

Determinants of Insurance Uptake among Selected Small and Medium Scale Enterprises in Lagos State, Nigeria

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ABSTRACT

The study investigates the factors that affect the usage of insurance by SMEs in Lagos State, Nigeria. This research adopted descriptive research design to collect qualitative data. A sample of 191 SMEs who are members of National Association of Small and Medium Enterprises (NASME) in Lagos State were engaged in this study. Data were analysed with both descriptive and inferential statistics and the hypotheses were tested using factor analysis and linear regression. Based on the findings of this study, interest rate, owners' lifestyle and owners' level of education were respectively identified as specific economic, socio-cultural and demographic factors that significantly influence the uptake of insurance among SMEs in Lagos State. Based on the findings of the study, it was recommended that provision should be made by government for special fund aimed at easing SMEs' access to finance and eliminates barrier creates by high interest rate. Also, SMEs' owners should be equipped with requisite entrepreneurial competencies for them to grow with the mindset of entrepreneurs and not just business owners. In addition, financial and specifically, insurance education should be encouraged among SMEs owners to help them understand the need for insurance in their business.

Keywords: Entrepreneurship, Interest Rate, Level of Education, Owners' Lifestyle, SMEs

JEL Classification Codes: G22, L26

1. INTRODUCTION

Small and Medium-scale Enterprises (SMEs) are generally regarded as the key instrument for the development of every country. This is because of the important roles they play in the growth and sustainable development of economies (Ariyo, 2005). Nevertheless, unbridled unfortunate incidences may adversely affect the operations of firms in this category and plummet their growth (Codokufa & Chiliya, 2014). SMEs face a lot of risks in the process of carrying out their daily activities and in playing their roles in the economy (Macharia, 2017). In fact, the inability of these firms to mitigate the resultant effect of risks often subjects them to high rate of mortality. In this regard, it is apt to recommend the effective utilization of insurance as a panacea to circumvent threats faced by SMEs (Kamara & Makori, 2017). Among other risk control mechanisms, insurance appears to be a viable tool to mitigate the aftermath of risk faced by SMEs. However, a little fraction of SMEs in Nigeria utilize insurance as a form of financial protection (Small and Medium Enterprises Development Agency of Nigeria & National Bureau of Statistics, SMEDAN & NBS, 2017). Specifically, SMEDAN and NBS (2017) reported that about 63.9% of SMEs in Nigeria are uninsured.

The low patronage of insurance by SMEs can be linked to the general apathy displayed towards insurance in Nigeria. The reason for this may not be unrelated to the negative experience of insurance policyholders at the point of loss recovery from insurance companies. Undoubtedly, Insurance uptake by SME owners would increase the success rate

of their businesses as it will enable them to take bigger opportunities than they would have if they do not have insurance coverage (Diara, et al., 2014). Thus, various opportunities can be exploited with the purchase of insurance by SMEs.

Aside the quandary presented by lack of awareness about insurance, Kamara and Makori (2017) identified access to finance and access to information services as the major problems militating against the purchase of insurance by SMEs. Most previous research efforts (Adebayo et al, 2015; Giesbert, 2008; Angko, 2013; Giesbert & Steiner, 2011; Fofie, 2016; Macharia, 2017; Akotey & Adjasi, 2015) have focused on factors and issues that deter individuals and households from demanding insurance hence, leaving-out the SMEs sector. This therefore necessitates the need to unravel the specific factors that determine the uptake of insurance by SMEs in Lagos State.

2. LITERATURE REVIEW

2.1 SMEs in Nigeria

There is no generally agreed definition of SMEs among scholars and institutions of interest (Ariyo, 2005). They are non-subsidiary, independent firms which employ less than a given number of employees. This number, however, varies across countries, industries and institutions (Dansu, et al., 2019). SMEDAN and NBS (2017) enunciated that a small business has a total cost (including working capital but excluding land cost) of \$5 million or less but not more than \$50 million, with a workforce of 10 to 50 employees, while a medium-sized business has a total cost (including working capital but excluding land cost) of \$50 million or more but not more than \$500 million, with a workforce of 50 to 500 employees.

