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INSURANCE FOR SMALL BUSINESSES

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The International Labour Organization (ILO) promotes sustainable enterprises as an integral part of its Decent Work agenda, and support for small businesses has been a key area of intervention. Its advisory services on policies related to promoting small businesses are in high demand among ILO member countries. It is also involved in a wide range of other services to support small businesses, including training and access to financial services. More information on the relevance of small businesses for employment, the key constraints faced by small businesses and their workers, and the effectiveness of measures to support this enterprise segment can be found in the 2015 ILO Report on SMEs and employment creation.

This paper was based on case studies, and we thank all the providers featured for their willingness to share their experiences with the Facility over many years and to many of them for providing additional materials and agreeing to interviews for this paper.

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ACRONYMS AND ABBREVIATIONS

CAS	Casualty Actuarial Society
FMCG	Fast-moving consumer goods
FOGAPE	*Fondo de Garantía para Pequeños Empresarios*
ILFAD	Indonesian Liquidity Facility after Disasters
KGFS	Kshetriya Gramin Financial Services
ILO	International Labour Organization
MFI	Microfinance institution

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EXECUTIVE SUMMARY

Small businesses are vital to economic development. The International Labour Organization (ILO) (2015) confirms that small businesses are “a major job creation engine”, accounting for two thirds of all jobs and creating the majority of new jobs. Small businesses are particularly important in emerging markets, which have around 80-95 per cent of the world´s estimated 420 to 510 million micro, small and medium enterprises (IFC, 2010).

Small businesses are exposed to a wide range of risks, ranging from theft of assets to illness of a key worker, or a natural disaster, and they struggle more than larger businesses to cope with these risks. This is partly a matter of resources – small businesses have far fewer resources to cope with the risks they face – but it is also made worse by the environment they operate in and a shortage of skills and tools to manage those risks.

Insurance represents an important tool to help businesses better manage risks. It provides small businesses with financial protection for many (though certainly not all) risks, while also helping to boost productivity and increase access to finance. Yet, small businesses worldwide are generally underinsured or have no insurance at all. This problem is particularly acute in developing countries, where a very small percentage of small businesses have ever bought any insurance policy.

Insurance for small businesses represents a promising market for insurers. Nonetheless, it poses three significant challenges. The first is product design – many insurers do not sufficiently understand small businesses and their risks, and do not offer them suitable and valuable products. Secondly, once a product is designed, insurers face challenges in finding an appropriate distribution strategy to get it into the hands of their clients. Since small businesses are heterogeneous and only loosely grouped, it is difficult to find aggregators. Finally, insurers face limited demand and poor understanding and trust of insurance among small businesses.

In order to overcome these challenges, it is useful to look at the emerging good practices of those providers already making headway in this market:

Product design – In general, it is vital that insurers understand the context, business activities, needs, preferences and current risk management practices of their market. To offer products that can compete with existing mechanisms to manage risks, insurers must learn from the strengths of such mechanisms, particularly their versatility, as well as pain points and gaps which insurance can fill.

The vast majority of providers interviewed said that a product covering multiple risks was far more attractive to small businesses than single covers. This need not necessarily mean a very expensive cover offering high benefits across a number of risks. Even limited cover for certain risk types can be attractive and useful to small businesses owners, who usually prefer limited protection across a range of risks that they can easily imagine occurring, than a high cover on a single risk that may never occur. It is particularly relevant to include some simple health benefits, as health is a very significant and important risk for small business owners.

Customization of benefit packages should be limited. Few insurers can afford sales forces with the time and expertise to explain complex products and options to small businesses owners, who may in turn easily be put off by complexity and too many options. For most insurers, it is therefore wise to adapt products to suit a distribution channel or large segments of clients, rather than individual customization and options at the client level.

Distribution – Financial institutions are a common way for insurers to reach entrepreneurs running small businesses, as they frequently already have partnerships with them and such institutions are often willing to bundle insurance with their loans or savings products. Business associations are another possible distribution channel. Such associations aggregate many small businesses within an industry and may be willing to help market and sell a product to their members.

Another effective way to aggregate small businesses is to look to other businesses or institutions in the same value chain, with which they regularly come into contact. For small shops this could be the larger shops or wholesalers from which they buy their inventory. For many retailers of all kinds, this could be the distribution networks that provide them with fast moving consumer goods ready for sale. For small factories, it could be the companies they sell to.

Success depends on the insurer finding ways in which insurance can boost the core business of the channel. This could include using insurance to boost loyalty, to protect a company's image, to help clients to keep using services during shocks, or even to help governments achieve public policy objectives.

Finally, technology provides opportunities to overcome traditional barriers to distributing insurance to small businesses in a cost effective way. Technology can be used across all processes, from digital payments for premiums and claims, to financial education.

Insurance culture and demand – Many insurers have observed that small businesses owners generally have a better understanding of the risks they face than other individuals, suggesting that significant potential exists to develop a stronger insurance culture among small businesses in many markets.

Many possible pathways exist to develop a small business market, but all must happen over a long time frame and can require significant investment. One pathway to enter the small business market is to start by offering compulsory embedded products. This provides an opportunity to demonstrate the value of insurance and build trust, which can later be leveraged to introduce further voluntary products to the same client base. Another possible pathway is to grow alongside existing microinsurance clients of partner microfinance institutions (MFIs) as their activities grow into small businesses. One more option may be to start with salaried workers, who frequently also own small businesses in many countries and generally have greater experience and understanding of financial services.

Finally, segmentation is important. Some segments, with greater education, income, experience with financial services and aspirations for their business, may represent a significant market opportunity and be more willing to embrace insurance.

Given their economic importance, support for small businesses is clearly vital. Insurance is certainly not a complete solution. However, when well integrated with other interventions to boost the capacity of small businesses, improve the environment in which they operate, and reduce the risks they face, better insurance provision could provide a significant boost for small businesses.

1. INTRODUCTION

The first part of this paper (sections 2 and 3) explains the importance of insurance in helping small businesses manage risks. It examines the main risks that they face and identifies which of them could be covered with insurance. For each of these risks, possible insurance products are outlined. This part of the paper is intended for a wide range of audiences, including governments, insurers, donors and international organizations.

The second part of the paper (section 4) asks how to make insurance for small businesses a reality and is aimed at insurance providers. It examines the challenges that providers face, clustered into three groups: distribution, product design and minimal insurance culture. The paper then provides emerging good practices to help providers overcome challenges in each cluster.

Small businesses (see box 1) are vital to economic development. The ILO (2015) confirms that small businesses are "a major job creation engine", accounting for two thirds of all jobs and creating the majority of new jobs. Furthermore, small businesses are linked to promoting innovation, enhancing competition, and generating income. All of these are vital for economic development and poverty reduction. In fact, small businesses are particularly important in emerging markets, with around 80-95 per cent of the world´s estimated 420 to 510 million micro, small and medium enterprises (IFC, 2010).

BOX 1. What is meant by "small businesses"?

Business sizes are categorized very differently by different organizations, governments and researchers. This paper uses the term "small businesses" as a catch-all word for micro and small enterprises, so the insurance schemes examined in this paper cover enterprises that range from household businesses up to those with around 50 employees.

Although it is important for small businesses, credit-linked life insurance is not covered in depth in this paper because it is very well documented elsewhere. More information can be found in the Facility's collected publications and projects on the subject.

