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Exploring the factors affecting microinsurance demand among MSMEs in Kenya

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Abstract

Micro, small and medium-scale enterprises (MSMEs) provide jobs and support economic growth. They are a lifeline to millions of individuals and families in Kenya. Protecting the resilience of these enterprises in Kenya and across Africa is a strategic imperative given their significance and their disproportionately heightened vulnerability to external socio-economic shocks from events such as the COVID-19 pandemic.

This research explored the potential of insurance to enhance MSME resilience by protecting businesses and livelihoods against typical and emerging risks. Using a qualitative research design strategy with non-probability purposive sampling, data gathered through in-person interviews with MSME owners and employees provided insights into their perceptions, beliefs, and use of insurance, in particular microinsurance, for risk management.

Findings indicated that most MSMEs were aware of and were using microinsurance to cover various aspects of their businesses. Some MSMEs had effectively relied on microinsurance to maintain their operations during the COVID-19 pandemic. They expressed their readiness to adopt a well-designed business interruption insurance product should this be available ahead of future pandemics. The study revealed key insurance product attributes that MSMEs value during times of risk including affordability, flexible premiums, timely claims payouts, and bundling with inventory, salary and income protection insurance. These insights are useful for insurers designing products to meet the specific needs of MSMEs in Kenya. The study also identified a research gap for future studies on the subject of supply-side drivers of MSME insurance in Kenya. Ultimately, building MSME resilience to shocks and sudden disruptions like the COVID-19 pandemic will require coordinated and concerted effort among insurers, regulators, policymakers, and multilateral development banks to design and promote context-specific MSME microinsurance products. At scale, these products will protect the livelihoods of MSME owners and employees and sustain the business operations of MSMEs for continued economic activity during future crises of similar magnitude to COVID-19.

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ABBREVIATIONS AND ACRONYMS

a2ii	Access to Insurance Initiative
AI	Artificial Intelligence
AKI	Association of Kenyan Insurers
APA	Apollo Pan Africa Insurance Company
CENFRI	Centre for Financial Regulation and Inclusion
CGAP	Consultative Group to Assist the Poor
CIC	Cooperative Insurance of Kenya Ltd
CGS	Credit Guarantee Scheme
DFIs	Development Finance Institutions
DMP	Data Management Plan
EU	European Union
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GoK	Government of Kenya
GWP	Gross Written Premium
ILO	International Labour Organization
IPPs	Independent Power Producers
IPR	Interview Protocol Review
IRA	Insurance Regulatory Authority
ITC	International Trade Centre
KAM	Kenya Association of Manufacturers
KEPSA	Kenya Private Sector Alliance
KES	Kenya Shilling
KIPPRA	Kenya Institute of Public Policy Research and Analysis
MSEA	Micro and Small Enterprise Authority
MSMEs	Micro, Small, and Medium Enterprises
MiN	Microinsurance Network
MSEs	Micro and Small Enterprises
NHIF ¹	National Health Insurance Fund
OECD	Organization for Economic Co-operation and Development
PPE	Personal Protective Equipment

¹ NHIF changed to the Social Health Insurance Fund (SHIF) in 2024

SSA	Sub-Saharan Africa
SAFER	Supporting Access to Finance and Enterprise Recovery
SHIF	Social Health Insurance Fund
SMEs	Small and Medium Enterprises
TPB	Theory of Planned Behaviour
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USA	United States of America
WTP	Willingness to Pay

CHAPTER ONE

INTRODUCTION

1.1 Background of the Research

Micro, small, and medium enterprises (MSMEs) worldwide are an integral part of the economy, creating millions of jobs and supporting the socio-economic well-being of billions of people (Ayyagari et al., 2011). SMEs play a vital role in inclusive economic development in many countries, particularly in the developing world (Ayyagari et al., 2011). Many national policies recognize this critical role, as evidenced by the establishment of dedicated MSME development agencies and legislation. For example, in Kenya, the national government has created the Micro and Small Enterprise Authority (MSEA).

The COVID-19 pandemic caused unprecedented social, economic and health disruptions worldwide (World Bank, 2022a). MSMEs bore the brunt of the financial fallout, with surveys by the OECD and the International Trade Centre (ITC) revealing widespread revenue losses, staff reduction, critically reduction in their cash reserves, and contemplation of permanent closure (OECD, 2020a; ITC, 2020). In 132 countries, the ITC found that nearly 20% of MSMEs were at risk of permanent closure while nearly 70% reported severely impacted business operations. As key drivers of employment and major source of jobs across economies, MSMEs were projected to be among the hardest hit, with global unemployment levels estimated to rise by 5.3 million to 24.7 million, further affecting their business operations (ILO, 2020).

In Kenya, many MSMEs suffered business interruptions due to extensive lockdown measures and health-related impacts that led to temporary closures and, in some cases, the total collapse of enterprises (FSD Kenya, 2021). Some of these enterprises and their owners have not recovered from the socio-economic fallout of the pandemic. The far-reaching impact of the COVID-19 pandemic on livelihoods and health pushed millions of Kenyans into extreme poverty (FSD Kenya, 2021).

As MSMEs continue to deal with multiple, overlapping crises, including conflict, climate change and the economic after-effects of the COVID-19 pandemic, there is urgent need to explore how proven risk mitigation strategies, such as insurance and microinsurance, can help to build resilience and protect the most vulnerable MSMEs.

Insurance designed to meet MSME needs, or MSME insurance as it is known, is a developing field. Only recently have researchers begun to establish the connections between MSME business risks, microinsurance and sustainable resilience through business continuity (Sahler & Gray, 2020). Given the recency of the COVID-19 pandemic and emergence of new geopolitical risks, such as the Russian invasion of Ukraine, there is limited literature on the role of microinsurance in ensuring MSME business continuity in the face of massive socio-economic shocks in Sub-Saharan Africa (SSA), and specifically in Kenya. Despite this, encouraging trends in the insurance industry, such as the development of technology-embedded microinsurance products, the bundling of multi-peril microinsurance into affordable packages, and the promotion of mobile-based microinsurance, all point to the potential of the industry to innovate and close the protection gap between MSMEs' insurance needs and the insurance industry's capacity to meet them which has led to use of the term "the missing middle" in the developing world (Sahler & Gray, 2020; Tellez & Zetterli, 2014).

This research seeks to generate new insights into the characteristics of prospective MSME insurance clients in Kenya and to inform the design of effective microinsurance products that ensure MSME business continuity in the face of future pandemics and other wide-ranging socio-economic shocks.

1.2 Problem Statement and Research Questions

This study addresses the problem of low insurance uptake by MSMEs. Specifically, the study focuses on the following problem areas:

- Despite the growing importance of microinsurance, demand among MSMEs remains low in emerging markets.
- In Kenya, there is a low focus on the links between business continuity and resilience in MSMEs and microinsurance.
- Existing studies offer limited information on the uptake of microinsurance by MSMEs as a business risk management strategy.

A. The Case of Emerging Markets

Insurance penetration in emerging markets is low, which contrasts starkly with the high degree of vulnerability among these populations (Latorture, 2003). These vulnerable populations face significant challenges in coping with death, illness, injury, property loss through fire or theft and natural disasters (Latorture, 2003). Their risk-coping strategies are limited to selling assets, borrowing from family, friends, microfinance institutions or loan sharks, and using cash

savings (Latorture, 2003). These approaches are, at best, ineffective and, at worst, unsustainable. Nearly 70% of MSMEs attribute their slow growth and early failure to various risks, including those listed above, as well as social obligations (Subiyakto et al., 2012). Sahler and Gray (2020) estimate that only 2% of MSMEs in Sub-Saharan Africa (SSA) have any form of insurance, which is often underwritten for personal rather than business risks.

As previously discussed, the gap between MSMEs' insurance needs and what the industry offers is known as the "missing middle." The challenges associated with insuring this group arise from the heterogeneity of MSMEs, their geographic dispersion, low insurance literacy, poor understanding of the MSME sector among insurers, and the unpredictable nature of hazards faced by MSMEs (Sahler and Gray, 2020). MSMEs also view microinsurance or insurance as an extra business cost (Subiyakto et al., 2012).

In the face of rapidly evolving crises with global reach (such as climate change, conflict and COVID-19), microinsurance for MSMEs can play a vital role in strengthening the resilience of MSMEs' and supporting their critical role as employment generators for billions of people in the emerging world. This link calls for further exploration to build the case for using microinsurance as a business risk management and transfer strategy for MSMEs.

B. The Kenyan Case

Some Kenyan MSMEs and their owners have never recovered from the socio-economic fallout of the pandemic, having been forced to close their businesses (UNDP & MSEA, 2021). Millions of Kenyans, many of them low- and middle-income workers employed by MSMEs, lost their livelihoods and were pushed into extreme poverty as a result of the COVID-19 pandemic and its widespread socio-economic and health impacts (FSD Kenya, 2021). The effects of prolonged drought and the Russian invasion of Ukraine further contributed to runaway inflation, unsustainable production costs, low demand and depressed revenues among MSMEs in Africa (UNDP, 2022).

To provide COVID-19 emergency relief and recovery support to informal sector MSMEs, the World Bank launched the US\$100 million Supporting Access to Finance and Enterprise Recovery (SAFER) project in 2022, providing support to more than 250,000 Kenyan MSMEs. These MSMEs were the hardest hit by the pandemic and have traditionally been the most excluded from formal finance. The SAFER project aims to improve MSME access to finance

by supporting innovation, enhancing liquidity, and de-risking lending in the short-term. In the medium term the SAFER project seeks to remove structural roadblocks to MSME financing overall (World Bank, 2021). However, the SAFER project does not establish a documented link to MSME insurance as a risk management strategy. This highlights the gap in financing large-scale MSME insurance initiatives for market development and business resilience, whether by development finance institutions or the private sector.

Insurance penetration in Kenya stands at 3% (KPMG, 2021). Despite efforts by Kenya's national government and the insurance regulator to bolster the microinsurance industry, uptake by small enterprises and low-income populations has remained low. In 2018, the Microinsurance Regulations 2018 were developed, and in March 2020, the Insurance (Microinsurance) Policy 2020 was gazetted (AKI, 2020). These regulations stipulate that daily premiums must not exceed KES 50 (approximately US\$0.50) and that products should be simple to understand, with seamless claims processing within 40 days of filing by the insured (AKI, 2020; Kenyan Parliament, 2020). Furthermore, the Insurance Regulatory Authority (IRA), lowered capital requirements for interested microinsurers to KES 50 million (approximately US\$500,000). By 2013, 51 firms were offering insurance products, including health, credit life, property, and motor insurance (Liyai, 2014). According to AKI (2020), nine insurers attained a gross written premium (GWP) of KES 2.28 billion (US\$30 million) in 2020 - a 64.21% year-on-year increase over 2019 - with only three recording negative growth. Britam, APA and CIC underwrote the highest microinsurance premiums. The AKI data does not disaggregate data by customer category, making it unclear whether the microinsurance was underwritten for MSMEs, individuals or both.

Access to finance and business information positively impacts MSME insurance uptake in Kenya (Kamara and Makori, 2017). Respondents to the study said they were unable to access finance from lending institutions to pay for insurance. Those who could access finance reported dissatisfaction with the limited range of microinsurance products available to MSMEs. According to Mazambani and Mutabara (2018), the main barriers to microinsurance uptake include poorly designed products, low affordability, limited willingness to pay, and lack of financial literacy among the target clientele. The study by Kamara and Makori (2017) supports the argument that the microinsurance products offered do not align with customer demand (Mazambani & Mutabara, 2018). The role of microinsurance and insurance is frequently overlooked in research that addresses business risk management in MSMEs. Therefore, the

link between business continuity and resilience in MSMEs and the development of microinsurance in Kenya has not received due attention. The section below highlights the limitations in previous studies and the need for further research.

C. Limitations of Previous Research

Few comprehensive studies draw the link between MSME business risk management and the adoption of microinsurance by MSMEs in Africa, particularly in Kenya. Studies have either examined the contribution of microinsurance to insurance company profitability (Liyai, 2014; Kariuki, 2021) or explored MSME business risk management orientation without specifically examining the role of microinsurance (Githii et al., 2014; Mwangi, 2014). Other studies have addressed MSME insurance gaps, and the product innovations required across Africa but not specifically in Kenya (Joshi et al., 2019; Agboola & Epetimehin, 2017). Some researchers have focused solely on demand-side drivers of microinsurance uptake by low-income customers without narrowing their research to look at MSME microinsurance (Owuor, 2016; Mwanga, 2019; Ndurukia et al., 2017; Leftley & Mapfumo, 2006). While the willingness to pay is frequently used as a proxy for microinsurance demand, a more accurate proxy could be the ability to pay, which aligns better with the daily, weekly or monthly income of prospective customers (Wipf et al. 2006 in ILO & Munich Re, 2006). In their research on Delta Life clients in Bangladesh, the researchers established that, unlike microfinance institutions that collected member contributions weekly, insurance worked better when Delta Life aligned the premium payments to preferred frequencies, including monthly, quarterly, semi-annual and annual premium collection periods (Wipf et.al, 2006 in ILO and Munich Re, 2006).