Despite their importance, SMEs are faced with variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale, scope in key factors of production and the higher unit costs of providing services to smaller firms (Liedholm & Mead, 1987; Liedholm, 1990; Steel & Webster, 1990). In the study of Azende (2012), it was stated that the biggest risk facing SMEs today are financial and strategic risks. Financial risks in terms of cash flow majorly and strategic risks, covering competition and economic conditions. In the context of Kenya, Kagwathi, et al. (2014) broadly identified 15 key risks militating against SMEs to include capital market risks, operational risks, economic risks, theft risks, employees' commitment, customer relationship risks, market risks, inventory risks, regulatory and compliance risks, competition, business interruption risks and loss of workers. The authors concluded by reporting that credit scorecard, diversification, collaboration and insurance are the risk control techniques commonly utilized by Kenyan based SMEs.

2.2 Insurance

Insurance is one of the tools of risk financing. It is designed to generate financial relief and guarantee decline of both economic and social threats (Foya & Ncube, 2022). It enables the transfer of potential losses of businesses and individuals to an insurance pool and the redistribution of costs of losses among contributors to the pool (Dorfman, 2008). Insurance protects businesses and individuals from perils that society faces. Through the mechanism of insurance, insurers are able to provide coverage for virtually any predictable loss. Not only does insurance protect cost of business assets from risks that could reduce them to nothing if a catastrophe struck, it also safeguards cost of personal assets, which are often on the line, from a liability point of view (Siegel & Yacht, 2010). The immediate effect of utilizing insurance in a business is two-fold; it gives protection against losses and it influences the success of loan applications with banks and financial institutions. Hence, it is imperative to ensure the adequacy of insurance coverage undertaken. Adequate insurance coverage signifies

that a company's risks are well-covered under a good risk management strategy (Diara, et al., 2014).

Sahler and Wiedmaier (2019) argued that insurance can influence the entrepreneurs' investment behaviour by encouraging them to invest in higher risk activities with higher expected returns. Furthermore, insurance can increase the credit worthiness of SMEs, enabling them to access credit facilities as they can prove that the owner and the assets are protected. As such, insurance can increase financial institutions' willingness to lend to SMEs, or even lower collateral requirements. Moreover, insurance frees SMEs' funds for productive investment. By allowing SMEs to pay for risk protection in small installment in the form of regular premiums, insurance enables SMEs to re-allocate funds they would have otherwise needed to reserve for potential shocks towards investment in better technologies, product innovation, and ultimately income generating activities (Gregor & Martina, 2019). Conclusively, insurance has the potential to increase entrepreneurs' confidence in their choice investment, as well as their ability to secure the necessary finance.

2.3 Factors affecting the uptake of Insurance

Several factors have been identified to be affecting the uptake of insurance among SMEs. This study however focuses on broad economic, socio-cultural and demographic factors. Economic factors are the forces within the economy that influences attitudes, decisions, and behaviors or forces within the economy that affect the uptake of insurance among SMEs. Economic factors that can influence the uptake of insurance among SMEs may include interest rate, wages, inflation, governmental policies, tax incentives, income of SMEs, and the price of insurance, amongst others.

The price of life insurance products, the amount of resident income, and the substitution effect via other indirect factors are the three primary ways that inflation has affected the demand for life insurance (Fofie, 2016). At first, both the insured sum and the life insurance premium are paid with money, with the premium being paid before the insured amount is reimbursed. As a result, inflation has a significant influence on the insured amount while having a very minor impact on the premium. When there is no inflation, the policyholder must pay a larger premium than when there is, and people are less likely to buy insurance when prices are high. Additionally, when inflation happens, real income growth is lower than nominal income growth; moreover, real income growth rate turns negative when inflation rate exceeds nominal income growth rate (Machaira, 2017). With a positive connection between income and demand for insurance and a reduction in consumers' real income as previously explained, the demand for insurance will decline.

Another important economic factor that affects the demand for life insurance is per capita income. Per capita income refers to the average income generated per individual in a given country. When a country's per capita income is relatively high, people will have sufficient amount of funds to expend on various goods and services which includes insurance (Fofie, 2016). In other words, when the average income of people increases their purchasing power also increases, which might result to a greater demand for insurance products. Income of SME owners is another very important economic factor (Karuiki, 2007). When SME owners are able to earn more, they invariably have greater purchasing power may also lead to increase in demand for various goods and services including insurance.

