. Rating of Insurance Services

On a scale of 1-5 where 1 is very poor and 5 very good the insurance industry services in Meru were generally rated as good. The respondents who would rate the industry services above average were as follows with respect to the indicators; availability of insurance services (55%), access to insurance services (55%), conduct of insurance agents (52%), conduct of insurers (51%), awareness creation (53%), protection of insurance policyholders (41%), conduct of insurance brokers (41%), pricing (44%), resolution of complaints (35%), management of insurance fraud (35%), claims settlement (32%). See figure 27 for more information on these ratings.

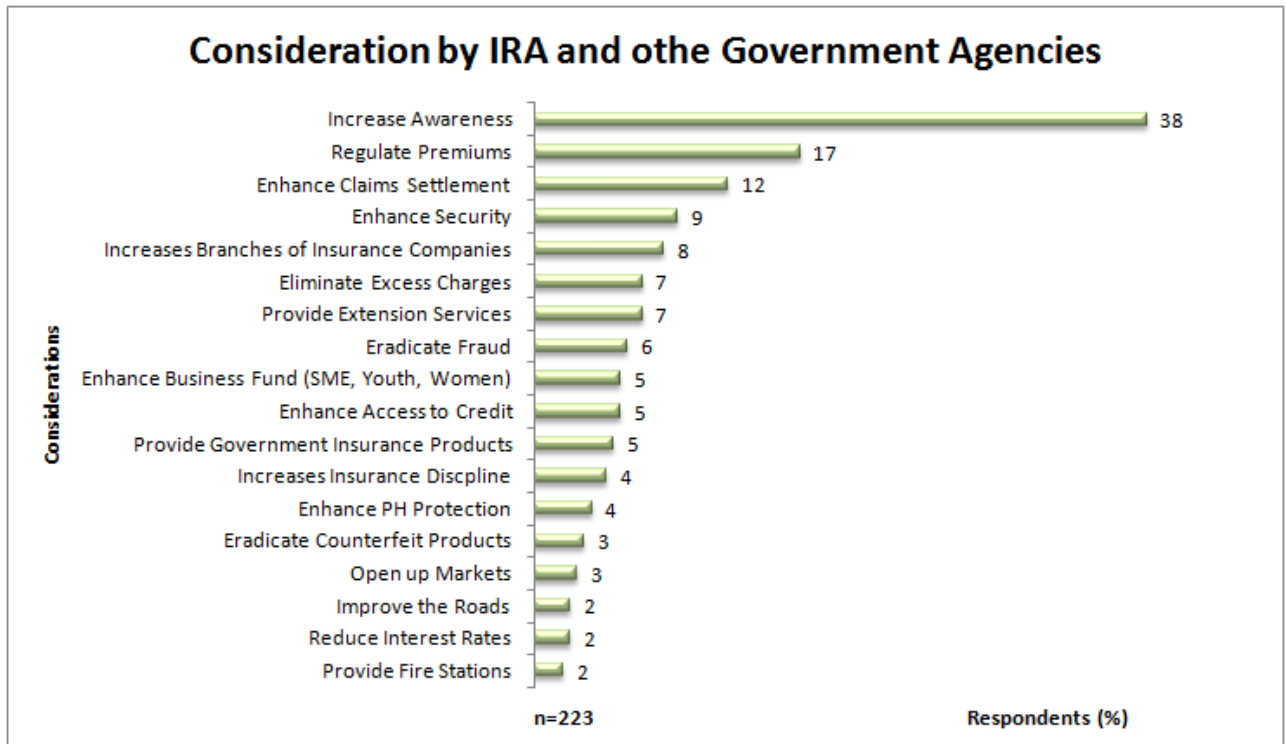


**Figure 27: Rating of Insurance Services and Conduct**

#### 4.7. What Governments should Consider for Business and Insurance Growth

Top in the expectations of the respondents from the IRA is increasing awareness on insurance, improved regulation of premiums, enhancing claims settlement and encouraging insurance companies to open more branches in the region. Other areas to be considered as shown in figure 28 are elimination of excess charges, eradication of insurance fraud, improving insurance industry discipline and increase consumer protection.

Other respective government agencies are also expected to increase funds available for businesses, enhance access to credit, eradicate counterfeit products, improve road network, open up markets, reduce interest rates and provide fire stations services.



**Figure 28: Government Considerations for Business and Insurance growth**

## 5. CONCLUSION

Risk awareness among MSEs is moderate. There are varied measures that enterprises have put in place to mitigate on the risks they face which may not be optimal to ensure the enterprises grow. Further, there is evidence of low appreciation of insurance as a risk mitigation measure besides, being seen as expensive. Other issues include perception the claims settlement is poor. A number of insurance policies are not known to MSEs. However, the future of business in the county is promising and if measures are put in place to market the insurance products to MSEs the insurance uptake will improve.

## 6. KEY RECOMMENDATIONS

Building on the findings of the survey the following suggestions may improve the risk mitigation strategies among MSEs in Kenya.

- i. Deepening awareness creation on risks management
- ii. Robust marketing of available insurance products for MSEs across sectors
- iii. Insurance companies to increase accessibility of their services
- iv. Enhancing IRA services to these enterprises