Studies on the drivers of microinsurance uptake by individuals and low-income households abound (Cole et al., 2013; Gaurav et al., 2011; Huber, 2012; Eling et al., 2014; Giesbert & Steiner, 2012; Mayoux, 2001; McCord, 2001a; Mosley, 2009). However, these studies are focused on countries other than Kenya. The risks faced by individuals (illness, natural disasters, unemployment and accidents) differ from those faced by MSMEs (fire, theft, burglary, natural disasters, financial risks like liability, accidents and the death of business owners) (Fafchamps and Lund, 2003). Greuning et al. (2013) add operational, credit and political risks as further dimensions of MSME risk. Kagwathi et al. (2014) studied risk mitigation strategies among MSMEs in Kenya and found that insurance ranked lowest among the strategies employed. These findings align with those of Smit and Watkins (2012). Given the importance of MSMEs in emerging economies, including Kenya, and the documented

differences in risks faced by individuals and businesses, it is crucial to understand the business perspective regarding demand for microinsurance in these economies.

Kamara and Makori (2017) recommend that studies explore the potential of an enabling legal framework for increasing insurance uptake by MSMEs in Kenya.

Mazambani and Mutambara (2018) focused their research on creating a sustainable microinsurance market by integrating demand and supply factors but did not specifically delineate the demand and supply factors relevant to MSMEs, although these can be inferred. Their study does not focus on SSA or any specific region. They also recommend further research to empirically test the proposed framework.

As mentioned before, most of the research was conducted before the COVID-19 pandemic and the Russia–Ukraine conflict. While insights and recommendations from earlier studies are useful, additional research is required to determine the suitability of microinsurance as a business risk mitigation strategy in post-COVID-19 Kenya.

Following the synthesis above, this dissertation seeks to answer the following research questions:

- What were the impacts of the COVID-19 pandemic on MSMEs in Kenya?
- What factors affect demand for microinsurance by MSMEs in Kenya?

1.4 Justification

The world continues to struggle with the socio-economic consequences of multiple ongoing crises , as highlighted above. Together, these shocks have increased the vulnerability of the poorest in society, including MSMEs, their owners and employees. The poorest derive their livelihoods from informal business and employment in MSMEs and a robust financial risk protection strategy would significantly increase their resilience to external shocks. For these individuals, health is synonymous with wealth: if they are unable to work because of ill health, they automatically lose their income for that day as their employers or businesses do not offer social protection measures such as medical insurance or paid sick leave. Prolonged absence from employment due to catastrophic health events could spell disaster for their livelihoods. Informal workers, along with MSME businesses, their owners and employees remain vulnerable to a range of other perils noted earlier, including fire, theft, burglary, natural

disasters, accidents, and the death of owners or primary breadwinners. Additional risks include financial liabilities.

Research on the effects of microinsurance on poverty alleviation has been limited to the household level. Microinsurance has been found to enable households to cope with various vulnerabilities and shocks such as illness, death, theft, and poor weather, among others (Ojwang, 2022). Ojwang (2022) shows that microinsurance can free up some capital for investment into small enterprises following a disaster. This study aims to contribute new insights by identifying lessons and opportunities to close the MSME protection gap before the next pandemic or major geopolitical shock, and to mitigate the impact of these crises on the poor who depend on MSMEs for their livelihoods.

1.3 Research Objectives

Consequently, the objectives of the study are:

- To identify the impact of COVID-19 on MSMEs in Kenya.
- To explore the factors affecting demand for microinsurance among MSMEs in Kenya.

1.4.1 Scope

This study explored the potential of existing insurance initiatives to support business continuity among MSMEs by conducting interviews with registered MSME operators in Kenya. It focused on identifying new and emerging business risks among MSMEs in Kenya following wide-ranging socio-economic shocks, such as the COVID-19 pandemic and, to a limited extent, geopolitical events with global ramifications for MSME supply chains. The study reviewed both traditional and emerging business risk coping strategies among MSMEs in Kenya and examined how these compare with the evolving MSME insurance market that targets the “missing middle”. MSMEs in the trade, logistics, retail, construction, transport, pharmaceutical, entertainment, education and manufacturing sectors were included in the study. Aspects considered to be outside the scope of this study included social protection programmes, community health (micro) insurance programmes, other life and non-life insurance classes, semi- and informal funeral cover (final respects) (micro) insurance programmes, drought, flood or other agricultural weather-related (micro) insurance and agricultural index (micro) insurance. Therefore, subsequent sections and aspects of the research, including literature review and research methodology, did not consider or pay in-depth attention to the dimensions that were out of scope.

1.5 Organization of the Research

This research paper is divided into five chapters. The first chapter lays out the context and foundational aspects of the research problem, that is, the importance of MSMEs to the global, African and Kenyan economy and their vulnerability to wide-ranging economic shocks. It provides a glimpse into the emergent field of MSME insurance - “the missing middle” in insurance. It also outlines the problem statement, research questions and objectives while showing how this study will help to fill the gaps in knowledge about insuring Kenya’s MSMEs against business risks for greater resilience.

The second chapter reviews the literature on the interplay between microinsurance, MSMEs, and business risk management while exploring the emerging field of MSME insurance. It presents examples of microinsurance uptake by individuals and MSMEs in Kenya and other countries together with a global view of the coping strategies of enterprises for various business risks. The chapter also outlines the relevant theoretical frameworks underpinning the study in insurance, business risk, resilience, microinsurance and innovation, including Schumpeter’s Theory of Creative Destruction and Theory of Planned Behaviour. Finally, it presents the conceptual framework and its application to this study.

The third chapter specifies the research methodology, including the research approach and design, target population, and sampling design, including sample size and sampling frameworks. A description of the data collection and analysis process follows, including the research instruments and data analysis approaches. Ethical considerations in the study are also highlighted.

The fourth chapter discusses the main findings based on data collection and analysis, while the fifth chapter outlines conclusions and policy recommendations based on the findings.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter begins with the definition of key concepts followed by an examination of theoretical and conceptual frameworks on the research topic. Following a review of empirical literature, the paper then delves into a synthesis of these specific aspects: microinsurance demand, MSMEs and risk management, and MSME risk and insurance. The chapter concludes by identifying gaps in extant literature and how this research will address them.

2.2 Definition of Concepts

2.2.1 Microinsurance

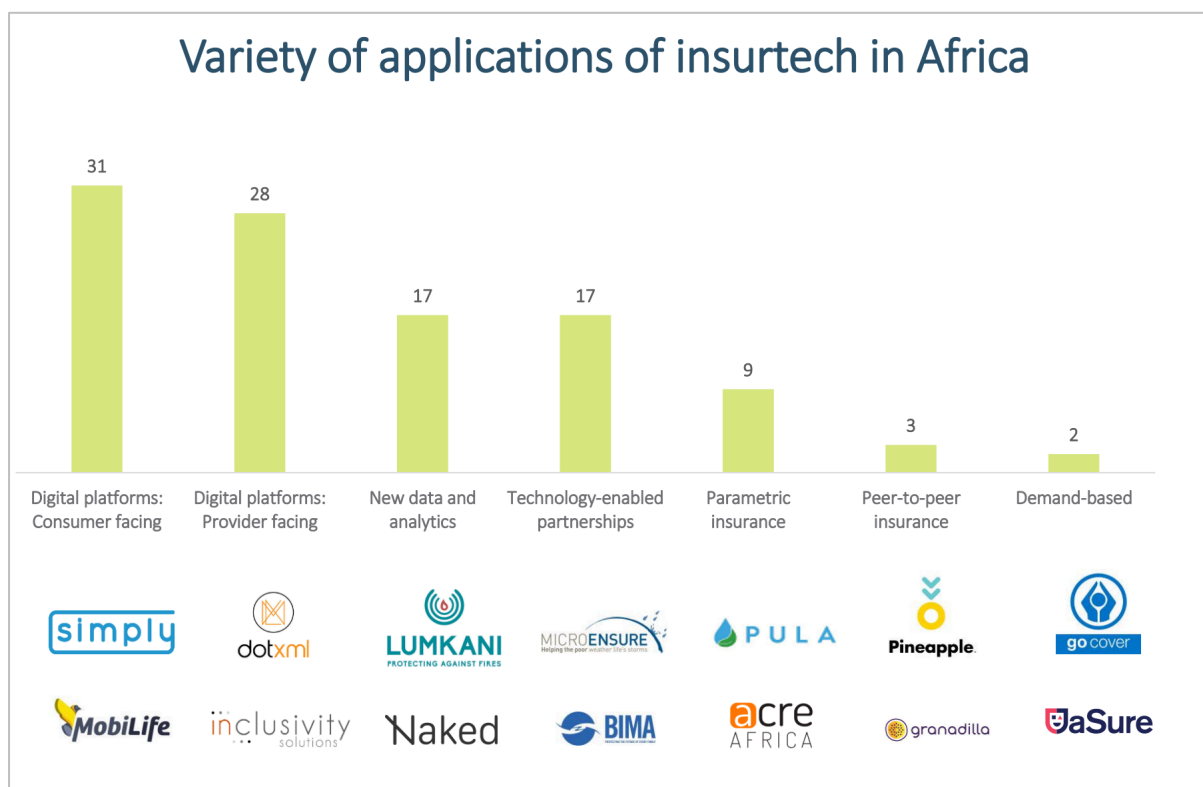
According to Churchill (2006a), microinsurance is "... the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved." Microinsurance products have low premiums to ensure affordability by low-income populations - typically those earning between US\$1.25 and US\$4.00 (Kariuki, 2021). Other demographics such as the elderly, women and microentrepreneurs have recently been included. Churchill (2006b) emphasizes that microinsurance is insurance in service of low-income customers agnostic to product lines or risk carriers.

However, barriers to the uptake of microinsurance by the target population include general mistrust of insurance, low levels of disposable income, lack of financial and insurance literacy, and unavailability of suitable products (Rakshit, 2017). A major obstacle to growth in microinsurance demand has been the unavailability of suitable products, as many insurers downscale conventional insurance products and market them to the target segment without customization (Cheston et al., 2018).

In extending the literature on microinsurance, Mazambani and Mutambara (2018) generate a framework that outlines demand-side and supply-side factors to be addressed in creating sustainable microinsurance demand. The tension between soft microinsurance demand and the oversupply of inappropriate microinsurance products inspired their analysis and development of the model represented below.

A promising trend in emerging markets is the upsurge in microinsurance with mobile money playing a significant facilitatory role in the uptake and retention of microinsurance by first time customers (Gross, 2013). Another trend is the recognition by regulators in Africa of the importance of microinsurance in protecting the poor from insurable risks. For example, the insurance regulator in Ghana issued regulations for microinsurance in 2013 and for mobile insurance in 2017. The regulator also advocated for the continued use of mobile phone airtime for premium payments by engaging with the Bank of Ghana and the Ministry of Finance. The Microinsurance Network (MiN) (2019) shows that microinsurance in Africa is growing at a fast pace - particularly health microinsurance - on the back of innovations such as the use of mobile money, automation of administrative processes and product design. However, Figure 1 shows that despite the explosion in technology applications in the insurance value chain, gaps remain in all underserved customer segments, including MSMEs. So, there is scope to innovate to create more relevant products to serve more industry sectors.

Figure 1: Technological innovations can speed up insurance product development in Africa



Source: CENFRI & FSD Africa (2019)

2.2.2 Micro, Small, and Medium Enterprises

Though ubiquitous, MSMEs have defied a singular definition. Practitioners, academics and legislators use differing criteria when considering these broad aspects: number of employees, industry type, economic sector and annual turnover.

According to the ILO (2015) micro-enterprises have less than 10 employees, small enterprises have 10-100 employees while medium enterprises have 100-250 employees. Longenecker et al. (2006) define small and medium enterprises as non-dominant, localized firms with less than 10 employees usually financed by one or a few people. Since 2003, the European Union (EU) defines a micro-enterprise as a commercial entity with less than 10 employees and less than 2 million euros in turnover (European Commission, 2017). In Kenya, MSMEs are defined depending on the number of employees; micro-enterprise (with 0–9 employees), small enterprise (with 10–50 employees) and medium enterprise (with 50–100 employees) (KIPPRA, 2010).