Socio-cultural factors are the larger scale forces within cultures that affect thoughts, feelings, and behaviours (Chui & Kwok, 2009). The socio-cultural factors that affect the uptake of insurance includes; Cultural attitude and values, Education and language, religious practices, cultural taboos and beliefs, cultural identity, ethnic values, dependency ratio, among others. People's perceptions of life, particularly those pertaining to safety and security of life,

have been found to be significantly influenced by their religious beliefs. Religious traditions convey the idea that dependence on insurance is a sign of disbelief in God's provision for them (Kamara & Makori, 2017). In addition, the practice of insurance goes against the tenets of some religions. For instance, due to the characteristics of *riba* (interest) and uncertainty, the practice of insurance is incompatible with Islam (*gharar*).

Another significant socio-cultural element that affects the decision to buy insurance is education. Musonda and Chowa (2022) maintained that education is directly related to increased spending on insurance. This as noted by the authors is linked to the potential of education to increase insurance need awareness and enhance the ability to make objective purchase decision. The higher the level of education in a nation, the greater the need for insurance. On the other hand, if a country's population becomes more educated generally, they may seek to lessen the likelihood that a risk would materialize and, in the process, rely heavily on the utilization of insurance.

Demographics generally is the study of the population-based factors such as age, race and sex. Demographic factors are the forces within the population that influence the attitude and behavior of the populace towards a particular phenomenon (Chui & Kwok, 2009). Among the demographic factors that affects the uptake of insurance by SMEs may include; age, gender among others. Age influences the demand for certain class of insurance such as life and health insurance policies (Dayour, Adongo & Kimbu, 2020). An aged person, for instance will be willing to take up life/health insurance even when the rates are high. This is because, many of this category of persons will see the need for insurance since the contingency assured against is a function of age and is mostly likely to be precipitated by age. In the same vein, age has been predicted to be a determinant factor for the purchase of insurance. For instance, a study by Ampaw, et al. (2018) revealed that females buy more of insurance by male. However, in order to substantiate this finding in the context of SME owners, an empirical investigation needs to be carried out.

2.4 Theoretical Review

While the theoretical perspective on the demand for health insurance is enormous, very few exist to understand demand for voluntary insurance uptake in the informal sector such as SMEs (Baeza et al., 2002). The expected utility theory is considered to be most relevant to this study; it is the foundation for analyzing people's preferences and demand for valuable items and services including insurance (Arrow, 1963). This theory perceived risk, cost of insurance and explains the circumstances under which individuals will be willing to take up insurance.

Generally, a person's utility increases as their wealth increase, hence, insurance demand reflects an individual's risk aversion and the need for financial certainty (Schoemaker, 1982). It argues that, due to the uncertainty of an illness, an individual who is risk-averse will buy insurance to protect themselves from an uncertain financial loss in the future (Arrow, 1963). Thus, if someone is risk averse, they are willing to pay a higher premium than their expected loss in order to keep what they have in a safe condition (Mongin, 1997). This implies that for an insurance market to be viable, a huge number of people must be risk averse and must be ready to pay risk premiums that are greater than their expected loss. This theory is relevant to the topic in question because several factors affecting the uptake of insurance among SMEs can altogether be shaped by the risk attitudes of SME owners.

2.5 Empirical Review

Previous empirical studies have established a linkage between some specific determinants and SMEs' uptake of insurance. A study by Cooper (2012) on the impact of

microfinance services on the growth of SMEs in Kenya found a strong positive relationship between microfinance services and growth of SMEs. In another Kenyan study by Kamara and Makori (2017), it was concluded that uptake of insurance services will be affected by access to finance and access to business information services. This study found that access to finance was the most important factor that affected uptake of insurance services followed by access to business information. In Zimbabwe, Foya and Ncube (2022) examined the factors that affect the uptake of insurance products in the banking sector. Based on the mixed method, data for the study were obtained from about 150,312 respondents, including bank employees and customers. The results indicated that the uptake of insurance in the Zimbabwean banking industry is affected by a set of economic, political and socio-cultural factors.