Yet, despite their economic importance, small businesses worldwide are generally underinsured or have no insurance at all. For example, in Australia 50 per cent of small businesses are severely or significantly underinsured and 26 per cent of small to medium enterprises do not have any form of general insurance (Insurance Council of Australia, 2008). In the UK, despite 66 per cent of small businesses being affected by flood, drought or snow in the three years from 2012 to 2014, 29 per cent of small businesses did not have any insurance for business interruption caused by such events, 43 per cent lacked adequate coverage, and 75 per cent of small businesses with less than 10 employees had no plan in place to handle adverse weather (Federation of Small Businesses, 2015). The lack of insurance is even more pronounced in many developing countries. For example, in Malawi only 2 per cent of small businesses have ever bought an insurance policy (Finscope, 2012c), 1 per cent have done so in Mozambique (Finscope, 2012a), 4 per cent in Tanzania (FSDT, 2012), and 5 per cent in Zimbabwe (Finscope, 2012b).

To some extent this is a matter of gradual development of insurance markets. Insurers in developing countries often start by offering simple personal products, such as life, disability and hospital cash insurance. These products can certainly be useful for small businesses, especially household businesses where personal risks are very significant for the business. As insurers become accustomed to this market and the distribution channels needed to reach them, they often begin to turn their attention to small businesses and design products to cover the risks specific to them. Yet this evolution generally takes place slowly, and in most developing markets a great deal more needs to be done for insurance to fulfill its potential to support small businesses. Interventions such as capacity building, supporting innovative providers, and sharing knowledge and emerging good practices can help accelerate this evolution.

1.1. METHODOLOGY

The research for this study was carried out through a combination of desk research and interviews with providers. Desk research was used to provide a framework for the potential of insurance for small businesses and to explore existing evidence for its value for small businesses. The remainder of the research consisted of case studies of 12 providers offering a variety of products and in a variety of geographies (see Annex A). The case studies were made using desk research and also, in the majority of cases, individual interviews with senior management within the organizations. These providers have already faced the challenges of providing insurance to small businesses, and have found ways to address them. They have shared their successes and the lessons that lie behind them, and it is hoped that understanding these prior experiences will help other organizations reach small businesses in greater numbers in the future.

2. RISKS FACED BY SMALL BUSINESSES

Small businesses are exposed to a wide range of risks, which they frequently struggle to manage. These risks range from theft of assets to illness of a key worker, or a natural disaster. Small businesses struggle more than larger businesses to cope with risks. This is partly a simple matter of resources – small businesses have far fewer resources to cope with and survive the risks they face – but it is also made worse by shortages in skills and tools to manage those risks.

Risks faced by small businesses can be classified into four major risk classifications commonly used in enterprise risk management systems and defined by the Casualty Actuarial Society (CAS). The CAS presents the following framework of risks faced by businesses of all sizes (CAS, 2003; seen in Yusuf et al., 2013):

Hazard risks	Fire and other property damage
	Windstorm and other natural perils
	Theft and other crime
	Personal injury
	Business interruption
	Disease and disability (including work-related injuries and diseases)
	Liability claims
Financial risks	Price (e.g. asset value, interest rate, foreign exchange, commodity)
	Liquidity (e.g. cash flow, call risk, opportunity cost)
	Credit (e.g. default, downgrade)
	Inflation/purchasing power
	Hedging/basis risk
Operational risks	Business operations (e.g. human resources, product development, capacity, efficiency, product/service failure, channel management, supply chain management, business cyclicality)
	Empowerment (e.g. leadership, change readiness)
	Information technology (e.g. relevance, availability)
	Information/business reporting (e.g. budgeting and planning, accounting, information, pension fund, investment evaluation, taxation)
Strategic risks	Reputational damage (e.g. trademark/brand erosion, fraud, unfavorable publicity)
	Competition
	Customer wants
	Demographic and social/cultural trends
	Technological innovation
	Capital availability
	Regulatory and political trends

To delve deeper into the risks faced by small businesses, it is useful to consider the findings from Finscope's research carried out in five African countries: Malawi (Finscope, 2012a), Mozambique (Finscope, 2012b), South Africa (Financial Sector Deepening Trust, 2012), Tanzania (Finscope, 2012c) and Zimbabwe (Finscope, 2010). These nationally representative surveys examine how owners of micro, small, and medium enterprises, as well as individual entrepreneurs, source their income and manage their financial lives. The surveys elucidate which risks are most important to small business owners in the countries surveyed, as shown in Table 1.

Table 1. To which risks is your business exposed?

Most common risks mentioned across countries	Percentage of small business owners				
	South Africa	**Zimbabwe**	**Malawi**	**Mozambique**	**Tanzania**
Flood, fire or natural disaster	13 (flood, fire or natural disaster), 6 (rain damage)	46	41	18 (flood, fire or natural disaster), 12 (rain damage)	17 (flood), 47 (fire), 30 (drought)
Illness or death of owner	8 (illness), 7 (death)	15	32	14	
Theft	18 (theft of stock), 13 (theft of equipment)	15	31	13 (theft of livestock)	66
Accidents					50
Not being paid by creditors	6	19			
Damage to place of business	12				
Bankruptcy	9				
Low selling prices		22			
Lack of raw materials		16			

This data is limited by the fact that it only covers countries in one region. Secondly, the vast majority of small businesses surveyed are microenterprises in which the entrepreneur does not employ any further staff (81 per cent in Malawi, 93 per cent in Mozambique, 67 per cent in South Africa, 66 per cent in Tanzania, and 71 per cent in Zimbabwe). Larger businesses in other countries may have other priorities. Nonetheless, it provides a useful list of risks that are likely to be relevant to small business in many countries.

Having identified the substantial range of risks faced by small businesses, the next step is to ask where insurance can play a role in helping better manage these risks. The next section responds to this question.

3. INSURANCE AS A SOLUTION

A range of solutions will be needed to overcome the constraints faced by small businesses: governments can introduce regulation that is more supportive of small businesses, access to credit can be improved, more reliable electricity and internet access can be installed, and business skills training can improve management practices. Efforts to implement such improvements are underway across the world. However, despite significant efforts to improve infrastructure, competency, and so on, the risks that small businesses face, such as weather events, health problems, or theft of their stock, are often left largely unaddressed. Insurance cannot address all of those risks, but it can address many of them.

This section first explores how insurance can offer financial protection, exploring which risks are insurable and which insurance products are suitable. It then goes on to look at the indirect benefits insurance offers in boosting productivity and facilitating access to credit.