Table 1 The EU’s definition of micro, small, and medium enterprises

Enterprise category	Headcount: annual work unit (AWU)	Annual turnover (million EUR)	or	Annual balance sheet total (million EUR)
Micro	<10	<2		<2
Small	<50	<10		<10
Medium-sized	<250	<50		<43

Source: European Commission (2017)

Understandably, these highly varied definitions pose a challenge in designing effective MSME financing strategies. For instance, financial institutions will group a substantially heterogeneous cadre of MSMEs based on employee size or turnover, yet the financial needs of these entities could be vastly different (Sahler & Gray, 2020)

In this study, for purposes of clarity, MSMEs and SMEs will be used interchangeably since most literature either uses the term ‘SMEs’ or ‘micro and small enterprises (MSEs)’ or ‘micro-enterprises’ with the latter terms referring to the smaller economic units. The term ‘MSME’ will thus be used in this study to refer to enterprises with 0-100 employees only.

2.3 Overview of Microinsurance in Kenya

According to Mbogo (2009), most Kenyans were historically underserved by conventional insurers. In 2010, a landmark study by the Centre for Financial Regulation and Inclusion (CENFRI) identified several issues that needed to be addressed to spur microinsurance growth. The issues included high minimum capital requirements, licensing and distribution barriers for microinsurance businesses, a limiting regulatory environment, and poorly designed products (Makove, 2011).

Since then, the Microinsurance Regulations 2018 have been developed and in March 2020, the Insurance (Microinsurance) Policy 2020 was gazetted (AKI, 2020). These regulations specify that the daily premium must not exceed KES 50 (approximately US\$0.50) and that the products should be easy to understand, with seamless processing within 40 days of filing claims by the insured (AKI, 2020; Kenya Parliament, 2020). Further, the regulator, the Insurance Regulatory Authority (IRA) lowered the capital requirements of interested microinsurers to KES 50 million (approximately US\$500,000). Collectively, these moves have ushered in a new era of microinsurance in Kenya.

Churchill (2006a), Leftley & Mapfumo (2006) and McCord (2008) recommended that, to increase demand, microinsurance products should be simple, valuable and affordable. Gikonyo (2014) established that widespread mobile phone use had positively contributed to the growth of microinsurance in Kenya. This aligns with Pralahad's (2005) recommendation to use technology to reach the mass market with innovative products.

2.4 Overview of MSMEs in Kenya

Kenya has more than 7.4 million MSMEs which serve as the revving engines of the economy, employing nearly 15 million Kenyans and representing more than 80% of all businesses (KNCCI, 2018). The Kenya Institute of Public Policy Research and Analysis (KIPPRA, 2014) classifies MSMEs as those with a turnover of between KES 500,000 (US\$5,000) and KES 5 million (US\$50,000). The sectors covered by MSMEs include trade, agriculture, hospitality, manufacturing, technology and logistics.

MSMEs in Kenya face a multiplicity of hazards and challenges similar to those faced by MSMEs in other developing countries. Kinyua (2014) enumerates these challenges as relating to infrastructure, access to credit, competition and insecurity. A key source of MSME financing

comes from commercial banks. Calice et al. (2012) found that 50% of banks in Kenya viewed the SME sector as profitable. Furthermore, these banks use their networks of large corporate clients to discover new SME clients. During the COVID-19 pandemic, the Government of Kenya launched a credit guarantee scheme (CGS) worth KES 3 billion (US\$30 million) to offer relief to MSMEs in the form of increased access to capital from formal finance institutions (GoK, 2022).

2.5 Theoretical Framework: Microinsurance and Business Risks

A. Theory of Creative Destruction

Joseph A. Schumpeter, a leading economist of his era postulated that innovations - in products, technology or production processes - can lead to economic growth by disrupting the status quo and sustaining a positive loop of continuous innovation among established and new market players (Antonelli et al., 1992 in: Owuor, 2018). Substantive investments in constant research and development (R&D) to innovate ahead of competitors enhance large firms' opportunities for profitability.

The COVID-19 pandemic accelerated the shift to agile, digitally-enabled processes in customer acquisition, premium collection, claims processing and bundling of microinsurance products (Deloitte, 2021). AXA, a market leader in mainstream and inclusive insurance, reached 1.8 million people in nine countries through bundling its products with free telemedicine in select portfolios (MiN, 2021). During the pandemic, AXA rapidly innovated to develop appropriate products for informal workers, whether employees or small business owners. This creative disruption of the traditional insurance industry is an example of what Schumpeter's concept of 'creative destruction' described (Ulgen, 2013; Owuor, 2018).

When applied to the present study, the Schumpeterian Theory of Creative Destruction facilitated an examination of how MSMEs can innovate in their business models and risk management approaches for greater resilience. The emergence of digital insurance or insurtech and its influence on microinsurance uptake was also explored.

B. Theory of Planned Behaviour

The Theory of Planned Behaviour (TPB) was developed by Ajzen (1988). Its usefulness in studies on insurance has been examined by several scholars. This theory predicts human behaviour based on attitudes, subjective norms, perceived behavioural control and lastly, behavioural intentions (Ajzen, 1991). Attitudes encompass behavioural beliefs and outcome

evaluations while subjective norms involve normative beliefs and the impetus to comply. Control beliefs and their influence affect behavioural control (Ajzen, 1991). As outlined elsewhere in this study, for many MSMEs serious illness affecting business owners or their dependents is a significant business risk with the potential of completely depleting savings, resulting in lost earnings, and if prolonged or resulting in death, it could effectively result in closure of the business.

In a Malaysian study of the working-age population's intent to purchase health insurance as a risk mitigation strategy, Abdullah and Ng (2009) explored how the TPB influences individual decisions. They found that factors driving the demand for health insurance and, ultimately the purchase decision for the same, are an individual's attitude toward health insurance, perceived behavioural control, perceived usefulness and subjective norm. These findings are useful for influencing the design of insurance literacy initiatives to promote increased uptake of voluntary health insurance among the working population, especially informal sector workers such as micro-enterprise owners or employees.

Microinsurance and Business Risks

MSMEs face a multiplicity of internal and external risks that make them more vulnerable than large corporations. Risks faced by MSMEs, and their owners are similar to those faced by low-income earners: illness, death, finances, natural disasters, theft and burglary (Agboola & Epetimehin, 2017; a2ii, 2017). MSMEs use unsustainable risk mitigation strategies such as exhausting cash savings; borrowing from loan sharks, family members and microfinance institutions; and selling off assets (a2ii, 2017). Where insurance is available, MSMEs may not use insurance as a business risk mitigation strategy because it may be unfamiliar, be perceived as costly or ineffective, and may be associated with past negative experiences in unfulfilled claims (a2ii, 2017). In Africa, 98% of MSMEs do not have any form of insurance - personal or business (Sahler & Gray, 2020). Given the socio-economic importance of MSMEs in the developing world, the ILO (2016) defined the specific risks that MSMEs face as follows:

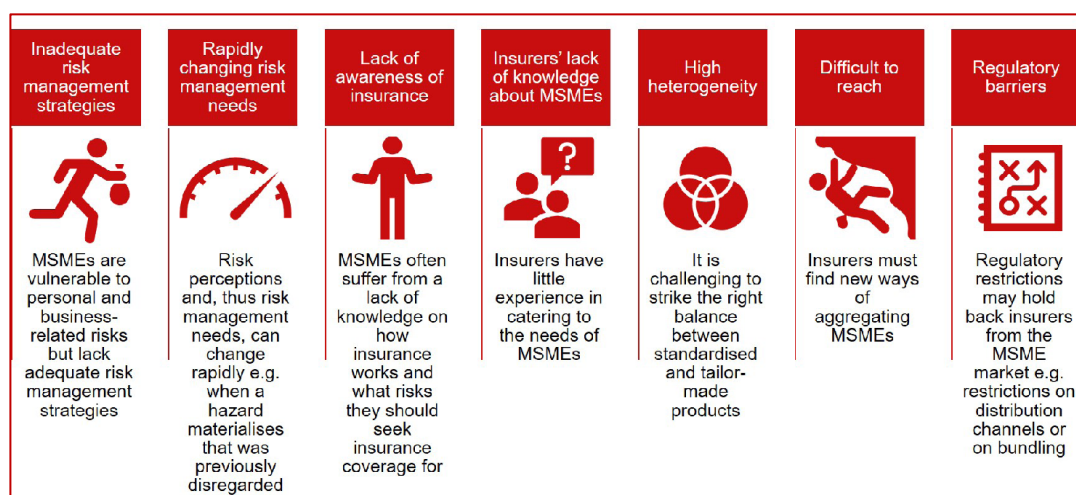
- *“Hazard risks: Fire and other property damage; Windstorms and other natural perils; Theft and other crime; Personal injury; Business interruption; Disease and disability; Liability claims.*
- *Financial risks: Credit.”* (ILO, 2016)

Because the typical risk management strategies of MSMEs are not regenerative and represent a depletion of resources that spells demise for the micro-enterprise, the ILO has emphasized business interruption as an insurable hazard.

Sahler and Gray (2020) study the factors impeding MSMEs’ use of microinsurance and insurance as a risk management strategy. They identify seven major categories of factors holding back the development of an effective MSME insurance market (see Figure 2).

Extending the work of the ILO (2016 in a2ii, 2017), Sahler and Gray (2020) highlight the significance that business interruption has acquired following the COVID-19 pandemic. Given the current operational landscape of many MSMEs, characterized by geopolitical risks, the need to bolster MSMEs’ resilience becomes even more urgent.

Figure 2: Barriers to providing MSME insurance in developing countries



Source: Sahler & Gray (2020)

Navare and Handley-Schachler (2018) introduce the concept of aggregate risks faced by MSMEs. The researchers group these risks into macro- and micro-level risks, and it is the economic interaction of the effect of these risks on MSMEs that leads to the financial aggregation of risks. Navare and Handley-Schachler (2018) offer further contribution by providing a matrix that examines the links between vulnerability and ability to insure among MSMEs; this matrix provides a framework for classification of MSMEs as low, medium or high risk based on their likelihood to survive or collapse in the face of aggregate risks (see Figure 3).

There is growing appreciation of disaster risk management tools, including insurance, and many governments are exploring means of providing MSME insurance to transfer risk to international insurers (Linnerooth-Bayer et al., 2009 in Navarre & Handley-Schachler, 2018). The conceptual frameworks provided by Navare and Handley-Schachler (2018) offer a timely and pragmatic lens for reviewing the current operating landscape in which enterprises of all sizes are simultaneously grappling with geopolitical, climatic and financial risks. These frameworks are also useful to providers of microinsurance who can incorporate these considerations in designing appropriate insurance covers for MSMEs.

Figure 3: Mapping the vulnerability and ability to insure of MSMEs in developing countries

Ability to Insure	<p>Low</p> <p>Risks are low and controllable by the owners, who also have savings or other sources of emergency funding. However business owners have little financial education or information and there is little or no available microinsurance cover. Medium risk of business failure due to aggregate risks</p>	<p>High aggregate risks, with major cross-correlated uninsurable risks and little appropriate insurance cover available for any risks. Poor financial education and financial resources. Marginalized population with no access to insurance providers. High risk of permanent business failure due to aggregate risks</p>
	<p>High</p> <p>Risks are low and controllable by the owners, who also have savings or sources of emergency funding from family, the state or other agencies. Owners have adequate financial education and insurance is available. However owners who are not risk averse might not seek insurance. Low risk of business failure due to aggregate risks</p>	<p>Numerous and substantial but insurable risks with appropriate microinsurance available and good financial education. Major threats to life, essential health or business continuity. Medium risk of business failure due to aggregate risks</p>
	Low	High
	Vulnerability	

Source: Navare & Handley-Schachler (2018)

2.6 Empirical Literature

Chatterjee and Werhann (2017) explore whether having a sound financial risk management strategy among MSMEs leads to better interest rates and lower collateral requirements from traditional lenders. The researchers note that while sound risk management should signal higher creditworthiness for MSMEs, traditional lenders do not consider this.

Chatterjee and Werhahn (2017) make a compelling case for a special fund that would cover (at that time) uninsurable risks, including pandemic risks for MSMEs. Among other things, this

fund would facilitate insurance literacy- particularly focusing on exclusions and effective product pricing, to take into account any confusion and misconceptions arising from MSME clients' limited understanding of insurance language and coverage. They argue that this will increase the credibility of insurance while building the confidence of MSME owners in understanding how insurance works. Other interventions include the design of insurance products that cover business interruption and promote access to bank loans following a catastrophe. The characteristics of MSME insurance products that they recommend are strongly aligned with those of microinsurance. Indeed, they are reflected in the Kenya Microinsurance Regulations (2018) and the new Kenya Insurance (Microinsurance) 2020 Policy. These are affordability, accessibility of highly trusted distributors, easy to understand language and terminologies, efficient claims' processing timelines, frictionless premium payments and simple renewal processes (Chatterjee & Werhann, 2017). However, some challenges in designing adequately priced MSME insurance products include a lack of data that can effectively inform risk modelling and pricing (Chatterjee & Werhann, 2017). Recent developments in artificial intelligence and blockchain hold great promise in changing the microinsurance landscape for the base of the pyramid. In Kenya, for instance, multiple partners came together to develop and launch the "Mzalendo" health microinsurance product, whose data platform is powered by artificial intelligence (AI) and blockchain (Democrance, 2023). The pioneering work of Chatterjee and Werhann (2017) is as relevant today as when it was first posited. The UNDP estimates that providing US\$10-15 per day for six months following a disaster could dramatically increase MSME resilience in emerging markets (Tarbuck, 2020). For the 65 million credit-starved MSMEs globally, this represents an annual cost of US\$1.63 billion. How can these initiatives be financed? Debt crisis management is central to current global discussions surrounding the ongoing macroeconomic shocks resulting from the pandemic and the Russia-Ukraine war. As an example, the UNDP estimates that if development finance institutions (DFI) forgave a sovereign debt of US\$83.9 billion, this would be sufficient to fund the UNDP's new business interruption insurance initiative for 20 years. The initiative, covering 10 countries, including Kenya, aims to protect 170 million MSMEs, ultimately reaching up to 300 million employees. The initiative will cover income loss, including gross profits, wage costs and expenses, as well as property damage following a disaster.