Macharia, Mwangi and Oluoch (2017) investigated the factors influencing uptake of social health insurance in the Nyeri county of Kenya. The study is cross-sectional and it relies on the mixed method approach to obtain primary data from 177 patients to be discharged. The study found that factors that influence the uptake of social health insurance include occupation, secondary school education, past insurance experience, quality of healthcare, involvement of insurance provider, confidence in the scheme and level of insurance awareness. A related study by Wasike, Gachohi and Mutai (2017) among Kibera informal settlement dwellers in Nairobi, Kenya relied on primary data obtained from heads of households and revealed that employment in the formal sector, participation in the local welfare schemes, marital status, level of education and level of income are the factors affecting uptake of health insurance schemes among Kibera informal settlement dwellers.

In their own research, Ngetich, Aruasa, Too and Newa (2021) examined the factors that determine the uptake of healthcare insurance among patients at Moi Teaching Hospital and Referral Hospital, Eldoret, Kenya. Based on a descriptive cross-sectional survey design, data was obtained from 234 patients. The authors detected that level of education, marital status, income and awareness level as the major factors influencing healthcare insurance uptake. The authors further observed that demand for healthcare insurance was high among adult patients than younger ones. In another Kenyan based study, Kajwang (2021) applied desktop methodology to assess the factors influencing the uptake of microinsurance. With the help of secondary data, the author concluded that while cultural beliefs, attitudes and taboos negatively affect the consumption of microinsurance, such factors like income level, household size and knowledge about microinsurance affect its demand positively.

In the context of Czech Republic, Kislingerova and Spicka (2022) investigated the factors affecting the willingness of farmers to purchase Agricultural Insurance and participate in the mutual fund. The authors engaged 214 farmers in the study and found farm location, distrust in insurance, tendency to suffer 20% loss or more, and price of insurance as the factors that influences farmer's tendency to take up agricultural insurance.

Asai (2019) concluded that SMEs that are weak in their relationship with financial institutions are likely to demand insurance more. This study also found that SMEs with tax incentives tend to demand more insurance. In addition, the empirical results indicate that SMEs with a lower probability of bankruptcy tend to demand more insurance. This result can be interpreted to suggest that SMEs in better financial condition demand more insurance because they have more to lose if they go bankrupt. Dayour et al (2020) found that, perceived risks, perceived benefits, scheme related factors and other coping mechanisms are important factors affecting insurance uptake. This finding diverges from previous studies that investigate insurance uptake, concentrating more on tourists, overlooking the supply-side of the travel and tourism industry such as SME. The study of Dayour et al. (2020) supports Chodokufa and Chiliya (2014) and NIC (2018) who report that SMEs do not have the wherewithal to cope with high premiums. An important contribution to the current literature is the finding that

structural factors, which are service scheme related factors, are the main constraints to insurance uptake by SMEs in Ghana.

Musah and Duker (2020) 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 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. The study also revealed a moderately high level of insurance awareness among SMEs in Ghana. The results of this study revealed further that SMEs in Ghana mainly take up insurance to fulfill legal requirement or to mitigate risks.

Tilweta (2020) conducted a survey on the factors determining the uptake of insurance among SME in Mbeya city, Tanzania. Through the findings of the study, it was revealed that only 43% of respondents had knowledge on the role of insurance while 51.1% claimed that the insurance costs (charges) were too high and 61.8% agreed that the low level of income influenced the insurance demand. Based on the study findings it was concluded that, knowledge/education on insurance roles, high costs of insurance and level of income flow in business influence insurance demand for SME owners in Mbeya City.