FINANCIAL PROTECTION

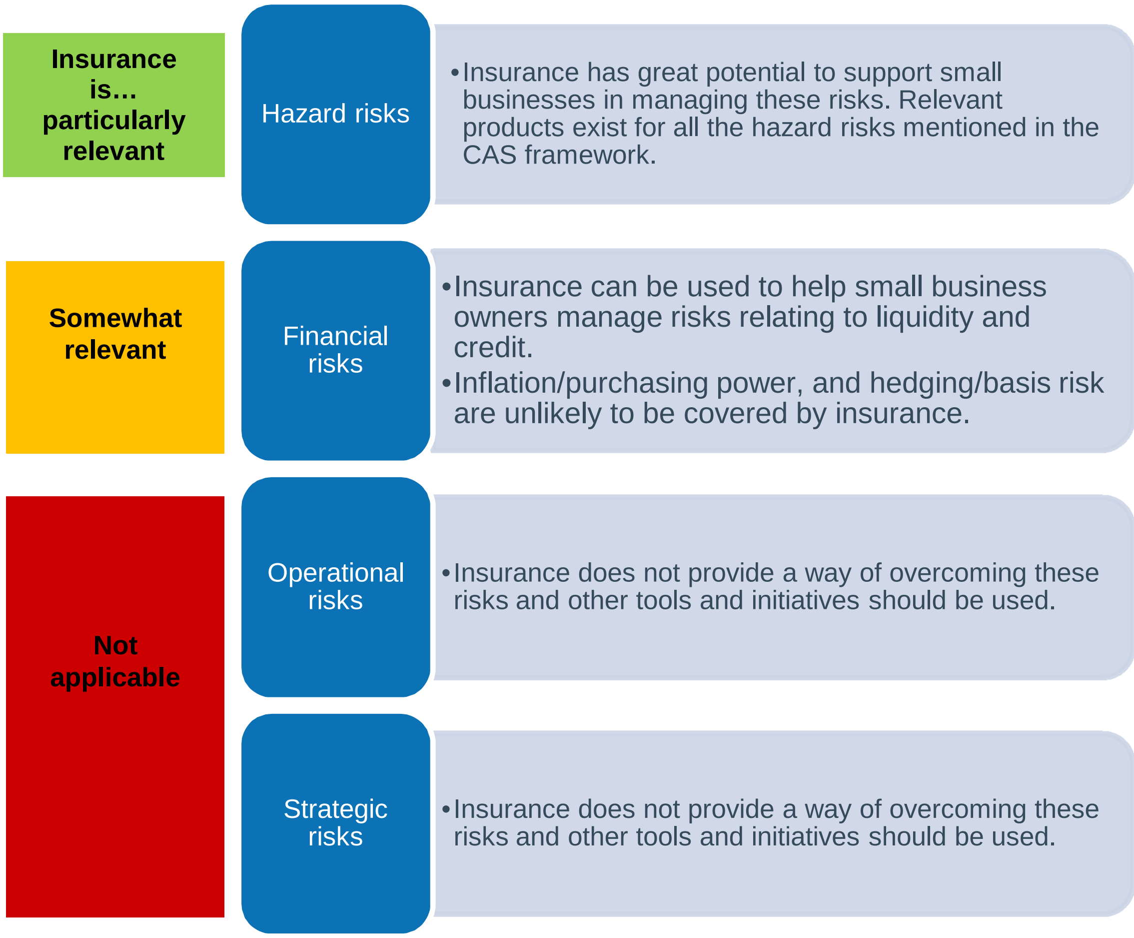
Insurance allows businesses to avoid the financial consequences of certain risks. Whereas a sudden and unexpected shock can take an uninsured business over the brink, an insured business is able to handle the shock and continue to operate.

WHICH RISKS ARE INSURABLE?

Many of the risks outlined in the CAS' framework of risks (introduced in section 2) can be covered by insurance, whereas some fall outside the remit of insurance. Insurance works as a risk-management solution for risks that are infrequent and result in large losses. The risks must involve a clear and quantifiable financial loss and must be random, rather than something controlled by the insured person or business. Risks related to business operation, such as poor supply chain management or being unable to hire the right staff, are therefore not insurable since they are largely under the control of the business. Furthermore, another operational risk, competition, is not insurable, because it is too difficult to quantify and too common – almost all businesses struggle in the face of stronger competition.

Nonetheless, a significant number of the risks identified in the framework are indeed insurable. Insurance is most relevant to hazard risks, though it also has a role to play in relation to financial risks. Insurance is not a solution, on the other hand, to strategic or operational risks. The potential of insurance for each category of risk is summarized in Figure 1.

Figure 1. Summary of the relevance of insurance to categories of risks



Putting together the relevant risks under the hazard and financial risks sections of the CAS framework, there is a list of nine insurable risks. Table 2 below outlines insurance products which can help small businesses manage each of those risks. Unfortunately, insurance provision to protect small businesses from these nine risks is still very limited in most developing countries. An example of one product and how it provided financial protection to its clients is provided in Box 2.

Table 2. Insurance products relevant to each risk

Risk	Potential insurance product	Description
Fire and other property damage	Fire insurance	Insures premises and assets against the risk of fire. This is particularly important for small businesses operating in crowded markets with high fire risks.
	Multi-risk property insurance	Protects valuable assets such as buildings, machinery, stock, equipment, and other insurable property in the event of accidental physical loss or damage resulting from fire, natural disasters, water, theft/robbery, malicious damage, etc.
Windstorm and other natural perils	Weather insurance	Protects premises, assets or crops against pre-defined adverse weather risks (such as drought, heavy rainfall or windstorms). This can be offered on an indemnity basis or according to a weather index.
Theft and other crime	Theft insurance	Protects assets against theft. This is very often included in multi-risk property insurance.
	Political violence insurance	Protects premises and assets against losses related to political violence (e.g. riots, protests).
	Money insurance	Covers against loss of money and securities kept within the insured premises or whilst in transit.
	Fidelity guarantee insurance	Covers a small business against losses resulting from fraud and theft by employees.
Personal injury	Personal accident insurance	Covers the business owner or workers in case of an accident.
Business interruption	Business interruption insurance	Protects against loss of profits or revenue as a result of interruption in operations due to predefined causes.
Disease and disability (including work-related injuries and diseases)	Health insurance	Covers medical expenses of the business owner or workers in case of illness.
	Permanent disability insurance	Protects the business owner or workers in the case of permanent disability. Often offered bundled with life insurance.
	Workers compensation insurance	Covers claims against the employer by an employee who has suffered an accident or disease resulting in death, disablement or medical expenses, whilst engaged in the service of the employer.
Liability claims	Public liability insurance	Covers against legal liability to third parties for bodily injury or property damage due to activities connected with the business.
	Products liability insurance	Protects against legal liability to third parties for bodily injury or property damage caused by the supply of defective products.
Liquidity	Trade credit insurance	Protects against the risk that a buyer does not pay due to bankruptcy or insolvency. In developed countries factoring arrangements also exist in which factoring companies take on payment risks from small businesses and in turn take out insurance themselves.
Credit	Credit-linked insurance	Insurance for small businesses or for financial institutions lending to small businesses facilitates more reliable access to credit by reducing the risk for lending institutions. Credit insurance can itself cover a range of risks, including life, accident, weather and many others.

BOX 2. CIC Insurance Company, Kenya

CIC is an insurance company in Kenya and an important provider of cooperative and microinsurance products. It serves small business, many of which operate in open air markets, which have a very high fire risk. CIC offers life and property insurance for these businesses. It distributes the product through lending institutions, and the cover is provided on a compulsory basis together with loans. This reduces the risk of anti-selection for the insurer and reduces the cost of the insurance compared to individual rates.

CIC believes that it is important that its product covers the risk of fire because it is a very visible and tangible risk for its clients. The importance of the product was particularly clear in 2015 when a fire in an open air market destroyed the goods of many of CIC's clients. The claims from the fire came to over USD 350,000. These claims helped those businesses to continue running despite the damage they had suffered.

BOOSTING PRODUCTIVITY

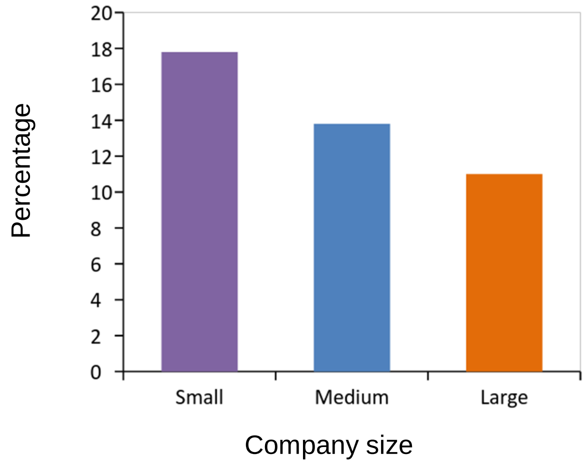
Insurance can also boost the productivity of small businesses, even in the absence of a shock. Knowing that they are protected in the case of certain risks allows business owners to make productive decisions and investments that may be riskier, but are likely to yield higher returns.

Evidence is increasingly supporting this argument. For example, Rey (2012) shows a strong positive relationship between turnover and business insurance in South Africa, suggesting that business insurance improves the performance of small businesses in the country.