In investigating the links between microinsurance risk control and performance of SMEs in Nigeria, Agboola and Epetimehin (2017) suggest that bundling microfinance with microinsurance products offers a cost-effective and sustainable risk management strategy that

reduces the likelihood of default by the MSMEs. They view microinsurance as essential for helping MSMEs avoid a return to poverty following a major business or personal hazard. Microinsurance can create a virtuous cycle of financial security, capital accumulation, and business resilience for MSMEs and their owners, enabling them to save and maintain their living standards (Chandhok, 2009 in Agboola & Epetimehin, 2017). Agboola & Epetimehin (2017) found no significant impact of microinsurance risk control on SME performance in Nigeria. However, they did find a significantly positive impact on SME performance, demonstrating positive links between risk identification, mitigation and microinsurance for effective SME performance. They recommend risk management training and well-designed MSME insurance products to encourage MSMEs to take up microinsurance against risks like fire or burglary that could otherwise ruin their business.

Sahler and Gray (2020) offer a new framework for MSME segmentation by sector, value chain and reason for establishment, suggesting that tailored MSME insurance (personal and business) could increase MSME resilience and insurer revenue. They suggest that ‘survivalist’ MSMEs, set up by their founders as their primary means of livelihoods, may be better served by personal insurance products, while their ‘aspirational’ MSMEs (established to create employment and value-added services or goods) benefit from both personal and business insurance. To promote MSME insurance uptake, the authors recommend that insurers embed technology, partner with aggregators and bundle products valued by MSMEs. For instance, the use of technology in product design in logistics can maintain high product quality during transit, benefiting both the insured and insurer. They cite Parsyl™ as an end-to-end insurer specializing in cold chain risk management, providing real-time data on temperature, humidity, light exposure and location to ensure optimum product quality throughout transit. For shippers of sensitive goods, like vaccines, this adds operational value and reduces premiums.

Sahler and Gray (2020) also recommend product bundling, though other researchers advise a targeted approach in product bundling. Churchill (2006b) cautions that low-income earners, with limited resources, cannot afford to insure against all possible risks, nor can they pay high premiums for essential insurance. This challenge highlights the importance of ‘human-centric design’ in insurance - joint product development between insurance firms and the insured. As seen earlier, CENFRI (2014) conducted similar research and, from the emerging insights, designed and tested a prototype with Airtel and MicroEnsure that was low-cost, simple and frictionless with premium payments lending themselves well to daily activities of the insured

(airtime top-ups). Both Churchill (2006b) and MiN (2019) show that customers are willing to pay affordable premiums for a limited number of essential needs, with a preference for instalment payments (daily, weekly or monthly). CENFRI (2014) developed tools allowing prospective clients to select low-cost bundled life and education policies based on their income, priorities and preferences.

MiN (2019) reports that health microinsurance in Africa grew exponentially from 2014 to 2017, highlighting the potential for developing health microinsurance products to address the needs of MSME owners and their employees, while creating commercially viable business lines. Specifically, hospital cash products, such as cash payouts per night of hospitalization, are valuable to low-income earners and MSME owners whose livelihoods depend on their physical presence at work. These covers compensate for income lost because of hospitalization from serious illness or accidents and charge low premiums (US\$4-10). Such products offer even more value when bundled with telemedicine, saving time and money by eliminating the need for in-person diagnosis and prescription. Innovations in health microinsurance can foster customer data collection, provide preventative health services to reduce risk, lower premium costs and improve customer retention, areas that have previously been challenging for mainstream insurers and contributed to low demand for microinsurance (Mazambani & Mutabara, 2018)

In a study of microinsurance in Mozambique, Joshi et al. (2019) established that this product has great potential among MSEs such as petty traders, who frequently travel between Maputo and distant towns using the common *chapa-sem*² (an open truck with no seats). The risk of accidents in these vehicles expose traders to income loss and increased medical expenses. They propose designing this product with passenger or transport association partnerships. Although *chapa-sems* do not issue passengers tickets, making it challenging to bundle personal accident microinsurance with the ticketing, the authors suggest two options: collecting monthly premiums directly from passengers (who include small-scale traders) or establishing a group insurance scheme with the transport associations acting as aggregators given their accessibility to passengers.

² The *chapa-sem* or *shapa-shapa* as it is commonly known, is the cheapest but most dangerous mode of mass transport.

2.7 Conceptual Framework

The proposed conceptual framework for this study involves a synthesis of demand-side factors to better understand factors that influence how MSMEs perceive microinsurance as a resilience-building strategy. For the purposes of this study, only demand-side factors will be considered and elaborated on.

2.7.1 Demand-side Factors of Microinsurance

a) Awareness

Awareness efforts should be broad: educating clients on the costs and benefits of microinsurance; changing knowledge, attitudes and practices on insurance; and promoting an insurance culture (Cohen & Sebstad, 2006). To promote awareness of and experience with microinsurance products, subsidized products are introduced to the target population (Cole et al., 2013). However, there is a notable drop in demand after the end of the subsidy period (Eling et al., 2014). Churchill (2006a) recommends client education on how insurance works and its potential benefits. Coupled with awareness creation is the need to ensure that customers who purchase microinsurance products have a positive experience - from enrolment to the payout of claims. This will encourage insured customers to market the benefits of microinsurance by word of mouth, to promote greater trust in insurance and increase uptake of products (Churchill, 2006a).

Promoting insurance in a positive light can overcome negative cultural perceptions. For instance, in many cultures, focus on death and illness is taboo and is believed to bring bad luck (Cohen & Sebstad, 2006). Microinsurance agents should explain product benefits frequently and meet prospective clients wherever they are, especially microentrepreneurs (Gehrke, 2014; Amoah & Mungai, 2022; Chalwe, 2020). Ndurukia et al. (2017) recommend that microinsurance firms use campaigns and media advertisements to increase awareness of microinsurance benefits. Chalwe (2020) proposes that insurers' marketing agents should engage informal traders on the benefits of microinsurance in local languages using simplified terms to increase awareness of and accessibility to microinsurance services. The researcher recommends that microinsurance agents should set up stands within market centres from where they can reach out to MSME owners with information to debunk misconceptions about microinsurance.

b) Financial Literacy

For microinsurance, a key aspect of the financial literacy efforts should be to explain that the insured is required to pay upfront for a service with the expectation that the insurer will honour the terms of the contract and make the payout in case of a claim (Chummun & Bischoff, 2014). Once awareness that microinsurance products exist is established, efforts can be made to improve knowledge of microinsurance terms and concepts and of the specific product, as well as the skills needed to evaluate and use risk management tools. Knowledge and skills (and subsequently, demand) are influenced by education and the financial literacy of individuals. Empirical studies have demonstrated that the likelihood of taking out insurance increases with years of schooling and financial education (Giesbert et al., 2011; Giné and Yang, 2009; Schneider & Diop, 2004).

However, Chalwe (2020), citing other researchers, shows that financial education is not synonymous with financial literacy but rather that financial literacy is a construct comprising three dimensions: financial knowledge, financial behaviour and financial attitude (Potrich et al., 2015). Financial literacy is the outcome of possessing financial education and using that education to make sound financial decisions (Huston, 2010). It follows, therefore, that for the target population, financial literacy in microinsurance will have to be tailored to their specific demographic and context to show the value of microinsurance in risk management. MSMEs may not take up financial literacy training opportunities for multiple reasons including the perceptions that their management already have the knowledge and skills they need, the high cost of the training, inability to apply the training to the business operations and the opportunity cost in the time lost while attending the training (Amoa & Mungai, 2020). Researchers recommend that awareness efforts on financial literacy training and microinsurance for MSMEs should include direct engagement of the target MSMEs at their places of business, for example in market centres and reaching them with targeted messages (Amoa & Mungai, 2020); Chalwe, 2020). They also recommend that government regulations should support the delivery of microfinance services, financial literacy training and microinsurance.

c) Willingness to Pay

The poor are not homogenous. Their perceptions of risk and views on how to manage risk through microinsurance are highly disparate based on their personal experiences, emotions, and insurability of the risk (Brouwer & Akter, 2010). Where premiums are perceived as high relative to household income, microinsurance demand is found to be lower due to people's unwillingness to pay (Abbas et al., 2015 as cited in Mazambani and Mutambara, 2018). This

view is supported by research on willingness to pay (WTP) among poor households in Nairobi, Kenya where it was found that a WTP of KES 200-500 (~US\$2-5) per month was too high (Kukla et al., 2015 as cited in Mwanga, 2019). Mwanga (2019) in his research on WTP among motorcycle riders in Kenya found that a monthly National Health Insurance Fund (NHIF) *Supa Cover* at KES 393 (US\$3 then) was ideal. In Accra, Ghana, Atinga et al. (2015) determined that individuals in the informal settlements who dropped out of the microinsurance scheme cited the affordability of the premium, poor quality of services and low illness incidences as reasons for dropping out. These researchers introduce the dimension of perceived value and affordability to the WTP discourse; the poor were unwilling to apportion their income to a service they would use rarely, or that they perceived as being too expensive or not delivering value for money. This is a useful insight for insurers in designing voluntary microinsurance products to ensure that low-income customers renew their policies due to the perceived value for money of the cover (Matul et al., 2013). Other experts argue that the products should be basic and affordable to increase WTP (Asenso-Okyere et al., 1997; Braun et al., 2016).

d) Affordability

McCord (2001) defines affordability as a feature of microinsurance products in which the premium amount is contextually aligned with the income levels and frequency of the target market (low-income earners). As cited in Eling et al. (2014), Cole et al. (2013) found that a 10% price reduction in rainfall insurance in rural India increased the probability of uptake by 10.4%-11.6%. In investigating the uptake of health insurance in a rural town in Kenya, Dercon et al. (2012) cited in Eling et al. (2014), observed a 12% increase in probability of purchasing the insurance (from 10%-22%) with a 20% price discount. This is in line with the economic theory: the price of a normal good or service moves inversely with its demand. Mosley (2009) cited in Ndurukia et al. (2017) suggests a negative relationship between break-even premium levels and the size of the portfolio. Consequently, insurers are left with two options: to increase premium levels and decrease portfolio size (locking out the poor) or decrease premiums and increase access by the target population. Studies on the links between incomes and uptake of microinsurance offer varied views. Ackah and Owusu (2012) argue that low incomes result in low insurance uptake while Mayoux (2001) suggests that microinsurance can stabilize incomes for the poor through microloans and increased ability to save for a rainy day. Churchill (2006b) recommends designing products for affordability through small benefits packages, spreading out premium payments over time in line with the insured's cashflow and including government subsidies. As seen in the MicroEnsure study in Kenya, the target population will prefer to build

an asset while paying for the insurance, for example, buying children's education cover (saving for children's education) bundled with mobile phone airtime (CGAP, 2014b). In Indonesia, McCord et al. (2005) found that consumers prioritized an insured savings product for education with payouts made to cover school fees as required.

e) Ability to Pay

Wealth among the target population, is defined by the greater ability to access credit or having higher levels of liquidity (Cole et al., 2013). Greater wealth enables families who are slightly more affluent to purchase insurance, by a factor of up to 1.4. Given the great volatility and variability in incomes, the very poor struggle between meeting basic needs such as food compared to secondary needs such as microinsurance, even though they may be more vulnerable in the long run than slightly more affluent persons (Churchill, 2002).

2.8 Chapter Summary

This literature review examined the potential of microinsurance as a business risk management tool for MSMEs. The review began by reviewing microinsurance, MSMEs, risks faced by MSMEs, and the evolution of the links between microinsurance and MSMEs. A conceptual framework was developed for examining the demand-side factors of microinsurance. It is expected that this synthesis will contribute to reducing the gaps in filling microinsurance demand among MSMEs. The conceptual framework sheds light on potential strategies for enhancing the suitability of microinsurance as an MSME business risk management tool.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlines the detailed steps that were followed in conducting the research. It details the research approach, design and population, and the sampling framework. The research instruments are then described as well as their validity. Finally, the data collection and analysis techniques are outlined followed by the ethical considerations.

