MICROINSURANCE PIVOTAL IN ENABLING GROWTH OF SMEs

By Nelson Muhoozi

Kato Mukisa lost 35 sets of high-end sofas and other valuable furniture to fires at his workshop in Banda, a Kampala suburb, last year. That is when the importance of insuring a business became clear to him.

The fire that was allegedly set off by a competitor, forced Kato to dig into his savings in order to get the business up and running again.

"Right now, I have learnt my lesson and I am back in business," he said.

The inability for many SMEs, which also account for the largest share of employment creation in Uganda, to grow their profits can be attributed to limited access to credit, training in business management, practice skills, inadequately trained labour and, more importantly, their inability to mitigate risks through avenues such as insurance.

"Although a lot of emphasis is always placed on financing, in form of loan capital and other assets, much care should also be taken in order to insure against risks as basic as losing a laptop. To some SMEs, the whole company may be all about a laptop as many of us start in a briefcase before graduating to a small office in the suburbs of towns," Kato said.

According to the Uganda Investment Authority, SMEs are the drivers of the Ugandan economy for they make up close to 90% of the businesses. Despite their major role in the Ugandan economy, little has been done to enable their growth both in terms of profitability and market expansion.

To increase the uptake of insurance services by low-income earners and SMEs, the Insurance Regulatory Authority (IRA)licensed the first dedicated Micro Insurance Organisation to sell micro insurance products in 2018 and it underwrote sh24.31m.

Mariam Nalunkuuma, the senior communications officer of IRA, said the licensing was intended to ensure that the low income earners, who often forego insurance due to high costs, can have an affordable option to mitigate costs.

Being able to plan and mitigate future risks for is of universal concern and formal insurance services exist for this purpose. In Uganda however, many people seem to be comfortable without formal insurance, with only about one in every 100 Ugandans reporting having formal insurance cover risks faced to their health, business and life.

Asher Namanya, the chief executive officer of PesaMoni, a FinTech dealing in money remittances, said many SMEs will do as much as possible to reduce expenditure, and in their view, insurance is another expense.

In addition, Namanya said, SMEs are already struggling to raise enough money to run their start-ups and adding an addition cost like insurance premiums as a way of averting risk is not seen as a viable business decision.

Many start-ups ignore investing in insurance due to lack of capital

The inability for many SMEs to grow profits is attributed to limited access to credit, poor business management skills, incompetent labour and inability to mitigate risks through insurance

She said the difficulty in parting with monthly insurance premiums is reflected in many of the financially-able companies, which avoid matters to do with insuring both business assets and human capital.

Although Uganda's insurance market is well-regulated with 31 insurance companies, 35 insurance brokers and over 1,500 agents, formal uptake of insurance among adult Ugandans is incredibly low.

FinScope 2018 found that while formal insurance uptake might be low, informal insurance is on the rise. Nearly 40% Ugandans, including the salaried ones, instead rely on informal mechanisms to deal with risks.

According to reports, Ugandans prefer to run their businesses on a faith-based notion of 'all will be well' even when precedents evidently show that SMEs have over time faced risks such as theft, fires and malicious damage, among others.


Insurance protects any investment from unforeseen occurrences


Nalunkuuma

The mentality, according to Protazio Sande, an innovations specialist at Insurance Regulatory Authority, is that traditional insurance is designed to cater for salaried employees with scheduled insurance deductibles. Many people with insurance, besides the legally mandated motor third-party insurance, are covered as part of employment agreements.

Worldwide, commercial insurers are extending insurance to low-income market segments. According to the International Labour Organisation's impact insurance facility, a little over 60% of the world's largest insurance providers offer a microinsurance service covering over 500 million risks, up from 139 million in 2009.

Nevertheless, Africa alone has seen an increase in adoption of micro-insurance of 44.4 million people and properties covered in 39 countries between 2008 and 2012; a 200% increase in insurance uptake.

Uganda's government has, through the national financial inclusion strategy, made a commitment to increasing insurance uptake to 7% of the population by 2022. In an effort to make this a reality, the Insurance Regulatory Authority and Financial Sector Deepening Uganda (FSDU) are partnering to create a regulatory framework that encourages market development through innovation.

The two institutions have also collaborated in issuing the first ever-domestic micro-insurance challenge fund, which will support innovative insurance solutions at different stages of product development and scale.

The focus of the fund, according to Joel Muhumuza, the financial services manager at FSDU, is to expand insurance services to previously under-served segments of the society. The segments include business owners, informal workers and farmers by covering their health, life and business risk needs.

The micro-insurance challenge fund is open to a broad range of financial service providers with innovative, testable and applicable solutions that will help increase formal insurance uptake in Uganda.