3. METHODOLOGY

The study adopted a descriptive research design which facilitated the gathering of reliable data for investigating cultural, socio-economic and demographic factors influencing the uptake of insurance among SMEs in Lagos State. The population of the study was 687 SMEs registered members of the National Association of Small and Medium Scale Enterprise (NASME), Lagos State chapter (SMEDAN & NBS, 2017). A sample size of 253 SMEs were randomly selected through the Yamane (1964) approach for this study. Data were gathered from owners of the selected SMEs through the use of a 4-type likert scaled questionnaire with responses as follow; Strongly agree [1], Agree [2], Disagree [3], Strongly Disagree [4]. The research instrument was subjected to both content validity and internal consistency reliability tests before using it for data collection. The questionnaire was considered reliable with Cronbach's Alpha coefficient of 0.72. Data analysis was carried out with both descriptive and inferential (factor analysis and Regression analysis) statistics with the aid of Statistical Package for Social Sciences (SPSS, Version 24) and Microsoft Excel software programs. Factor analysis was conducted to determine the principal components among the items of the factors considered for this study. Regression analysis was used to test the research hypotheses and generate a model for this study.

4. DATA ANALYSIS AND DISCUSSION OF FINDINGS

This section presents the empirical results obtained from the data analysis conducted, interpretation of the findings, and discussions of the study results. The main objective of this study is to determine the specific factors affecting the uptake of insurance among Small and Medium-scale Enterprises (SMEs) in Lagos State. 209 copies of the administered questionnaire were retrieved but only 191 copies were used as 18 copies were not properly filled and as such considered invalid for the study. The retrieval rate is 75% which is greater than the minimum rate of 70%. The hypotheses stated for the study are tested at 0.05 level of significance.

4.1 Test of Hypotheses

4.1.1 Hypothesis 1: No specific economic factor significantly influences the uptake of insurance among SMEs in Lagos state.

Independent variable (X) = Economic factor
Dependent variable (Y) = Insurance uptake

$$\text{Insurance Uptake} = \alpha_1 + \beta_1 \text{Economic Factor} + \mu_1 \dots (1)$$

Where:

Independent variable = Economic Factor

Dependent Variable = Insurance Uptake

α_1 = Intercept on the y axis

β_1 = Coefficient of X. (the mean change in the Y variable for every 1-unit increase in X variable).

μ_1 = error term.

Factor analyses and regression analysis were used to test the stated. Factor analysis was initially conducted to identify the key economic factor which was further used to test the hypothesis using regression analysis.

Factor analysis

The 5 items of economic factors affecting the uptake of insurance among Small and Medium-scale Enterprises (SMEs) in Lagos State were subjected to Principal Components Analysis (PCA). An inspection of the correlation matrix revealed the presence of many coefficients of 0.3 and above. The Kaiser-Meyer-Okin value was 0.78, exceeding the recommended value of 0.6 (Kaiser, 1970, 1974) and the Barlett's Test of Sphericity (p-value = 0.000) reached statistical significance, supporting the factorability of the correlation matrix. Principal components analysis revealed the presence of only one component with Eigen value exceeding 1, explaining 60.78% of the total variance. Interest rates (key economic factor) which was further supported by the results of Parallel Analysis was retained, as the communalities loading value and Component Matrix values for Interest rates exceed the corresponding criterion values for a randomly generated data.

Table 1: Principal components analysis for economic factors affecting uptake of insurance

Component	Eigenvalues	% of Variance	Cumulative % Communalities extraction	Component Matrix ^a	
Interest rates will determine if SMEs will take up insurance cover	3.0	60.8	60.8	0.7	0.8
Market stability will determine if SMEs will demand for insurance cover.	0.8	16.7	77.5	0.6	0.8
The level of tax rate influences the decision of SMEs to take up insurance.	0.5	9.9	87.4	0.6	0.8
Revenue generation will affect SMEs' decision to take up insurance.	0.3	6.7	94.1	0.6	0.8
Access to finance will influence SMEs decision to demand for insurance products	0.3	5.9	100.0	0.6	0.8
KMO and Bartlett's Test	R²	F	α	β	p-value
0.780 (0.000)	0.026	4.95	2.5313	0.1383	0.0273

Source: Authors' Computation (2023)

The model summary above shows 2.6% of the variation observed in insurance uptake is accounted for by this Interest rate a measure for economic factor ($R^2 = 0.026$). It implies that there are other economic factors like price of insurance, capitalisation, market stability, taxation among others, that will also influence the uptake of insurance among SMEs in Lagos State. This result is statistically significant because the calculated F ratio of 4.95 is greater than the tabulated F ratio value of 3.00 ($F_{1,189} = 3.00$) and also because the p-value for the result (0.0273) is less than the level of significant (0.05) used for the study.