3.2 Research Approach and Strategy

This research adopted an interpretivist/constructivism paradigm, exploring the multiple realities expressed by the MSMEs included in the research. While the MSME insurance and microinsurance sectors have been well-studied in Kenya, recent socio-economic shocks, such as the COVID-19 pandemic, provide a new context for gathering fresh insights from this unit of analysis. Insights into the demand-side factors influencing MSME insurance and microinsurance uptake were interpreted and constructed based on the views gathered during the research process. Subsequently, an understanding of the drivers behind MSME insurance demand in Kenya for business resilience was constructed. This approach aligns with the frameworks of Terre Blanche et al. (2006). These authors propose that the four dimensions of research design, i.e. context, paradigm, purpose and techniques, have to interact seamlessly to create coherence to ensure that the research adequately answers the research questions and objectives. Further, the authors recommend that qualitative research with an interpretivist paradigm should involve interviewing and observing the study subjects (respondents) within their natural context to gather rich insights. This is the same framework that was employed in the study under consideration. The study employed an inductive (qualitative) methodology drawing on participants' views, experiences and opinions, gathered through interviews, to identify emerging themes on the MSME insurance landscape in Kenya. This approach lends itself well to the research area which is nascent in Kenya as well as to the proposed research question. The section below provides additional details on how the research was conducted.

3.3 Research Design

This study was conducted using a qualitative research design to examine the insurance ecosystem in Kenya and the potential de-risking support available to MSMEs to enhance their resilience during periods of extreme economic shocks. Primary data was collected and analyzed from MSMEs in Kenya, providing insights into their experiences and needs. The study employed a cross-sectional time horizon, capturing data from the MSMEs at a specific

point in time. A non-probability sampling approach was chosen for this research with further sampling details provided below. The respondents were not previously known to the author but rather were selected once the author arrived at the study site.

3.3.1 Population and Unit of Analysis

The population of interest in the research was insurance use in Kenya, with specific focus on drivers of demand for microinsurance and the use of insurance by MSMEs in times of business crises. The unit of analysis was the individual MSME business owners and/or senior managers in the MSMEs were interviewed to explore the factors affecting the demand for microinsurance. These respondents were selected for interviews as they possess more knowledge, experience and expertise on their enterprise's strategy and operations. The inclusion criteria for the interview participants are as follows:

- Businesses defined as MSME as per the characteristics captured in Section 2.2 which defines MSMEs by number of employees (0-250 employees). For this study, only micro (0-9 employees), small (10-50 employees) and medium (50-100 employees) as defined by KIPPRA (2010).
- Businesses operating in Kenya for the last 0 to 5 years at a minimum.
- Businesses that were operating during the COVID-19 period and up to the study period (March 2020 – October 2023) to capture impact of COVID-19 and other risks on the business.
- Male and female business owners, or senior executives of the businesses, with good knowledge of the business and the industry the business operates in.
- Businesses in these industries: hospitality, food service, retail, beauty, transport, printing, entertainment, pharmaceutical, garment manufacturing, and education industries, to give a wide variety of insights.
- Businesses that were affected by the COVID-19 crisis.

3.3.2 Sampling and Data Collection

As outlined above, primary data on microinsurance and MSME linkages was gathered from interviews with key individuals. Purposive sampling was used to select MSME participants for the study. Miles & Huberman (1994) posit that in qualitative studies, smaller samples that have been purposively selected can be used provided that these samples give deeper and richer insights into the matter studied. This approach is useful for optimizing scarce research resources (Palinkas et al., 2015). The target MSME sample size of 20 was considered adequate for this qualitative research. In qualitative research the aim is to gather rich, in-depth insights

rather than achieve statistical generalization. Baker and Edwards (2012), observe that 12-20 interviews are often sufficient to reach thematic saturation when using purposive sampling. Similarly, Kuzel (1992), recommends 12-20 interviews for heterogeneous populations, where a range of perspectives is desired. Obol (2023), in a related qualitative study on responsible investment in Uganda, used a sample of 15 and obtained valuable insights from 13 participants. Drawing from these precedents, this study engaged 20 MSME owners and senior managers across different sectors to ensure meaningful and context-specific findings. MSMEs from Nairobi County, Kisumu County, Mavoko County, Kiambu County and Uasin Gishu County in Kenya were interviewed to provide diverse and rich insights for the study because the study areas are widely dispersed geographically.

Data was collected through semi-structured interviews according to the interview frameworks contained in the annexes. In-person interviews were conducted with MSME respondents at their business premises. All respondents were assured of anonymity and confidentiality throughout the study. Ethical approval from the University of Cape Town (UCT)'s Graduate School of Business to conduct the research was obtained on 16th September 2023. The research interviews were conducted between the 23rd and 27th of October 2023.

In line with the recommendations of Castillo-Montoya (2016), the interview questions were designed to reflect that the conversations furthered the gathering of insights relevant to the research problem. To minimize response bias, the questions in the interview protocol were designed to enhance the accuracy of data collection, to shorten the interview as much as possible and to increase the richness of responses by the interviewees. Further, the questions were carefully worded to avoid any bias in understanding. They also followed a rational sequence and norms of normal conversations to put the interviewees at ease (Castillo-Montoya, 2016). To get feedback on the suitability and effectiveness of the interview questions, the researcher subjected the interview protocol to close reading and think aloud exercises by peers. The researcher also adopted the interview protocol review (IPR) framework proposed by Castillo-Montoya (2016), which involves: (1) ensuring that interview questions align with research questions, (2) constructing an enquiry-based conversation, and (3) receiving feedback on the interview protocol. The interview protocol was piloted with a small sample. All these steps greatly improved the quality and clarity of the interview protocol as recommended by Castillo-Montoya (2016). The IPR frameworks enhanced the richness of the insights gathered through greater candidness of the responses by the interviewees.

The interview responses were recorded on a voice recorder, transcribed and subjected to thematic content analysis. A data management plan (DMP) was prepared and applied to guide all data collection, analysis and storage processes ensuring that all data collected was safe and that research would be reproducible in future. The data collected was securely stored in the University of Cape Town Graduate School of Business cloud storage, and an external hard drive was purchased solely for this research. The data will be stored securely for three years.

3.3.3 Data Analysis

Thematic content analysis was conducted to identify any recurring themes within and across the groups of respondents. These themes were compared and contrasted. Final themes that aligned with the interview data were compiled. Zunguze (2017), in analysing the success factors of independent power producers (IPPs) in Zimbabwe, utilized thematic content analysis in an exploratory study. In following the recommended approaches by McCracken (1998), a five-step thematic analysis framework was employed while Excel software was used for the analysis of the interview responses to generate themes.

The steps taken in the data analysis process are summarized below.

1. Eliciting important initial observations from interview transcripts.
2. Generating emerging themes.
3. Highlighting complementarities and relationships within the early themes.
4. Finding key recurring themes within the data.
5. Analysing these key themes to identify the principal themes which then guide the compilation of the data.

Thematic content analysis is presented as tables containing summary narratives on the thematic categories, and where useful, direct quotes from the respondents are cited in the subsequent chapter on the research results.

3.4 Research Limitations

At the outset, a possible limitation of this study was presented as the potential for response bias from the study respondents on MSME insurance in Kenya. It was presumed that, although the MSME operators may be knowledgeable about the business risks faced by their enterprises, they may not be aware of the use of microinsurance or MSME insurance to manage insurable business risks. However, as the data analysis in Chapter 4 shows, the MSME respondents

interviewed were aware of microinsurance and its potential to mitigate business risks. A proportion of the respondents confirmed the use of microinsurance in their businesses

3.5 Summary

The study employed a qualitative research strategy to yield new and rich insights into a field that has not been widely studied in Kenya - MSME insurance in business risk mitigation during major economic shocks. In this chapter, the research design, study population, sampling procedures, data collection and data analysis have been elaborated. The study's limitations have been highlighted.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents and discusses the findings from the research, focusing on the impact of the COVID-19 pandemic on MSMEs in Kenya and examines factors affecting microinsurance demand by MSMEs in Kenya. It presents the demographic characteristics of the respondents, then explores the effects of the pandemic on MSMEs and synthesizes insights into the demand-side determinants of microinsurance use by MSMEs. The chapter ends by summarizing the study's main findings.

4.2 Demographic Characteristics of the Respondents

Twenty (20) respondents drawn from MSMEs operating in various sectors were interviewed. The MSMEs were based in Nairobi County and the surrounding counties. The industries and sectors covered by the MSMEs include advertising, education, retail, hospitality, telecommunications, textile, transport and services. The enterprises studied fell into the micro (1–9 employees) and small (10–50 employees) categories with great diversity in the number of years of operation, ranging from 3 to 23 years. The positions held by respondents in the MSME included owners and senior managers, with ages ranging from 23 to 54 years. The types of businesses represented included a cosmetic shop, a greengrocery, schools, a restaurant, a cybercafé, a flour mill, a hardware store, a pharmacy, a mini mart, an entertainment venue, a uniform manufacturer, an agrovet store, a wholesaler and a hairdresser. There were more male respondents (14) than female respondents (6). Table 3 below presents the respondents' attributes in terms of gender, age, position in the enterprise, sector or industry of operation, number of years in operation for the enterprise, category of the enterprise by number of employees (micro, small or medium) as well as the type of business. The enterprises were selected to reflect a rich diversity of types of MSMEs operating in Kenya.

Table 3 Interviewed participants

	Position	Years of operation	Age	Gender	Organization type	Sector or industry	Number of employees	Interview date
1.	Senior manager	10	40	Female	School	Education	Small (10–50)	26.10.23
2.	Owner	4	30	Male	Printing & branding	Advertising	Micro (1–9)	23.10.23
3.	Senior manager	10	54	Male	Restaurant	Hospitality	Micro (1–9)	24.10.23
4.	Owner	7	30	Male	Flour mill	Retail	Micro (1–9)	26.10.23
5.	Owner	6	28	Male	Hairdressing & barber shop	Services	Micro (1–9)	23.10.23
6.	Owner	4	33	Male	Transportation (motor bicycle operator)	Transport	Micro (1–9)	26.10.23
7.	Senior manager	5	30	Female	Agrovet shop	Retail	Small (10–50)	24.10.23
8.	Owner	5	28	Male	Cybercafé	Telecommunications	Micro (1–9)	23.10.23
9.	Manager	8	40	Male	Garment manufacturer (uniforms)	Textile	Micro (1–9)	24.10.23
10	Manager	3	23	Female	Cosmetics shop	Retail	Micro (1–9)	27.10.23
11	Owner	4	30	Male	Gas cylinder refill & electronics	Retail	Micro (1–9)	25.10.23
12	Owner	4	28	Male	Transportation (motor bicycle operator)	Transport	Micro (1–9)	23.10.23
13	Manager	5	33	Male	Transportation (mini-van operator)	Transport	Small (10-50)	24.10.23

14	Manager	10	30	Female	Hardware shop	Retail	Micro (1–9)	24.10.23
15	Owner	3	23	Male	Greengrocery shop	Retail	Micro (1–9)	25.10.23
16	Senior manager	23	30	Female	School	Education	Small (10–50)	27.10.23
17	Senior manager	5	33	Male	Pharmacy	Retail	Micro (1–9)	26.10.23
18	Owner	9	32	Female	Minimarket	Retail	Micro (1–9)	27.10.23
19	Senior manager	6	28	Male	Entertainment venue	Hospitality	Micro (1–9)	25.10.23
20	Manager	20	33	Male	Wholesale shop	Retail	Small (10–50)	27.10.23

4.3 Impact of COVID-19 on MSME Operations in Kenya

The COVID-19 pandemic in Kenya occurred during declining economic growth (World Bank, 2020). MSMEs were not spared from the socio-economic ripple effects of the pandemic. Those interviewed for this study were asked to elaborate on the impacts of the pandemic on their customers, revenue, business models and operations. In line with global efforts to contain the spread of COVID-19, the Kenyan government enforced a night-time curfew, deferred all public gatherings and conferences, ordered the closure of all schools and entertainment venues, imposed travel restrictions, and issued strict stay-at-home orders for all citizens except those in essential services (World Bank, 2020, UNDP & MSEA 2021). The pandemic resulted in positive experiences for some MSMEs and negative ones for others regarding revenue, operations and longer-term sustainability. The thematic analysis grouped the respondents' experiences into four themes: business as usual, business disruption, COVID-19 costs and demand for goods and services. The following sub-sections provide additional details.

4.3.1 Business as Usual

The effects of the pandemic were not homogenous across the enterprises studied. Some opted to remain operational, and a few reported being more profitable during the pandemic, as seen below.