FACILITATING ACCESS TO FINANCE

Another effect of insurance is that it helps small businesses access credit. This is particularly important given the severity of the problem faced by small businesses trying to access financing in developing countries. In an IFC study (2013) which analyzed survey data from over 45,000 businesses in 106 developing countries, access to finance topped the list of constraints faced. Furthermore, it was considered a more significant constraint by small businesses than it was by larger enterprises, as seen in Figure 2, as well as being more highly rated in low and upper-middle income countries than in high income countries.

Figure 2. Percentage of firms considering access to finance their biggest constraint



Source: IFC Jobs Study, World Bank Group Enterprise Surveys

Small businesses' risky and uninsured operations, a lack of collateral and reliable business records, and in some cases their informal status, prevent them from qualifying for credit from formal financial institutions. Due to their limited access to finance, business owners have to rely on self-financing or informal sources for the necessary capital to start and maintain their business. These are generally not sufficient and limit their performance.

Several types of insurance can reduce the risk of lending to small businesses, and therefore allow financial institutions to invest in small businesses in confidence. Simple credit-linked life and accident insurance products are the most common products; however, almost all kinds of insurance can be bundled with loans to reduce risks for both borrowers and the financial institution. Examples of existing bundled products also include loans bundled with weather insurance, fire insurance, hospital cash insurance and many more. Institutions may also decide to buy a portfolio-level insurance product, covering its portfolio of loans as a whole against specific risks, for example a natural disaster. This helps to provide liquidity to financial institutions when a large event may make many loans difficult to recover. A further option is for institutions to support small businesses through asset-based lending (in which a business' asset serves as collateral for the loan), and to use asset insurance to protect the relevant asset (Goldman et al., 2014).

Research on the impact of insurance on a small business' ability to access credit is very limited. However, there is some useful evidence from the sphere of agricultural insurance which supports the argument that insurance covering disaster risks improves access to finance. This is not surprising, since a catastrophic event, like a natural disaster, is likely to affect a large proportion of a lender's portfolio simultaneously, thus discouraging them from providing loans to uninsured clients exposed to such risks. Insurance can overcome this barrier.

In particular, several studies have shown that financial institutions are willing to offer insured clients loans on better terms. For example, in Zambia a mandatory indemnity-based crop insurance product was introduced to support a group savings and loans scheme. The scheme experienced almost 100 per cent recovery, which is very rare among loans for small-scale farmers. As a result, the interest rate was gradually decreased from 26 percent to 21 per cent and then 14 per cent (Chipeta et al., 2012). Similarly, Luxbacher and Goodland (2011) found that some banks in Mongolia offered lower interest rates on loans for farmers insured under an index-based livestock insurance product. In Burkina Faso, reduced credit risk brought about by an index crop insurance product (introduced by PlaNet Guarantee) resulted in some MFIs decreasing their required deposits from 25 per cent to 15 per cent (Van Asseldonk et al., 2015).

Disaster risk is very relevant to small businesses, which also often suffer the brunt of disasters as well as farmers. This was seen, for example, in the Philippines in the aftermath of Typhoon Haiyan, when Swiderek and Wipf (2015) noted that rural businesses were one of the hardest hit groups by the disaster. Therefore, related evidence from agricultural insurance provides a good indication that disaster insurance should increase access to credit for small businesses. An example of a product covering small businesses and MFIs lending to them for such disasters is given in Box 8 on Mercy Corps' scheme in Indonesia. Nonetheless, specific research on the impact for small business lending is certainly needed.

In addition, further research is needed to understand how insurance for non-disaster risks, such as theft or illness, impact access to credit for small businesses. Since these risks are unlikely to affect a large proportion of a lender's portfolio simultaneously, they are likely to have a different role in loan decisions. However, this role has not been fully researched.

Nonetheless, there is some evidence outside of disaster insurance that mechanisms to reduce financial risk for small businesses have an impact on their access to credit. For example, in Chile, a partial credit guarantee fund (FOGAPE – *Fundo de Garantía para Pequeños Empresarios*) was introduced by the government to boost access to finance by covering part of the default risk of loans to small businesses. A study by Larraín and Quiroz (2006; seen in OECD, 2009) found that customers of FOGAPE were 14 percent more likely to get a loan than businesses that were not customers. The study notes that it only examined loans in larger cities and this finding might not hold in rural areas. Of course, it cannot be assumed that such success would necessarily achieved by private insurance schemes, which might be less well-known and trusted by credit providers. Nonetheless, these findings are an encouraging indication that reducing financial risk can facilitate increased access to credit for small businesses.

4. CHALLENGES AND EMERGING GOOD PRACTICES

Small businesses represent the next target for insurers aiming to reach those who remain underserved in developing countries. Many providers will already have had success with basic personal products, yet the evolution from success with these products to successful products for small businesses is not automatic. Serving small businesses comes with a host of new challenges. These can be better tackled by first taking a close look at the experiences and successes of pioneers in the field.

During numerous interviews with insurers (see Annex A), challenges in offering insurance to small businesses emerged in three main clusters. And, though most insurers continue to face a range of difficulties, they were also finding ways to overcome them.

Insurance for small businesses poses many issues common to personal microinsurance products, such as offering affordable products at sustainable rates for the insurance provider. Many of the Facility's publications[1] cover these topics, and much of the advice in them will be very relevant for insurance for small businesses. This paper, however, focuses on the challenges and solutions which are distinctive to serving the small business market.

This section presents the clusters of challenges and emerging good practices, and provides examples for each of them. All the challenges and emerging good practices are summarized in Table 3.

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[1] For example: Alice Merry, Pranav Prashad and Tobias Hoffarth, *Microinsurance distribution channels* (ILO, 2014); Mia Thom, Jeremy Gray, Zani Müller and Jeremy Leach, *Scale: Thinking big* (ILO, 2014), Janice Angrove and Aparna Dalal, *The business case for microinsurance part II* (ILO, 2014); Kelly Rendek, Jeanna Holtz and Camyla Fonseca, *The moment of truth: Claims management in microinsurance* (ILO, 2014); Michal Matul, Aparna Dalal, Ombeline De Bock and Wouter Gelade, *Why people do not buy microinsurance and what we can do about it* (ILO, 2014)

Table 3. Summary of challenges and emerging good practices

Challenges	Emerging good practices
Product design – many insurers do not sufficiently understand small businesses, and do not offer them suitable and valuable products.	• Consider small businesses' existing risk-management mechanisms. • Cover multiple risks, even with limited cover. • Limit customization. • Health is a priority for small businesses, and a largely unaddressed business opportunity for insurers.
Distribution – small businesses are heterogeneous and only loosely grouped, making it difficult to find aggregators. Furthermore, products for small businesses tend to be more highly priced than micro products, making some distribution channels unsuitable.	• Promising aggregators include organizations and businesses in the same supply chains, as well as financial institutions and business associations. • Aligning products with a distributor's core business can make all the difference. • Technology facilitates distribution to small businesses.
Insurance culture and demand – understanding of insurance is low and distrust of insurers is high.	• Invest in a pathway into the market. • Segment small businesses.

PRODUCT DESIGN

Insurers are familiar with large corporate clients, but generally have a limited understanding of the needs and practices of small businesses. As a result, they often offer products and processes that are unattractive and poor value for clients. In general, it is vital that insurers understand the context, business activities, needs, preferences and current risk management practices of their market.

Several companies interviewed that have been successful in providing insurance for small businesses mentioned ways in which they connected with their target market. Peruvian insurer, Pacifico, for example, ensures that members of staff at all levels in the company hierarchy spend time interacting with business owners and visiting the field. Furthermore, it stresses the importance of piloting and adapting not just the product itself, but also the customer interactions and experiences it provides. The company cited an example of when it had changed the way in which its sales people dressed after the formality of their clothes had made them seem unapproachable during pilot testing. KGFS in India emphasized the importance of hiring local staff as "wealth managers" who interact with clients within their own communities and sell them a suite of services. More advice on understanding clients and offering value to them can be found in the Facility's series of briefs on client value. Some emerging good practices specific to serving small businesses are outlined below.