Regression model: Insurance uptake = 2.5313 + 0.1383 Interest rate

An assessment of the regression model showed that interest rate significantly affects Insurance uptake ($\beta_{\text{Interest rate}} = 0.1383$, $p < 0.05$). This signifies that for every unit increase in interest rates, there is a 0.1383 unit increase in insurance uptake by SMEs in Lagos state. Based on these results, null hypothesis was not accepted, implying that there is a specific-economic factor influencing the uptake of Insurance among SMEs in Lagos State. The factor referred to here is Interest rates.

4.1.2 Hypothesis 2: No specific socio-cultural factor significantly influences the uptake of insurance among SMEs in Lagos state.

Independent variable

(X) = Socio-cultural factor

Dependent Variable

(Y) = Insurance uptake

$$\text{Insurance Uptake} = \alpha_2 + \beta_2 \text{Socio - Cultural Factor} + \mu_2 \dots (2)$$

Where:

Independent variable = Socio-Cultural Factor

Dependent Variable = Insurance Uptake

α_2 = Intercept on the y axis

β_2 = Coefficient of X. (the mean change in the Y variable for every 1-unit increase in X variable).

μ_2 = error term.

Factor analysis was again initially conducted to identify the key socio-cultural factor(s) which was further used to test the hypothesis via regression analysis.

Factor analysis

The 5 items of socio-cultural factors affecting the uptake of insurance among Small and Medium-scale Enterprises (SMEs) in Lagos State were subjected to principal components analysis (PCA) using SPSS Version 24. Prior to performing PCA the suitability of data for factor analysis was assessed. An inspection of the correlation matrix revealed the presence of many coefficients of 0.3 and above. Principal components analysis revealed the presence of only one component with Eigen value exceeding 1, explaining 61.55% of the total variance. SMEs owner's life style (*key socio-cultural factor*) which was further supported by the results of parallel analysis was retained as the communalities loading value and Component Matrix values for SMEs owner's lifestyle exceed the corresponding criterion values for a randomly generated data.

Table 2: Principal components analysis for social-cultural factors affecting uptake of insurance

Component	Eigen values	% of Variance	Cumulative % Communalities extraction	Component Matrix ^a	
<i>SMEs owner's lifestyle</i>	3.1	61.6	61.6	0.7	0.9
The values in host community	0.8	16.0	77.6	0.7	0.8
The culture of SMEs owners	0.5	9.3	86.9	0.6	0.8
Religious beliefs of SMEs owners	0.4	7.7	94.6	0.6	0.8
The attitude towards SMEs operations	0.3	5.4	100.0	0.5	0.7
KMO and Bartlett's Test	R²	F	A	β	p-value
0.800(0.000)	0.066	13.4	3.4433	-0.1968	0.0003

Source: Authors' Computation (2023)

The model summary above shows that 6.6% of the variation observed in insurance uptake is accounted for by this *SMEs owner's lifestyle* ($R^2 = 0.066$, $p\text{-value} < 0.05$). It implies that there are other socio economic factors like culture, religion, value system among others, that will also influence the uptake of insurance among SMEs in Lagos State. This result is statistically significant because the calculated F ratio of 13.4 is greater than the tabulated F ratio value of 3.00 ($F_{1,189} = 3.00$) and also because the p-value for the result (0.0003) is less than the level of significant (0.05) used for the study.

Regression model: Insurance uptake = 3.4433 - 0.1968 SMEs owner's lifestyle

An assessment of the regression model shows that SMEs owner's lifestyle significantly affect Insurance uptake negatively ($\beta_{\text{SMEs owner's lifestyle}} = -0.1968$, $p < 0.05$). This signifies that for every negative trait in SMEs owners' lifestyle, there is a 0.1968 unit decrease in insurance uptake in Lagos state. Based on these results, null hypothesis was not accepted, implying that there is a specific-economic factor that significantly influences the uptake of Insurance among SMEs in Lagos State. The factor referred to here is SMEs owner's lifestyle.

4.1.3 Hypotheses 3: No specific demographic factor significantly influences the uptake of insurance among SMEs in Lagos State.