- **Adopted New Business Model**

By their nature, MSMEs are more flexible in adapting to changes in their external environment than larger firms (Ebben & Johnson, 2005). Some researchers define business agility as the ability of an MSME to transform itself by adapting to changing external circumstances through learning, innovating, and even reorganizing their business model to take advantage of opportunities offered by external shocks (Dahles & Susilowati, 2015; Larsson et al., 2016; Castro & Zermeno, 2021; Cucculelli & Bettinelli, 2015). Some MSMEs relied on diversification of their income streams to survive; for instance, Siddiqui et al. (2020) reported instances where microentrepreneurs ran two or three different businesses concurrently to remain operational. Similarly, the MSMEs studied changed their business models, diversified their product offerings, and adopted agility to ensure their survival during the pandemic. Some respondents showed how they built their resilience through these approaches.

Some respondents switched to home deliveries since customers were afraid of venturing outside their homes during the early stages of the pandemic. Agile businesses pivoted and

responded to this new customer requirement. These entrepreneurs were flexible, responsive and adaptable to their customers' needs consistent with other enterprises studied during times of crises (Doern, 2016; Branicki et al., 2018).

Our customers wanted us to deliver gas cylinders to their homes during COVID-19. So, we did free deliveries of the gas cylinders and electronic goods to encourage our customers to continue buying from us.

Respondent 11, male, owner, gas cylinder refill and electronic business

The changes in the food service industry that affected businesses and consumers worldwide also affected the products and operations of the respondents studied. Globally, the COVID-19 pandemic triggered a major transformation in how food was prepared, sold, and consumed, with increased reliance on digital ordering platforms, contactless delivery, and mobile-based transactions (Chotigo & Kadono, 2022; Aryanto, 2022; MDPI, 2022). In China, restaurant firms quickly restructured their delivery systems and adopted digital technologies to sustain consumer engagement and high uncertainty (Kim, Kim, & Wang, 2021). Kenya followed a similar trajectory.

At the start of the pandemic the Kenya government banned all operations of hotels and restaurants. It later relaxed this directive to allow deliveries and takeaway services and to ease the impact of the pandemic on this industry (UNDP & MSEA, 2021). Some consumers shifted to ordering food items online which boosted the activity of food delivery services such as Bolt Food, Uber Eats, Jumia Food and Glovo. Further, major supermarket chains also amplified their online groceries' delivery services (Competition Authority of Kenya, 2024). At the same time, some restaurants opted to use their food production capacity to service online orders and serve customers who preferred to pick food in-store but to eat at home, an option exploited by Respondent 3 as seen below.

In terms of operation, sometimes we did not operate from the main shop due to the restrictions during lockdown. We also changed our services... we used to make home deliveries.

Respondent 3, male, manager, restaurant

In response to the changing nature of food purchase and consumption occasioned by the pandemic, a new ecosystem emerged, comprising food retailers and restaurants, digital

payments, delivery platforms and courier services (Competition Authority of Kenya, 2024). Consumers were presented with multiple options in which they could order directly from retailers or restaurants and pay directly via mobile money or order through platforms that brought together several restaurants and retailers and offered end-to-end order processing with delivery options embedded. These options enhanced consumer comfort and convenience while assuring them of quality food. Overall, these changes increased online shopping penetration in Kenya from 40.3% in 2020, with projected growth to 53.6% by 2025 (Competition Authority of Kenya, 2024). The pandemic is credited with creating an upsurge in online food delivery of 65% in Asia Pacific, 23% in Europe and 150% in Latin America (Poon & Tung, 2022).

A dusk-to-dawn curfew restricted movements during the early days of the pandemic and some study respondents opted to start their business days earlier to optimize the working hours and contact with customers. Others had fewer operating hours and adjusted accordingly, resulting in less productivity. For instance, employees of one MSME that fabricated metal cook stoves, demanded to be released early to get home before the curfew, reducing productivity. The scaling down of operations among MSMEs in Kenya was sector-agnostic, with some scaling down their operations by 50% (UNDP & MSEA, 2021). Respondent 2 shared his firm's experiences, which suffered an 80% reduction in productivity at the start of the pandemic.

We started opening our business as early as 5:00 am so that we could complete and deliver the orders on time. We tried to serve those customers who were coming from far (away) early enough so that they could go home before the curfew.

Respondent 2, male, owner, printing and branding business

When the inter-county movement restrictions in Kenya were lifted, there was an increase in activity in the transportation industry. However, the curfew hours remained in place, and the transport operators in the study had to undertake fewer trips to conclude the workday before the night-time curfew kicked in, as Respondent 13 shares.

There was a reduction in the number of trips undertaken per day.

Respondent 13, male, manager, mini-van (matatu) transport business

To effectively reach their customers who were now spending more time online, some respondents switched to online marketing strategies and took up online service provision with

diverse clients including global ones. According to UNDP and MSEA (2021), the surveyed Kenyan MSMEs used WhatsApp, Facebook, email and Jumia marketing platforms to create awareness about their goods and services during COVID-19. This was in line with global trends (Belitski, 2021). Researchers have studied previous global shocks and found that digitally enabled firms are more adaptable during crises (Belitski, 2021). Respondents reported that they used various social media apps and strategies to reach both existing and new customers as captured by Respondents 19 and 8 below.

The strategies we used included continuing with normal marketing and also introducing blast marketing to increase the number of bookings by customers.

Respondent 19, male, manager, entertainment venue

I also ventured into online services and had some clients in the UK, where the impacts of COVID were not as bad since it is a developed country.

Respondent 8, male, owner, cybercafé business

Respondents in this study indicated that they also adapted their product offerings to capitalize on emerging opportunities, utilizing existing production capacities. This aligns with findings from prior research that has linked business innovation with adaptability and value creation (George & Bock, 2011; Cucculelli & Bettinelli, 2015). According to Catalyst for Growth (n.d.), MSMEs across various countries, including Kenya, pivoted swiftly to new business models, products and services in response to the changing demands. In Kenya, some garment manufacturers diversified into producing cloth face masks (UNDP & MSEA, 2021). Other MSMEs ventured into producing gloves, face shields and sanitizers to meet the high demand for protective personal equipment (PPE) during the pandemic (UNDP & MSEA, 2021).

The educational sector, which is heavily reliant on MSMEs for supplies ranging from transportation to school uniforms and other school supplies, faced unique challenges with school closures. As a result, MSMEs in the garment industry quickly pivoted to mask production, a strategy echoed globally by garment manufacturers, such as in Mexico and Ghana. In Mexico, one garment manufacturer retooled from producing school socks to specialized medical socks (Santiago-Morales, 2021), while in Ghana, seamstresses responded to government contracts for PPE, including surgical gowns and masks, which kept their businesses afloat during lockdown periods (Osseo-Asare, 2023).

Respondent 9 shared a similar experience, underscoring the adaptability of local MSMEs, which contributed to their resilience amid unprecedented socio-economic shocks.

In the beginning we switched to making masks from fabric, and it was OK for the business.

The masks were fast-moving.

Respondent 9, male, manager, uniform production business

Transporters, like motorcycle riders and taxis, opted to carry goods for customers who mostly stayed indoors at the start of the pandemic. Strategies to minimize the spread of COVID-19 globally included movement restrictions, avoiding travel to high-exposure venues, and switching to teleworking. These changes in consumer routines, movement patterns and purchasing modalities, in turn, created opportunities for the transportation industry as consumers preferred to have goods delivered to their premises. As Respondent 12 illustrates, those in the transportation industry were thus able to remain in business by providing this essential service.

I changed my business for some time to just carrying goods instead of carrying passengers

because the customers were few.

Respondent 12, male, owner, motorcycle (bodaboda) transport business

- **Increased Revenue**

Some respondents in businesses providing essential products such as food and medicine reported a revenue boost. According to Singh et al. (2021), consumers began restricting their spending to essential goods because of the constrained incomes. They spent cautiously on what they considered essential goods and services. For example, the sale of foods, particularly those believed to boost immunity to prevent or manage COVID-19 infections increased (Nordhagen et al., 2021). Sellers of shelf-stable foods (such as milled, dried, pasteurized and canned goods) were impacted positively by the pandemic as community members demanded clean, quality and safe food (Nordhagen et al., 2021). Ben Hassen et al. (2020) also found that consumers in Qatar shifted to eating more at home and eating healthier foods due to food safety concerns. Similarly, in France, consumers became more intentional about making sustainable food choices during the pandemic (Marty et al., 2021).

During COVID, it was a blessing in disguise since people ate more. People invested more in food than before, than they would invest, say, in electronics.

Respondent 4, male, owner, flour mill

Along with food, pharmaceutical products were classified as essential goods, sparking panic buying and hoarding as demand increased (Li et al., 2023). In Germany, the demand for various pharmaceutical products increased dramatically as the pandemic progressed. The demand for PPEs, vaccines, over-the-counter cold medication, painkillers, hand sanitisers, immune boosters and multivitamins rose considerably (Schleifenheimer & Ivanov, 2024). Respondent 17 confirmed this experience.

Since it was a pharmaceutical company, it (impact of COVID on the business) was good. We were getting money.

Respondent 17, male, manager, pharmacy

4.3.2 Business Disruption

It is estimated that almost 400 million hours of full-time employment were lost during the pandemic due to business closures (OECD, 2020b, ILO, 2020). These business closures had a disproportionately adverse impact on those in the informal sector, especially men, women, youth and people with disabilities (KEPSA, 2022). This was also the reported experience by the study respondents. Business disruptions and losses in employment resulted from measures to stop the spread of the virus that included banning public events like weddings, reducing transport capacity to 60%, night-time curfews and business closures (KEPSA, 2022). In the present study, respondents reported business disruptions that included the closure of businesses, lost income and disrupted supply chains. This disruption was in line with the experiences of their peers across the globe.

- **Business Closure**

Respondents in the education sector reported effects that were replicated in other parts of the world such as extensive closures and inability to effectively switch to online learning during the early stages of the pandemic. Educational facilities in Kenya were closed indefinitely from March 2020 to curb the spread of COVID-19. Although schools were opened temporarily in October 2020, the move was found to be unfeasible, and schools were closed again until January 2021 (Ng'ang'a, 2021). More than 15 million learners were adversely affected (World

Bank, 2021). According to the respondents and other research conducted in Kenya, most schools lacked the required infrastructure, including extra classrooms and teachers to facilitate learning under social distancing norms (Ng'ang'a, 2021) or to roll out online learning effectively. Schools and parents lacked the digital infrastructure and technical know-how, with parents from resource-poor backgrounds hardest hit by the digital divide. Consequently, most schools remained closed in Kenya for nearly 12 months from the onset of the pandemic. These closures were detrimental to business operations and revenues as reported by Respondents 1 and 16 below.

We closed the school for almost one year.

Respondent 1, female, senior manager, school

During COVID-19, you know there was school closure, so there was no income getting into school.

Respondent 16, female, senior manager, school

Other economic sectors were not spared either. A study found that the lockdown adversely affected enterprises surveyed in Kenya (UNDP & MSEA, 2021). Bartik et al. (2020) found that enterprises had closed due to decreased demand and employee fears of contracting COVID-19 in the United States of America. Belitski et al. (2021) assert that the initial restrictions that minimized enterprise-client interactions led to the closure of businesses. Businesses that were not supplying essential goods were also adversely affected by the full-scale lockdown at the beginning of the pandemic, as reported by the respondent below.

Of course, there was business closure (initially).

Respondent 2, male, owner, printing and branding business

- **Lost Income**

Several factors contributed to reduction of incomes recorded by MSMEs in Kenya, including customers avoidance of business premises due to fear of contracting COVID-19 and overall business activity slowdowns that led to widespread employee layoffs in both formal and informal enterprises (ITC, 2020). These incidents had a ripple effect on the economy and especially on MSMEs, as respondents noted a sharp decline in consumer spending power, especially among the mid to low-income segments of the population, echoing the reports of

respondents and findings from previous research (KEPSA, 2022; KAM & KPMG, 2020). The dusk-to-dawn curfews also affected businesses as they had to shut down early, and some, like restaurants, bars and entertainment spots, lost revenue, as reported by the study respondents and noted from other studies (UNDP & MSEA, 2021).

Mostly, there was a sparse number of bookings and a low number of customers coming into the business during that time. We lost customers and our revenue was reduced.

Respondent 19, male, manager, entertainment venue

The extensive closure of educational facilities across the country had a knock-on effect on adjacent industries, such as those supplying school materials (UNDP & MSEA, 2021). Respondents 1 and 9 experienced these effects in their enterprises, as expressed below.

We had no income, and we suffered a great loss.

Respondent 1, female, senior manager, school

Schools were closed and we rely on school uniform orders for most of our business. We lost a lot of customers because parents were not buying uniforms like before.