CONSIDER SMALL BUSINESSES' EXISTING RISK-MANAGEMENT MECHANISMS

It is important that insurers bear in mind the existing mechanisms that small businesses use to manage their risks. A good understanding of such mechanisms allows insurers to learn from their strengths, offer better alternatives, or even leverage them to offer a stronger combined solution.

Existing tools include borrowing from friends or family, using savings, or consuming less. These mechanisms have many weaknesses but are nonetheless often preferred by clients. In Ghana, for example, Abor and Quartey (2010) found that microinsurance offered a better alternative to traditional coping mechanisms in terms of reliability and sufficiency. However, small businesses still preferred traditional mechanisms.

To offer products that can compete, products must be adapted to be made relevant and accessible for small businesses. Insurers should learn from the strengths of informal mechanisms. Although these mechanisms may not be as comprehensive as insurance, they offer much greater versatility. Insurance products that cover a wider range of risks, even with limited cover, are more effective in helping small businesses partially deal with a range of risks, and therefore come closer to the versatility of existing mechanisms than single risk, high cover products. This is one of the reasons that they have proved more successful. This topic is explored in more detail in the next emerging good practice.

However, existing risk management strategies do have many weaknesses, and in some cases may be inconvenient for clients or reduce the productivity of their businesses. In this case insurers should understand the weaknesses of existing mechanisms and either offer better alternatives or products that leverage and improve existing mechanisms. For example, diversifying income by owning several businesses, rather than focusing on growing one, is a common way to manage risks, especially in challenging business environments. For example, Charmers et al. (2014) found that business owners in Malawi faced substantial risks (34.5 per cent of small and 87.5 per cent of medium enterprises had experienced a loss in the last 12 months) and owning several businesses represented an important and conscious way for them to diversify their investments. The security offered by an appropriate insurance product can allow business owners to reduce their dependency on such strategies and focus more resources in their most profitable businesses. Another example is provided in Box 3, in which Naya Jeevan leveraged a pain point in a traditional method of risk management.

BOX 3. Naya Jeevan, Pakistan

In many countries, it is common for the owner of a small business to be expected to contribute should one of its employees fall sick. A business owner would expect to help an employee in these circumstances, but these expenses can be difficult to handle, especially since they are unpredictable. Furthermore, as a business progresses from a very small household enterprise, to a business with a few dozen employees, such demands can become increasingly difficult to manage.

Naya Jeevan, a health microinsurance initiative in Pakistan, found that it could help business owners address this pain point. It offered health microinsurance policies to employees, partly or fully subsidized by the employer. One owner of a small garment factory explained that this allowed him to easily and fairly support all his employees with their health problems, as well as allowing him to factor in a steady premium cost rather than larger, unexpected payments.

COVER MULTIPLE RISKS, EVEN WITH LIMITED COVER

The vast majority of providers interviewed said that a product covering multiple risks was far more attractive to small businesses than single covers. And indeed successful products tend to cover several risks. This need not necessarily mean a very expensive cover offering high benefits across a number of risks. Even limited cover for certain risk types can be attractive and useful to small businesses owners, who usually prefer limited protection across a range of risks that they can easily imagine occurring, than a high cover on a single risk that may never occur (see an example from MicroEnsure in Box 4).

Examples of bundled products offered by the providers reviewed included the following:

- Fire and personal accident insurance
- Life, disability and credit health insurance
- Property, fire, terrorism and political violence insurance
- Property insurance for machinery and tools and personal accident cover
- Personal accident, fire, natural catastrophe and cash in transit

Nonetheless, composite products certainly bring challenges. In particular, providers often struggle to explain and administer the various covers. In general, composite products are more likely to be successful when offered by providers who already have experience delivering simpler products, and in markets where clients have already had some exposure to simple insurance products (Matul and Dalal, 2014).

BOX 4. MicroEnsure, product offered in many African markets

MicroEnsure provides multi-risk insurance services and products to clients of its MFI partners in many African markets. The exact cover provided is worked out together with each MFI, but a typical product could include the following benefits:

Coverage Event	Benefits
Credit health – Hospitalization for any medical reason of owner and up to five employees	• 1-3 days: 1 weekly loan installment paid to bank • 4-10 days: 2 loan installments paid to bank • 11-30 days: 3 loan installments paid to bank • 31 days or more: full outstanding loan repayment made to the bank • Rider: In addition to the loan installments, the same amount is paid directly to the insured in cash
Death of owner	• Outstanding loan principal and 1 month's interest paid to the bank • Cash benefit equal to the original loan principal (up to USD 1,000) paid to the family
Permanent disability of owner or up to five employees	• Outstanding loan principal and 1 month's interest paid to the bank • Cash benefit of USD 250 paid to the borrower
Catastrophic business loss (fire/allied perils)	• Outstanding loan principal and 1 month's interest paid to the bank • Cash benefit of USD 250 paid to the borrower
Death of any of up to five employees	• Cash benefit of USD 250 paid to the borrower

LIMIT CUSTOMIZATION

Small businesses in any country vary greatly – by type of business, geography, size, risks faced, ambitions for growth, and so on. For this reason, highly customized products may seem most likely to meet a business' needs.

Yet, with relatively small margins, customization can prove costly. Few insurers can afford sales forces with the time and expertise to explain complex products and options to each small business. Furthermore, with little or no experience of insurance, small businesses may easily be put off by complexity and options.

Some adaptation to client segments is possible, and may indeed be important to make sure the collection of benefits remains relevant. Nonetheless, customization should be limited and is more likely to be feasible at the level of the distribution channel or of large segments of clients, rather than individual customization at the client level. Insurance providers might, for example, offer a distribution partner a customizable product. However, once the product has been defined by the distribution partner, it would be standard for all clients of that partner. This is the approach taken, for example, with the product from MicroEnsure described in Box 4.

Alternatively, an insurance provider might divide its small business clients into a few large segments based on simple metrics, commonly business size or geographical region, and offer a different version of its product to each segment. Segmentation based on business size is the approach taken by Pacifico (see Box 6). The Peruvian insurer offers a more comprehensive package of covers to a segment of its largest small business clients and fewer covers to smaller businesses. For now, this is a viable level of customization for Pacifico to offer to this market; however more extensive adaptation for specific market segments might always be introduced at a later stage.

Nonetheless, there are always exceptions. One such exception – an example of a product customized at the client level from KGFS – is provided in Box 5. In certain cases this can be a viable way to offer valuable products to clients. However, it requires a high-touch model which is not sustainable in all contexts.

This may of course change in the future. With increasing adoption of smart phones and tablets, more complex systems to digitally and cost-effectively assess individual businesses and suggest relevant packaged products may be a game-changer for small business insurance.

BOX 5. Kshetriya Gramin Financial Services (KGFS), India

KGFS provides financial services to 70,000 businesses in India, mostly small entrepreneurs, retailers and manufacturing and wholesale businesses, usually employing between two and six people. All its borrowers are provided with a compulsory multi-risk insurance product for their businesses.

All clients contact with the organization is through its “wealth managers”. These staff members, recruited directly from local communities, spend time getting to know the clients and their enterprises. They provide clients with a suite of financial products to help them better manage their business.