Independent variable (X) = Demographic factor

Dependent Variable (Y) = Insurance Uptake

$$\text{Insurance Uptake} = \alpha_3 + \beta_3 \text{Demographic Factor} + \mu_3 \quad \dots (3)$$

Where:

Independent variable = Demographic Factor

Dependent Variable = Insurance Uptake

α_3 = Intercept on the y axis

β_3 = Coefficient of X. (the mean change in the Y variable for every 1-unit increase in X variable).

μ_3 = error term.

Factor analysis was initially conducted to identify the key demographic factor(s) which was further used to test the hypothesis via regression analysis.

Factor analysis

The five items of demographic factors affecting the uptake of insurance among Small and

Medium-scale Enterprises (SMEs) in Lagos State were subjected to PCA using SPSS Version 24. Prior to performing PCA the suitability of data for factor analysis was assessed. An inspection of the correlation matrix revealed the presence of many coefficients of 0.3 and above. The Kaiser-Meyer-Okin value was 0.793, exceeding the recommended value of 0.6 (Kaiser, 1970, 1974) and the Barlett's Test of Sphericity (p-value = 0.000) reached statistical significance, supporting the factorability of the correlation matrix. Principal components analysis revealed the presence of only one component with Eigen value exceeding 1, explaining 60.78% of the total variance. *Education level of SME owners which was further supported by the results of Parallel Analysis was retained as the Communalities loading value and Component Matrix values for the education level of SME owners exceed the corresponding criterion values for a randomly generated data.*

Table 3: Principal components analysis for Demographic factors affecting uptake of insurance

Component	Eigenvalues	% of Variance	Cumulative % Communalities extraction	Component Matrix ^a	
<i>The education level of SME owners has an influence on the uptake of insurance</i>	3.2	63.4	63.4	0.8	0.9
SMEs owner's primary profession will determine SMEs demand for insurance products	0.9	17.2	80.6	0.7	0.9
The age of SMEs influences their owner's decision to take up insurance	0.5	9.6	90.2	0.7	0.8
The size of SMEs will influence the owner's decision to purchase insurance products	0.3	5.7	95.8	0.7	0.8
Men owned SMEs will take up insurance cover than Women owned SMEs	0.2	4.2	100.0	0.2	0.5
KMO and Bartlett's Test	R²	F	α	β	p-value
0.793(0.000)	0.028	5.37	3.2471	0.1172	0.0215

Source: Authors' Computation (2023)

The model summary above shows the extent to which specific demographic factor (the education level of SME owners) influence the uptake of insurance among SMEs in Lagos state. The coefficient of multiple determination ($R^2 = 0.028$, p-value < 0.05) shows that 2.8% of the variation observed in insurance uptake is accounted for by this specific a demographic factor. It implies that there are other demographic factors like gender, age, owner's primary profession among others, that will also influence the uptake of insurance among SMEs in Lagos State. This result is statistically significant because the calculated F ratio of 5.37 is greater than the tabulated F ratio value of 3.00 ($F_{1,189} = 3.00$) and is also statistically significant because the p-value for the result (0.0215) is less than the level of significant (0.05) used for the study.

Regression model: Risk taking = $3.2471 + 0.11$ Education level of SME owners

An evaluation of the unstandardized coefficient of this demographic factor (Education level of SME owners) in the coefficient table above and its associated p and t values show that only Education level of SME owners significantly affect Insurance uptake ($\beta_{\text{Education level of SME owners}} = 0.1172$, $p < 0.05$). This is because the p-value of Interest rates which is 0.0215 is less than 0.05 and t-test result greater than 1.97. This signifies that for every unit increase in the educational level of SME owners, there is a 0.1172 unit increase in their insurance uptake in Lagos state. Based on these results, null hypothesis was not accepted,

implying that there is a specific-economic factor that significantly influences the uptake of Insurance among SMEs in Lagos State. The factor referred to here is the education level of SME owners.

4.2 Discussion of Findings

Results of the analysis show that interest rate, owners' lifestyle and owners' level of education were respectively identified as specific economic, socio-cultural and demographic factors that significantly influence the uptake of insurance among SMEs in Lagos State.