Respondent 9, male, manager, uniform production business

In the transportation industry, restrictions on large-scale gatherings, inter-country travel bans, night-time curfews, and vehicle capacity limits negatively impacted operators (UNCTAD, n.d.). According to other surveys among transport operators in Kenya, the pandemic containment measures enforced by authorities, saw transporters who relied on weddings and funerals to generate their revenues lose all earnings in the period when the strict lockdown was in place (Singh et al., 2021). The study respondents in this sector also experienced these income losses.

We had to observe social distance rules, and our vehicles carried fewer people, from 11 passengers to 7 passengers. We also had fewer customers since people were afraid of travelling at first during the lockdown.

Respondent 13, male, manager, mini-van (matatu) transport business

Some MSMEs rely on corporate clients for their revenue, such as those who work in advertising, branding or marketing. According to the study respondents, there was less face-to-face contact between business owners and their clients with the switch to teleworking. Therefore, there was a drop in demand for promotional materials such as banners, billboards, t-shirts and other branded materials. Consequently, businesses in the marketing ecosystem, such as professional printers, lost revenue, as experienced by Respondent 2.

There was loss of customers... meaning revenue went down, let me say, by 80%.

Respondent 2, male, owner, printing and branding business

Before the pandemic, several study respondents in the beauty industry reported strong sales in line with global trends in the lucrative sector which is valued at US\$500 billion annually (Gerstell et al., 2020). Up to 85% of beauty product purchases in the USA happened inside stores before the pandemic. As the pandemic raged, beauty product sales dropped, and more than 30% of the outlets closed, some for good (Gerstell et al., 2020). Enterprises in both the USA and Europe were not as effective in ramping up online sales and suffered losses in inventory due to product expiry. In contrast, online sales increased by up to 30% in China during the pandemic. Globally, sales of beauty products dropped as spending declined on the back of falling incomes as consumers switched to working from home, extensive wearing of masks, and, in some cases, lost their jobs and had to spend money on essential goods (Gerstell et al., 2020). Most beauty product sales in Kenya are conducted in person and within shop premises. In Kenya, smaller retailers interviewed for this study could not effectively and swiftly pivot to digital sales as they needed those capabilities. As a result, their slow-moving inventory expired. Like global trends (Gerstell et al., 2020), consumers in Kenya also stayed away from beauty parlours for fear of contracting COVID-19 and, also, because the shift to remote work reduced the perceived need to maintain appearances for working in an office with colleagues. The study respondents reported these disruptions to their businesses.

First, customers reduced, and then there was the loss of income.

Respondent 5, male, owner, hairdressing business

Some of our products expired, especially in the early days of the pandemic when customers did not come to the shop.

Respondent 10, female, manager, cosmetic products shop

The dusk-to-dawn curfews also affected businesses in Kenya as they had to shut down early. Restaurants, bars and entertainment spots, whose businesses picks up after office hours, lost revenue.

In terms of revenue, COVID-19 led to a huge loss of revenue because we had few customers coming in.

Respondent 3, male, manager, restaurant

In comparison, South Africa's hotel and restaurant industry also suffered significant losses as it relies heavily on corporate clients and their formal employees (Catalyst for Growth, n.d.). As the lockdown restrictions were loosened, businesses opted to continue operating remotely, further decreasing the demand for food products and catering services offered mainly by MSMEs (Catalyst for Growth, n.d.).

- **Disrupted Supply Chains**

Global supply chains are highly interconnected, with the major global exporters being the European Union, the USA and China (Ivanov, 2020). Consequently, they are also the largest importers of raw materials. COVID-19 containment measures that led to lockdowns, factory closures and export bans vastly affected the global movement of goods (Ivanov, 2020). Wuhan, China, is the nerve centre of many global manufacturing operations because it hosts thousands of primary and secondary suppliers. For instance, five million global companies obtain their secondary supplies from Wuhan, while more than 90% of the world's leading multinationals source their core inputs from the same region (Dun & Bradstreet, 2020). In the early days of the pandemic, when production and logistics were most severely affected, global supply chains nearly ground to a halt because the world's top supply chains had 12,000 facilities in regions under quarantine (Linton & Vakil, 2020). Some study respondents who trade in consumer-packaged goods that are either imported or manufactured locally using imported components, experienced shortages in supply due to these global disruptions in manufacturing and logistical operations in major hubs. Respondent 18 expressed these frustrations.

We experienced inconsistency in supplies of goods due to the lockdown.

Respondent 18, female, owner, retail business (small supermarket)

When Chinese factories and ports were closed, manufacturers in the rest of the world felt the impact from mid-March 2020 until China re-opened 50% of its factories, operating at only 56% (ITC, 2020). The ripple effect of decreased manufacturing capacity in China, the USA and the European Union was felt in markets as the inability of suppliers to meet supply and demand obligations for processed goods. Respondents reported that this ripple effect was significant as Kenya relies heavily on imports, especially from China. Multiple value chains thus faced significant supply chain disruptions. These global disruptions, coupled with localized movement restrictions, may have affected Respondent 2's Nairobi-based supplier of critical inputs in the print production process, as seen below.

The limits in physical movement also meant we could not receive some key supplies which we (usually) receive from Nairobi because vehicles were restricted from moving across counties during the lockdown.

Respondent 2, male, owner, printing and branding business

Other respondents were also adversely affected by restrictions on the movement of goods, services and people during the initial stages of the pandemic. These businesses could not access crucial inputs.

During COVID-19, because of the lockdown, we could not access fruits which are grown upcountry. There were police roadblocks.

Respondent 15, male, owner, greengrocery

China, which supplies the world's largest share of active ingredients for non-over-the-counter medicine, is also a major supplier of raw materials for personal protective equipment (PPE) required by factory workers and frontline health personnel (Liuina, 2020; Zhu et al., 2020; Ivanov, 2020). With restricted production capacity in China, a global shortage loomed early in the pandemic. To overcome this hurdle and to become self-sufficient, Kenyan manufacturers embarked on an ambitious local production plan (see sub-section below on COVID-19 compliance costs).

4.3.3 COVID-19 Costs

The government-mandated COVID-19 management protocols aligned with global measures (KEPSA, 2022). Enterprises were required to set up handwashing stations, provide masks and

sanitizers for customers and employees, and reorganize their business set-ups to provide for social distancing of customers to prevent the spread of COVID-19. Transport operators and passengers were required to obtain inter-county travel permits before undertaking any travel between counties during the initial stages of the pandemic (UNCTAD, n.d.; UNDP, 2021).

- **Compliance with COVID-19 Protocols**

The study revealed that compliance with COVID-19 protocols imposed additional costs on MSMEs in Kenya. These costs included purchasing PPEs, modifying seating arrangements in business premises and vehicles to adhere to social distancing requirements, and paying for travel permits. Similar findings were documented in other studies of Kenyan MSMEs (UNDP & MSEA, 2021). Krena et al. (2021) explored Irish MSMEs and found parallel investments in hygiene and distancing protocols. However, their research also indicated that self-employed entrepreneurs with no employees were less likely to make such investments, whereas MSMEs with more employees were more inclined to implement these safety measures.

In contrast, sole proprietors in Kenya, irrespective of business size or employee count, felt compelled to invest in PPE and hand hygiene measures, as highlighted by the experiences of Respondents 6 and 11. This disparity suggests that in Kenya, compliance pressure or cultural norms may have driven even solo business operators to meet these protocols, underscoring the broader impact of regulatory adherence to smaller enterprises.

The requirements to get inter-county permits, the curfews and lockdown were just too much!

We needed to pay for the permits due to the restricted movements. I also had to invest in masks for myself and customers, together with the sanitizers.

Respondent 6, male, owner, motorcycle (bodaboda) transport business

They (customers) were checking if we were wearing masks, if we were not then they would not open their doors to accept the delivery. So, we had to switch to wearing masks, and ensure that we sanitize our gas cylinders, vehicles and shop. I needed to save up the money to buy the PPE (masks and sanitizers).

Respondent 11, male, owner, a gas cylinder refill and electronic business

In the Irish study referred to above, most of the firms surveyed invested approximately €250 per employee (Krena et al., 2021). The present study did not collect this data, nor has this data

been made available to Kenyan firms. However, respondents to this study reported that the compliance requirements were intensive and added more strain to their finances which were already constrained by lower demand and revenue compared to the pre-COVID-19 periods. Like their peers in Ireland, they had to meet the costs of compliance from their businesses without external support.

Clients were fearful and demanded masking up and social distancing. When a client walked into the cyber and saw that there was another client (in the shop), they would go away because they didn't want to be in a crowded place. So, we had to invest in the safety protocols ... in the masks for myself and customers, and sanitizers.

Respondent 8, male, owner, cybercafé business

Some respondents not only had to deal with the PPE requirements but also had to pay for inter-county travel permits and other incidental costs occasioned by restrictions such as the dusk-to-dawn curfew and extensive lockdowns, as seen below.

The requirements to get inter-county permits, the curfews and the lockdown were just too much! We needed to pay for the permits due to the restricted movements. I also had to invest in masks for myself and customers, together with the sanitizers.

Respondent 6, male, owner, motorcycle (bodaboda) transport business

Having reviewed the impact of additional requirements such as travel permits, we now turn to the extra sanitization and PPE requirement that some customers demanded of enterprises, their staff and products, especially before accepting delivery of purchases made online, for instance, as expressed by Respondent 11 below.

They (customers) were checking if we were wearing masks, if we were not then they would not open their doors to accept the delivery. So, we had to switch to wearing masks and ensure that we sanitize our gas cylinders, vehicles and shop.

Respondent 11, male, owner, a gas cylinder refill and electronic business

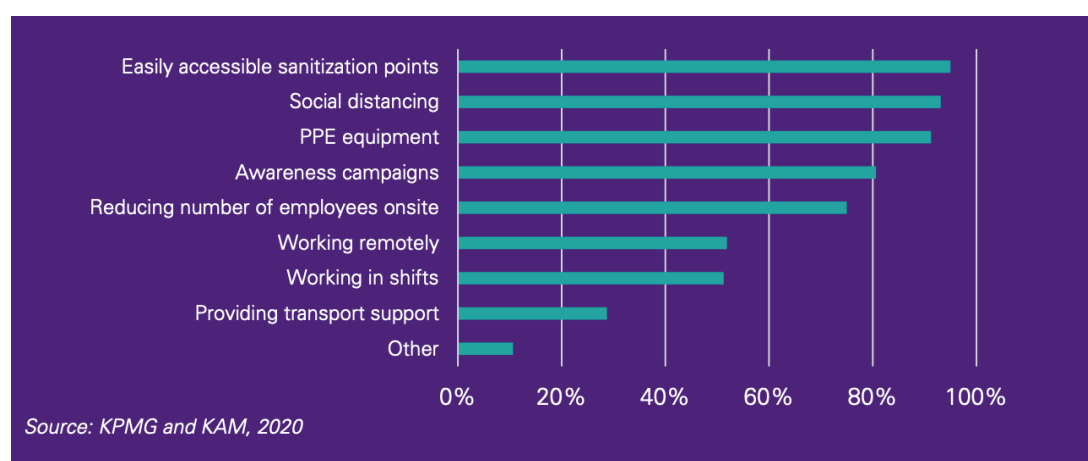
Manufacturers in Kenya had to adopt universally recommended health safety measures during the height of the pandemic in addition to updating factory floor plans to make them social distancing-compliant (see Figure 4). To maintain the required worker density mandated by social distancing rules, many manufacturers either laid off their employees, sent them on

compulsory leave or considered remote work, which was not feasible for some factory setups (KPMG & KAM, 2020). Some firms also ramped up awareness campaigns on health measures, kept workers updated on the COVID-19 situation countrywide and supported alternate transport arrangements for employees.

Kenya's private sector played a significant role in supporting MSMEs' access to affordable PPE and maintaining business continuity during the pandemic. Coordinating agencies mobilized local manufacturers to produce over one million metres of polypropylene for masks and 240,000 litres of ethanol for hand sanitizer production, ensuring a steady supply of essential safety items (KEPSA, 2022). Recognizing the financial constraints faced by MSME employees in accessing vaccines at private medical facilities, the private sector raised US\$2.2 million from 260 companies to vaccinate over 200,000 low-income individuals.

These initiatives by larger firms and coordinating agencies were crucial for MSMEs, facilitating continued operations by enhancing the availability of affordable PPE, safeguarding the health of workers, and supporting the wider community. Through these efforts, the private sector helped maintain the health and productivity of essential workers and reinforced the resilience of Kenya's economic backbone, its MSMEs, against pandemic-related disruptions (KEPSA, 2022).