The company acts as the insurance distributor, offering sets of pre-prepared insurance covers, underwritten by Future Generali. The risks covered include: fire, natural disasters, riots, burglary, breakdown of machinery, damage to electronic equipment, personal accident for the insured and the employees, tenants’ legal liability, workers’ compensation, public liability, loss of money in transit or business location, fidelity guarantee, loss of bicycle and loss of neon signs. However, these elements are bundled together differently depending on the type of business and location. KGFS has a system which recommends insurance products based on information about the business entered by the wealth managers and processed through a set of algorithms defined at the backend. (An example of a full policy wording for one product for shopkeepers can be found here.)

KGFS finds that this allows it to provide relevant covers to all its clients, and helps it keep the price down, since clients do not need to pay for covers which are not relevant to their business.

Such an approach is made possible by the close interaction with clients that is integral to KGFS’s model, the use of technology, and also by the fact that the product is compulsory to its large number of borrowers, allowing KGFS the scale to offer a more complex set of insurance products.

HEALTH IS A PRIORITY FOR SMALL BUSINESSES, AND A LARGELY UNADDRESSED BUSINESS OPPORTUNITY FOR INSURERS

When designing products for small businesses, insurers might think of covers like property insurance before health cover. Yet health risks cause significant strain on small businesses (see Table 4).

Table 4. The percentage of business owners who said that the possibility of becoming ill was a threat to their business, according to Finscope studies

Country	Per cent
Malawi	32*
Mozambique	14
South Africa	7.5
Zimbabwe	15*

Source: IFC Jobs Study, World Bank Group Enterprise Surveys

*In these countries death and illness of the owner were combined, therefore this number represents the percentage of business owners who said that death *or* illness represented a threat to their business.

It is clear that health is a significant risk for many small businesses, and it is also a frequent and visible one. Most business owners can easily connect with the difficulties of facing a health problem and the impact on their business, even if risks such as natural catastrophe may be less immediately obvious.

Insurers do not need to, in fact would be advised not to attempt to compete with government health insurance offerings. Yet, even when quite comprehensive packages are already offered by the government, potential exists to address the specific health concerns of business owners through simple health covers, such as the health cover included in the example of MicroEnsure in Box 4. MicroEnsure has found that the hospital cash insurance is very attractive to clients. The product pays off a client's loan during periods spent in hospital and also provides the same amount of money in cash to the person affected. The amount received by the client in cash is relatively low, and would frequently not cover the costs of hospital treatment, but it can go a long way to helping clients keep their businesses going during hospitalization.

Where hospital cash covers employees as well as the business owner, it can play a particularly important role, especially in informal businesses. Unfortunately, paid sick leave is often not available for workers in the informal economy. In such cases, hospital cash products can provide a partial solution while mechanisms to provide paid sick leave are strengthened.

Attractive health benefits can also be introduced through value-added services. The example of health services offered by Peruvian insurer Pacifico is provided in Box 6. Of course, the potential to add such services, and their appeal, depend on existing infrastructure. For example, hospital transport is appealing where hospitals are available within a reasonable distance.

BOX 6. Pacifico, Peru

Pacifico offers several products to small businesses. One is a multi-risk business insurance product which covers fire, earthquake, civil unrest, natural disaster, robbery, cash in premises and transit, electronic and mobile devices, and breakdown of machinery. It is a voluntary product and it is important to make it attractive and tangible to clients even if they do not make a claim. Therefore, a range of value-added services are offered. These include free hotlines for medical and legal advice, as well as free transport to hospitals. The medical hotline is available 24 hours a day to the business owner, the employees, and their family members.

DISTRIBUTION

As with all kinds of small-ticket insurance, distribution is the most pressing issue facing insurers hoping to reach small businesses. Yet many insurers have found this issue particularly challenging for their products targeting small businesses.

On the one hand, the individual sales techniques or broker arrangements they have used for larger corporate clients are too expensive. On the other hand, small businesses are heterogeneous and loosely connected, making it difficult to find effective aggregators. This is further aggravated by the fact that the higher cost of business protection products, in comparison to personal microinsurance products, makes it difficult to distribute through some channels that insurers have previously used for micro products. Distributing through mobile network operators, with payments through air time, for example, is not feasible for a product that costs more than a client would typically have in air time. Nonetheless, some strong candidates for good distribution channels are starting to emerge.

Even when aggregators can be identified, the typical problems of motivating them to sell insurance are very much present. Insurers must find creative ways to link their products with the core business of their distribution channels. Lessons from those already tackling these issues are outlined below.

PROMISING AGGREGATORS INCLUDE ORGANIZATIONS AND BUSINESSES IN THE SAME SUPPLY CHAINS, AS WELL AS FINANCIAL INSTITUTIONS AND BUSINESS ASSOCIATIONS

Financial institutions are a common way for insurers to reach entrepreneurs running small businesses as they have expertise in offering financial products and are often willing to bundle insurance with their loans or savings products. Furthermore, insurers frequently have well established partnerships with financial institutions, developed to serve their personal clients or larger business clients.

Business associations are another possible distribution channel. Such associations aggregate many small businesses within an industry and may be willing to help market and sell a product to their members. Madison Life, a Zambian insurance company, sells family life and funeral insurance to small businesses through market and enterprise associations. However, the strategy has not been straightforward, and the insurance company has faced a lack of alignment and limited trust among the associations. In 2014 it had reached less than 210 policies through market associations and 129 clients though the Zambia Federation for Women in Business (Manje, 2014).

One effective way to aggregate small businesses is to look to other businesses or institutions in the same value chain, with which they regularly come into contact. For small shops this could be the larger shops or wholesalers from which they buy their inventory. For many retailers of all kinds, this could be the distribution networks that provide them with fast moving consumer goods (FMCG) ready for sale. For small factories, it could be the companies to which they sell on their goods.

Some insurers have already been successful in leveraging value chains in this way, or are exploring new ways to do so. One example is given in Box 7 and another, using supermarkets to provide insurance to small stores, is explored in the next section, in Box 9.

BOX 7. Naya Jeevan, Pakistan

Naya Jeevan offers health insurance and value-added services to workers in small businesses in Pakistan, including restaurants and small factories. The product is usually sponsored by the employer, who pays all or part of the premium.

Naya Jeevan found that it was very difficult to win over individual small businesses in large numbers, and therefore has tried to access significant numbers of small businesses through larger corporations which are linked to them. Naya Jeevan partnered with Unilever, which made it mandatory for its network of more than 100 small businesses that act as distributors all over the country to provide health insurance to their informal and formal employees as a pre-condition for doing business with Unilever. Since then, more than 2,500 beneficiaries have enrolled in the health plan as a result of this partnership alone, with Unilever planning to expand this collaboration further to mobile ice-cream sales agents. The partnership with Unilever has made it possible for Naya Jeevan to cover disconnected and scattered small businesses and it believes that such arrangements could hold the key to accelerated growth. It is in conversation with several other large players and has recently begun partnerships with Levi’s and Philips.

ALIGNING PRODUCTS WITH A DISTRIBUTOR'S CORE BUSINESS CAN MAKE ALL THE DIFFERENCE

It is always difficult to persuade distribution channels to prioritize insurance sales. This is partly because insurance is complicated and time-consuming to sell, especially given the relatively brief periods of contact channels typically have with a client. It is also a result of the low commissions usually on offer. Finally, it is any organization's tendency to focus on its core business at the expense of other activities.

Therefore, finding ways in which insurance can boost the core business of a distribution channel is likely to result in a winning distribution strategy. For example, larger businesses that sell supplies to small businesses, as well as those that buy from them, have an interest in securing the loyalty of small businesses. Insurance can therefore be positioned as a loyalty benefit, as illustrated in the example from Pioneer in Box 9.