Interest rate appears to be the strongest factors among the five economic factors considered for this study as revealed by the results of the factor analysis. A further test of the degree of relationship between interest rate and insurance uptake indicates that interest rate significantly affects Insurance uptake among SMEs in Lagos State. These results seem to reflect the extent to which SMEs rely on borrowed fund to support business growth. This result tends to align with the findings of Cooper (2012) which reported the existence of a strong positive relationship between microfinance services and growth of SMEs in Kenya. The result equally supports the outcome of another Kenyan study by Kamara and Makori (2017), which concluded that uptake of insurance services will be affected by access to finance and access to business information services.

Among the many socio-cultural factors engaged in this study, SMEs owner's life style is found to be the one that exerts the most influence on insurance uptake. The outcome of the factor analysis shows that SMEs owner's life style explained 61.55% of the total variance. A measure of the degree of relationship between SMEs owner's life style and uptake of insurance was carried out through regression analysis and it was established that SMEs owner's life style is significantly related to insurance uptake. These results attest to the fact that a thin line exists between most SMEs and their owners since many SMEs are inseparable from their proprietors. Owner's entrepreneurial capability seem to play a huge role in the success of SMEs as major business decisions, including those related to insurance uptake are dictated by the owner. It can therefore be suggested that, the level of owner's education and exposure will make a vital difference in this regard. This conclusion is in line with the findings of a Tanzanian based study by Tilweta (2020) which concluded that knowledge/education on insurance roles, high costs of insurance and level of income flow in business influence insurance demand for SME owners in Mbeya City. Also, the outcome tends to conform with the study of Kajwang (2021) among Kenyans SMEs which revealed that cultural beliefs, attitudes and taboos negatively affect the consumption of microinsurance but such factors like income level, household size and knowledge about microinsurance affect its demand positively.

Education level of SMEs owners was found to be the most prominent of the demographic variables examined for this study. This is the outcome of the factor analysis which singled out Education level of SMEs owners. The results of the regression analysis indicate the existence of a positive and strong relationship between Education level of SMEs owners and insurance uptake. This revelation confirms the significant role that owner's education can play in shaping business decisions including insurance awareness. This finding conforms with the result of Musonda and Chowa (2022) that education is directly related to increased spending on insurance, increase insurance need awareness and enhance the ability to make objective purchase decision. It also aligns with the study of Macharia, Mwangi and Oluoch (2017) which found that factors that influence the uptake of social health insurance is secondary school education, past insurance experience, occupation among other factors.

5. CONCLUSIONS AND RECOMMENDATIONS

Small and medium-sized enterprises (SMEs) are a key component of every economy. Studies fill the literature with the importance of SMEs as employment generators, innovators, factors in the supply chains of larger enterprises, and important contributors to gross domestic product. SMEs are also relevant in developed and developing countries alike, bearing in mind that definitions of SMEs differ by the size of the economy. SMEs need insurance services, because of the activities they engage themselves in performing their social and economic responsibilities, which makes them exposed to risks. Insurance would act as the tool to protect them from the risks they are exposed to. Insurance is a useful risk management tool, which can serve small and medium business a great deal. The role insurance plays encompasses: Promotion of industrial safety and general loss prevention measure, encouraging savings, promoting the growth of capital market and foreign direct business, promoting growth and development of the economy, protection against economic insecurity, reduction of the level of unemployment in the country among others. The study discovered that despite the risks faced by SMEs, the uptake of insurance among SMEs in Nigeria is low because of interest rates (economic factor), SMEs owner's lifestyle (socio-cultural factor) and the education level of SME owners (demographic factor).

Based on the above conclusion, the following recommendations were made:

- i. Government and its relevant agencies should make provision for specialised fund aimed at granting easy access to SMEs' financing and to eliminate barriers created by persistent high interest rate.
- ii. Also, SMEs' owners should be equipped with essential entrepreneurial skills and competencies so that they can grow their business with the right attitude and mindset of entrepreneurs instead of operating the business as a mere business owner.
- iii. In addition, relevant government agencies, SMEs associations and other stakeholders should intensify efforts to increase insurance education among SMEs owners so as to enhance their knowledge and understanding of the need to embrace insurance as risk treatment technique.

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