Furthermore, some FMCG companies may have a keen interest in maintaining a good image, and see products such as health and personal accident insurance as a way to protect their brand from negative publicity concerning workers in their supply chains. This was the case in the example of Naya Jeevan explained in Box 7. Unilever had experienced negative media attention when one of their distributor's informal employees suffered a life-threatening accident on the job and passed away because he was unable to afford the associated medical expenses. This was an important motivation for its decision to make health insurance mandatory in parts of its supply chain.

Financial institutions have an interest in small businesses being able to withstand shocks, both so that they are able to pay back loans, and to discourage them from depleting their savings for emergency expenses. The example of Mercy Corps in Indonesia, provided in Box 8, provides an example of a comprehensive solution for microfinance institutions.

Finally, governments have a keen interest in enhancing the productivity of small businesses and promoting their formalization. Governments may, therefore, be willing to subsidize or to help distribute some products that can help achieve these objectives. This is particularly common for agriculture insurance, which governments are often keen to support. However, other products may also receive support – an interesting example from Protecta, driven by a local government's drive to collect higher taxes from informal enterprises, is provided in Box 10.

Furthermore, insurance can represent an important element of related government programmes, which may otherwise fail if risks are not properly mitigated. For example, Chamberlain et al. (2014) found that state-subsidized credit in Myanmar was being used by rural businesses and farmers to mitigate risks, rather than for the productive purposes that it was intended for. The study found that 42 per cent of respondents had to resort to using credit or savings to cope financially after experiencing a shock for which they were not insured. Such diversion of savings and credit to non-productive purposes could be avoided through insurance provided to all recipients of state-subsidized credit, therefore helping the government achieve its goals for the core programme.

BOX 8. Mercy Corps, Indonesia

Indonesia regularly experiences many natural disasters, including earthquakes, tsunamis and volcanic eruptions. When a disaster hits, the country's MFIs are impacted as clients struggle to repay their loans and often remove all of their savings, causing serious liquidity problems.

Mercy Corps is a global humanitarian aid agency, which has founded several financial institutions. It was able to tackle the liquidity problems of MFIs in Indonesia and provide disaster insurance to the MFIs' large numbers of clients. It did so by working at several levels:

Liquidity for MFIs – Mercy Corps worked with an Indonesian bank to establish the Indonesia Liquidity Facility after Disasters (ILFAD), which provides emergency cash injections to MFIs. ILFAD is triggered by a disaster and immediately provides loans to pre-identified and pre-qualified MFIs. The funds are managed by an apex bank. These loans to the MFIs are insured in case the MFIs are unable to repay. The security provided by this insurance is important to persuade banks to join ILFAD.

Insurance for MFIs at institutional level – Secondly, Mercy Corps has established an insurance product to help protect MFIs' loan portfolios and infrastructure. The product is an index-based insurance product provided by a local insurer, Aswata, and reinsured by Swiss Re. It covers earthquakes and tsunamis, and the specific cover is designed in partnership with each MFI. The product is also supported by the World Bank's Global Index Insurance Facility.

Insurance for clients – Finally, an insurance product is offered directly to clients of the MFIs. This is a combined savings and disaster insurance product, which protects clients against fires and earthquakes. A product for volcanic eruptions has also recently been introduced and is being tested with one MFI.

Mercy Corps was able to persuade the MFIs to sell the product directly to clients, because it was able to show that the product would make a significant contribution towards solving the problem of clients taking out all their saving during disasters. In particular, claims payments are delivered very quickly during disasters to help ensure that people do not have to turn to their savings. Mercy Corps later expanded the product to further meet both clients' and MFIs' needs by providing payouts for businesses that are not directly affected by a disaster, but struggle when the government decides to close the markets in which they operate due to a disaster.

Mercy Corp's strategy to sign up MFIs as distributors of the product is so far proving successful, with more than 20 MFIs already signed up.

Sources: Anderson & Syahrin, 2015; USAID, 2014; ILFAD, 2015

BOX 9. Pioneer, Philippines

Pioneer is a leading insurance company in the Philippines. It has been experimenting with offering a multi-risk business insurance product specifically designed for sari-sari stores (small neighbourhood – or mom-and-pop – shops) through supermarkets. Store owners often buy their supplies from supermarkets and tend to have loyalty cards with those supermarkets. The loyalty of the sari-sari store owners, who often shop around, is strategically important to supermarkets, especially given their high spend compared to individual household clients.

Pioneer is hoping to leverage this strategic interest of its distribution partners. It is about to introduce a product which customers can buy using their loyalty points from the supermarket, and it is working towards introducing a free business insurance product to be provided as a loyalty incentive by supermarkets.

BOX 10. Protecta, Peru

The municipality of Comas in Peru wanted to incentivize more residents to pay their taxes in full, and on time. Most of these residents are microentrepreneurs, and the majority of their businesses is informal. The municipality partnered with Peruvian insurance company Protecta, which agreed to distribute a life insurance product alongside a discount card and an information campaign. The product and added benefits were provided free by the municipality, but only to those who paid their local taxes in full and on time. The municipality paid the premiums to the insurance company to cover those who did so. The municipality hoped that this would provide an effective incentive, as well as providing important support to residents in case of a death in the family. It was therefore willing to fully cover the costs of the insurance.

The product was distributed for a year and an evaluation was carried out, with interesting results. The insurance product was an effective incentive to encourage those who were already paying their taxes to do so on time and in full. The municipality observed a reduction of approximately 20 per cent in late payments. It did not, however, have a significant effect on those who did not normally pay their taxes at all.

Unfortunately the programme was not continued beyond the first year due to a change in the local government following elections.

TECHNOLOGY FACILITATES DISTRIBUTION TO SMALL BUSINESSES

Technology provides numerous opportunities to overcome traditional barriers to reaching small businesses in developing countries in a cost effective way. Technology can be used across all processes, from digital payments for premiums and claims, to financial education. The case of ICICI Lombard, an Indian insurer (see Box 11) provides an interesting example of how technology has been used to strengthen its distribution network and reduce costs.

It is also interesting to note that technology has contributed to growing correspondent networks of small businesses acting as agents for mobile networks, banks and insurers. These small businesses, often small shops, are usually equipped with mobile or handheld devices in order to provide services on their behalf. These small businesses should themselves be considered as potential insurance clients. In fact, this can be an important first step in developing the network to sell insurance. Specialist microinsurance broker Don Juan, for example, created a network of small businesses to sell a life insurance product with added free medical consultations in Mexico. They began by selling the insurance product directly to the network of shopkeepers. This helped them to test and improve the product as well as to secure the buy-in of their new agents. Since such correspondent networks are already working with financial institutions in many cases, and often include a large number of small businesses, they represent a powerful potential market for small business insurance products.

BOX 11. ICICI Lombard, India

ICICI Lombard is a major Indian insurer, catering to large and small businesses as well as individual clients. It offers a range of small business insurance products, including shop insurance packages, fire insurance, liability insurance and others. It sells these products through its network of around 10,000 insurance advisors (agents paid by commission who exclusively sell ICICI Lombard products) and brokers. It sells around 1,500 new policies to small businesses each month.

To reduce costs and strengthen its distribution network, ICICI Lombard introduced several online tools. Firstly, it enabled insurance advisors and brokers to access an online platform known as Ipartner. This platform allows them to directly issue policies for products up to certain financial limits. Therefore, smaller policies can be issued more efficiently, whereas higher value products are excluded and continue to be checked and issued by the company.

Furthermore, ICICI Lombard has made risk inspection more efficient by leveraging the increased penetration of smart phones in India. It developed a risk inspection application on a mobile platform. This application allows insurance advisors to visit small businesses, such as shops or small factories, and assess the business risk using a set of simple yes or no questions and by uploading photos. The application then provides a risk score for the business. This allows the insurance company to assess the risks of businesses remotely through its network of insurance advisors, without the need to send an employee to visit each business.

Finally, ICICI Lombard has improved the speed of claim settlement by allowing clients to register claims directly through its website.

INSURANCE CULTURE AND DEMAND

In the majority of developing countries, very little familiarity and comfort with insurance exists. In certain cases, potential clients may underestimate the risks they face, in particular the non-financial impact of those risks (Zollmann, 2015). Others may be well aware of the risks they face, but assume that insurance is unaffordable or that they are not eligible. In many cases, they do not trust financial institutions, or they do not know where and how to purchase a business insurance policy. This lack of insurance culture represents a significant barrier to offering insurance to small businesses, and was mentioned as an important barrier by almost all insurers interviewed for this paper.

Despite a generally limited insurance culture, many insurers have in fact observed that small businesses owners generally have a better understanding of the risks they face and the impacts on their businesses, and in turn their families, than other clients. However, affordable and relevant products are generally not available for them and even as these gradually became available they are not accustomed to using them to manage the risks they face. This suggests that significant potential exists to develop a stronger insurance culture among small businesses in many markets.

INVEST IN A PATHWAY INTO THE MARKET

Many potential strategies exist for approaching the small business market, and insurers will develop their own according to the market and opportunities they face. However, those who have been successful have been able to design a strategy to gradually enter the small business market and have made significant investments in both time and resources. KGFS, for example, found that it took 2.5 to 3 years to build up reasonable levels of understanding of its business insurance product among clients.

Three possible pathways are outlined below. These are illustrative and demonstrate ways in which the market could be approached from quite different angles. They are not mutually exclusive and many other possibilities certainly exist.

- **Pathway 1: Start with an embedded product and cross sell.** One pathway into this market is to begin with a mandatory product embedded with another product or service. The most common embedded products are those connected with loans for small businesses provided by financial institutions. These products are an opportunity to demonstrate value and build trust among clients. Once clients are familiar with and appreciate the value of a mandatory product, providers can introduce further voluntary products for the same clients.

  For such an approach to be successful, claims are key to build trust and demonstrate value. Claims should be seen as an opportunity to win over all clients, not just those who receive them, and insurers should ensure that the news of claims payments is shared widely. Conversely, news of poor claims experiences are likely to spread quickly among small business owners, and could destroy a provider´s chances of selling further voluntary products.

- **Pathway 2: Grow alongside existing microinsurance clients.** Many insurers and their distribution partners have already invested time and resources building understanding and trust in insurance among clients of their microinsurance products which cover personal risks. Many of these clients' activities will grow into small businesses. However, many distribution channels and insurers are not ready to serve these clients' new needs and may lose them or fail to capitalize on their growth. Insurers should work with their established distribution channels to be ready to cater to these clients' evolving needs.

  This is one of the approaches that the insurance company Pioneer has taken in order to create a small business insurance market in the Philippines. Pioneer already had experienced good results distributing microinsurance products through rural banks and MFIs. These financial institutions were finding that their clients were increasingly growing their entrepreneurial activities and developing small businesses. As a result, they needed new products, including insurance, which the banks and MFIs were not yet able to offer. As they adapted to cater to the new needs of their clients, they also approached Pioneer and asked them to provide suitable insurance for this segment. Pioneer responded by creating a composite business protection insurance product, which could be branded by the financial institution and offered on either a voluntary or mandatory basis to its clients.

- **Pathway 3: Start with salaried workers.** Salaried workers may seem an unlikely target for small business insurance, but in many countries a large number of salaried workers also own small businesses, partly in order to diversify and supplement their income. For example, in Myanmar it was found that 14 per cent of salaried workers also own small businesses, and in Malawi the figure is 9 per cent (Bester et al., 2015). Furthermore, salaried workers who also own businesses may prove a good starting point because they are largely already in contact with financial institutions, have more experience with financial services, and often have a higher level of education. As a result, they may be more open and able to pay for and understand small business insurance. They are also likely to already be in contact with distribution channels, such as banks, with which insurers often already have established relationships. Bester el al. (2015) notes that many financial services providers have successfully grown their portfolios among mass consumers by starting with salaried workers. It may prove an equally good starting point for the small business market.

SEGMENT SMALL BUSINESSES

Small businesses are far from homogenous, and an insurance culture may be more easily achieved among some segments of the market than others. In fact, it may be that some segments, with greater education, income, experience with other financial services and aspirations for their business, may represent a significant market opportunity and be more willing to embrace insurance. Among others – entrepreneurs with very little resources, no experience of financial services, and forced to start small businesses due to a lack of other possibilities – it may be more difficult to build a market for small business insurance.

Cenfri carried out an exercise in Malawi to segment small businesses based on both ability and motivation, dividing them into four categories (Bester et al., 2015). Figure 3 below shows that categorization, including information on average employees and income for each category in Malawi.

Figure 3. Segmenting small businesses in Malawi

Source: Bester et al., 2015

Cenfri noted that "driven acheivers" represent the most promising market for financial services, whereas "survivalists" do not generally represent a promising market, and may even by harmed by access to services, such as credit, which are not suitable for them.

Segmenting should not only be a question of the business' current status, but also its aspirations and plans for growth. The most aspirational business owners may be more likely to be willing to take on greater risks in order to grow. Insurance could be particularly relevant to such businesses.

Further investigation is needed to better understand the role of insurance for each segment. It may be, for example, that personal risk products are most important for "reluctant entrepreneurs", with bundled products including covers for more specific business risks may be more suitable for "driven achievers". Financial management education or compulsory loan covers may be most relevant for "survivalist" and "struggling go-getters". This has yet to be tested, but it is clear that the same approach will not work across all segments, and that it is important for insurers to identify the most promising segments within their markets.

5. CONCLUSION

Given their economic importance, support for small businesses is clearly vital. A great deal of good work is already being done, from training courses to increasing access to credit. However, if we do not also help small businesses manage the risks they face, an important piece of the puzzle remains missing. Insurance is certainly not a complete solution – as shown at the start of the paper, small businesses face a range of risks; insurance offers a solution to some of them. However, when well integrated with other interventions to boost the capacity of small businesses, improve the environment in which they operate, and reduce the risks they face, better insurance provision could provide a significant boost for small businesses.

On the other hand, small businesses also represent a promising market for insurers. Business owners have higher awareness of the risks they face and greater familiarity with formal or informal financial services than other parts of the population. Many insurers have shown that it is possible to serve this market at scale, and many of the lessons that they have learnt in doing so can support others hoping to do the same.

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ANNEX A: TABLE OF CASE STUDIES REVIEWED

Name of provider	Country	Product types reviewed	Distribution channel	Method
CIC	Kenya	Multi-risk property	Financial institutions	Interview
Don Juan	Mexico	Life plus medical consultation	Agent network	Literature
ICICI Lombard	India	Multi-risk	Agents and brokers	Interview
IFFCO TOKIO	India	Agriculture multi-risk	Cooperatives	Interview
		Traders multi-risk	Cooperatives	Interview
KGFS	India	Multi-risk	Financial institution (KGFS is the distribution channel, the product is underwritten by Future Generali)	Interview
Madison Life	Zambia	Life and funeral	Market and enterprise associations	Literature, interview
Mercy Corps	Indonesia	Natural disaster	Financial institutions	Literature, interview
MicroEnsure	Multiple	Multi-risk plus hospital cash	Financial institutions	Interview
Naya Jeevan	Pakistan	Health	Individual sales, aggregators within value chains	Literature, interview
Pacifico	Peru	Multi-risk and value-added services	Individual sales	Interview
		Multi-risk	Financial institutions	Interview
Pioneer	Philippines	Multi-risk	Financial institutions	Interview
		Multi-risk	Supermarkets, distributors of FMCG	Interview
Protecta	Peru	Life and value-added services	Municipality government	Literature

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