Figure 4: Kenyan manufacturers' strategies for COVID-19 health protocol compliance



4.3.4 Demand for Goods and Services

The COVID-19 pandemic affected the demand for goods and services in various ways, increasing demand for some and decreasing demand for others as the effects of the lockdown, decline in spending on non-essential goods and widespread unemployment kicked in. Global

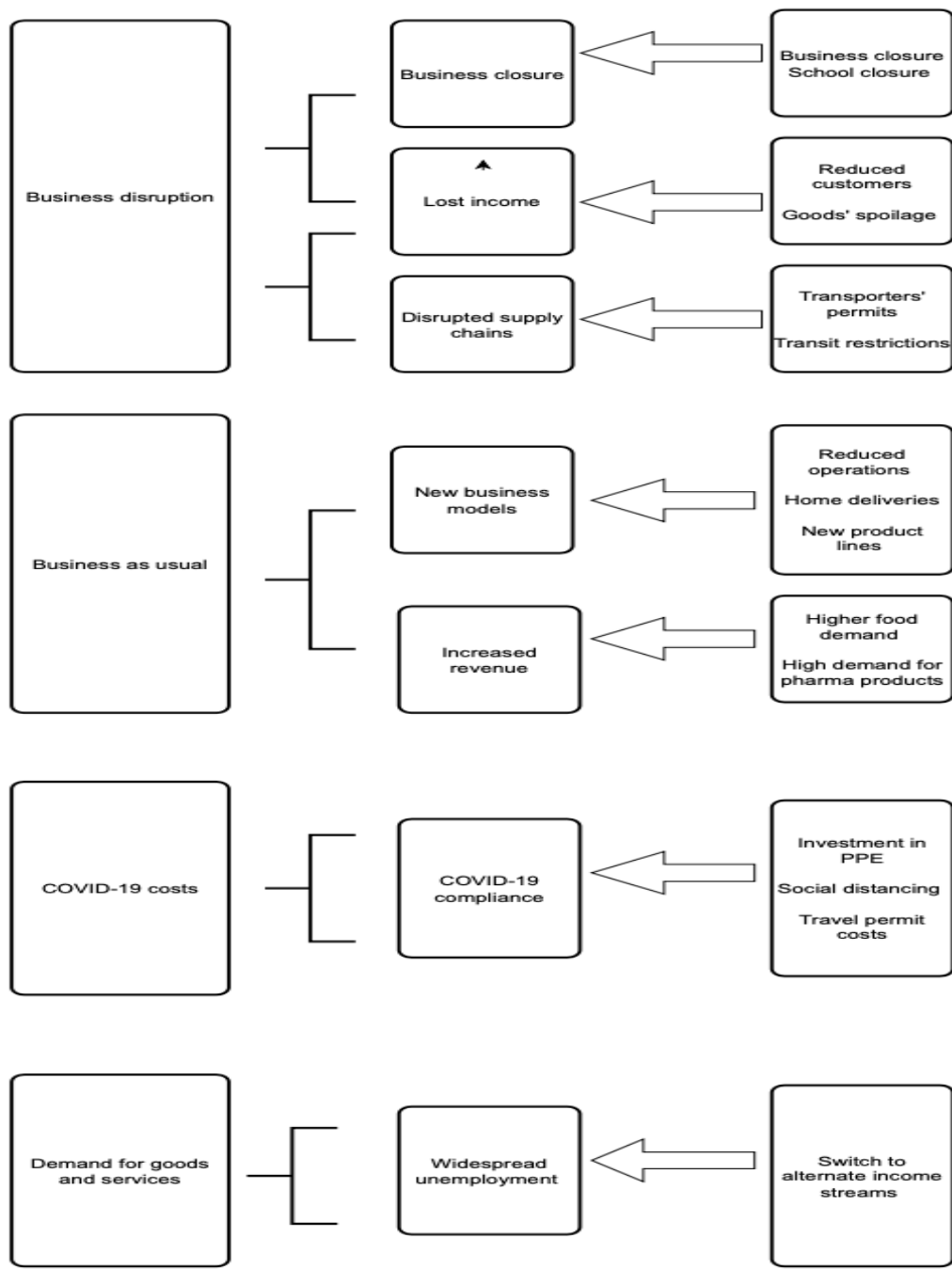
demand for food, medical supplies and essential goods including toilet paper shot up, as consumers took to panic-buying for fear of decreased availability and their inability to access these supplies after lockdowns were announced (Islam et al., 2021). Research shows that this consumer reaction is associated with stockpiling after both natural and man-made disasters (Islam et al., 2021). This behaviour, compounded by disruptions in supply chains, led to a rapid emptying of supermarket and retail shop shelves.

According to views from Kenya's manufacturing industry, COVID-19 reduced the utilized capacity for MSMEs from 74% (before COVID-19) to 37% (during COVID-19). The concurrent shift in focus to the production of essential goods, and reduced demand for non-essential goods resulted in production capacity with the following industries being most impacted: automotive, timber and furniture, and textile and apparel (KAM & KPMG, 2020). Given that MSMEs employ most of the low-income population in Kenya, this reduced demand for manufactured goods had a ripple effect on the population. Consequently, people who were previously employed in non-essential industries or those working in organizations like schools that were badly affected by extensive lockdowns had to devise new income-generating ideas. Some of these newly unemployed people moved into livestock production to generate income and created a demand for components such as animal feeds as the present study shows. One respondent to this study captured this shift and its impact on his business as follows.

By then, people started to improvise because they had lost their employment, and some started keeping poultry and all. My sales of poultry feed shot up.

Respondent 4, male, owner, flour mill

Figure 5: Impact of COVID-19 on MSMEs in Kenya



Source: Author's research

4.4 Factors Affecting Demand for Microinsurance by MSMEs in Kenya

From the thematic analysis of the interview responses, the factors that affect demand for microinsurance products by SMEs were grouped into benefits, insurance knowledge, utility and claims process. These are detailed in the sub-sections that follow.

4.4.1 Benefits

Microinsurance customers purchase policies to gain benefits that include protection from specific risks including ill health, death, fire and theft (Churchill, 2002). Some customers also purchase insurance for protection against losses resulting from accidents as reported by Respondents 1 and 13 below.

I think it (insurance) was good because the premises were insured against any potential damage.

Respondent 1, female, senior manager, school

I have seen the benefits. You see, when you get an accident, you can see that it (the insurance cover) is active.

Respondent 13, male, manager, mini-van (matatu) transport business

Customers also purchase intangible benefits such as peace of mind and security (Sebstad, 2015). Respondents summed this up as wanting to “feel safe” as seen below.

I saw that insurance covers me. I feel safe having insurance because when I go somewhere even if I see the police I just show them my insurance. I have nothing to fear. It has made my business easier.

Respondent 12, male, owner, motorcycle (bodaboda) transport business

Although benefits such as coverage of business premises against various hazards were considered useful, within the context of the pandemic, some respondents stated that these benefits could have been expanded to meet more immediate needs such as income replacement and rent subsidies to better cushion MSMEs as expressed by Respondents 9 and 1 below.

I think the insurance should have had an income protection element, for example, paying for the rent of the business premises because that is a big cost to the employer. Also, they should

consider paying the employees a salary during such disruptions even if it's 50% of the salary!

Respondent 9, male, manager, uniform production business

The insurance should have considered adding some income replacement for the owner of the school for him to pay rent and workers' salaries, for example. It was very tough to go without a salary for all those months.

Respondent 1, female, senior manager, school

Given the sudden onset and the widespread nature of the pandemic, many insurers were caught unaware and did not have suitable products that could have responded to the multiple emerging needs amongst MSMEs. For this reason, some MSMEs may have felt that the existing products had gaps in their benefits package as further expressed by Respondent 15.

I think insurance could have helped my business if it could have combined insurance for inventory and premises (property).

Respondent 15, male, owner, greengrocery

Product 'bundling' is suggested by some researchers as a potential avenue for increasing the perceived benefits of microinsurance products (Eling et al., 2014). However, although product bundling has existed for some time, few insurers would have had products that could have been a good fit during the initial stages of the pandemic. Given also the challenges of balancing benefits and premium charges in microinsurance bundles, it is unlikely that such products would have existed or provided any reasonable amount of coverage as Matul (2015) observes, product bundling works most effectively in mature insurance markets. However, analysis revealed that some of the respondents in the present study felt that bundled microinsurance products would be more beneficial in helping them manage their business risks in case of future pandemics. In the Philippines, where more than 20 typhoons are experienced each year, small businesses can purchase a bundled insurance product that offers recovery assistance after a natural calamity (earthquake, typhoon or flood) or fire (Alip et al., 2024). This product, the "ProteKITA", which loosely translates into "protect your income" has a US\$100 business interruption benefit should physical damage occur to an insured store, a US\$1,000 for fire assistance and US\$2,000 personal accident coverage all for an annual premium of US\$29. The study's findings and the example from the Philippines show that the market for effective

MSME insurance is available and presents an opportunity worth exploring to offer more benefits to MSMEs.

Overall, respondents said that insurance benefits should cover exposure to risks, mandatory requirements, asset protection and affordability. This aligns with the views of various researchers that microinsurance products should be simple, affordable and valuable (Churchill, 2006, Leftley & Mapfumo, 2006, McCord, 2008 in Dercon et al., 2008). The following subsections elaborate on the thematic analysis outcomes.

a) Exposure to Risks

Study respondents had a heightened sense of the various risks they faced and the value of insurance in mitigating those risks as seen below.

Risks like burglary made me realize it is better to have insurance (cover) because when you have insurance, they can cover your property.

Respondent 5, male, owner, hairdressing business

Respondent 16 agrees with this view, stating that insurance serves as a “good fallback plan” as she elaborates.

It (insurance) helps when you want that compensation in case of damage, theft or loss. A business must have insurance because you never know about tomorrow. With a business, you are exposed to a lot of risks ... fire, theft, damage ... so insurance is a good fallback plan.

Respondent 16, female, senior manager, school

Risks can undermine economic gains made by poor households or small businesses, thereby leading to poverty (Rothschild & Stiglitz, 1976 in Ndurukia et al., 2017). As the present study found, respondents who had been exposed to various risks were most likely to have insured their business or to consider using insurance in future to mitigate the effects of these risk exposures. Some respondents experienced multiple risks during the COVID-19 period, including overall economic slowdown and the national general elections. High unemployment levels, increased by COVID-19-induced layoffs and the economic slowdown, increased the likelihood of individuals engaging in criminal activities such as burglary. The experiences of

Respondent 2 show how multiple compounding factors exposed his business to significant risks resulting in major financial losses.

We had some works that were ready for delivery, and we had to redo them after a burglary. We had an order of KES 600,000 and had already spent KES 400,000 by the time the goods were ready for collection, and we were therefore expecting a profit of KES 200,000. Then the goods were stolen. So, we had to incur extra expenses to produce the goods again. This is especially bad during (the) election period. I therefore decided to insure the business against fire and burglary. Just in case anything happens to this business, I don't have to move to another place, I will just be compensated.

Respondent 2, male, owner, printing and branding business

Recognizing that restaurant owners faced a higher likelihood of accidental fires, GIZ (n.d.) developed a series of sensitization videos and posters on fire hazards to promote the uptake of fire cover. Respondent 3 could relate to this experience of being keenly aware of the enterprise's high exposure to a fire hazard and consequently having insurance cover as captured below.

You know this is a restaurant, so we have to insure against a fire, an unexpected fire.

Respondent 3, male, manager, restaurant

As can be seen from the experiences of Respondents 2 and 3 above, although both businesses were insured against fire hazards, because of the businesses handling highly flammable raw materials and end products, the businesses have very different overall risk profiles with the printing business facing the added risk of lost inventory and finished products during periods of high political volatility like electioneering periods when hired thugs stole the printed campaign marketing collaterals. This led to catastrophic losses. This diversity in experiences highlights the highly heterogeneous nature of MSMEs and requires that insurers design products accordingly. This point is also captured in Figure 2.

Some respondents felt that having access to medical insurance for themselves and their family members during the COVID-19 pandemic would have been highly beneficial since some of them and their family members contracted the disease, as reported by Respondent 1.

If they had designed it to be able to cover income losses and illness caused by COVID-19 it would have been more useful because some employees caught COVID even while they were at home and couldn't be assisted.

Respondent 1, female, senior manager, school

Given that the MSMEs interviewed relied on their savings to survive during a period of reduced business income, many of the MSME owners and their employees felt the strain of paying for medical expenses out of pocket. This is captured by views from Respondents 17, 19 and 20. Respondent 17 felt that “insurance should have covered employees during COVID and afterwards” while Respondent 19 stated that the insurance should have added “the number of members that can be covered for the insurance in the business and their families”. MSMEs already faced the strain of providing salaries in difficult economic environment during the pandemic and could not afford to provide medical insurance for their employees, which was viewed as an extra expense. Respondent 20 captures this scenario.

I think they could have also added (a) medical cover for employees so that we could go to the hospital for treatment. We are not insured at the moment.

Respondent 20, male, manager, wholesale business

In Uganda, access to health microinsurance reduced the propensity of small business owners to deplete their assets (Cohen & Young, 2007). In Kenya, among the studied enterprises, the propensity to deplete assets to meet medical costs related to the pandemic was greater among micro-enterprises, where the business owner was the main employee. However, as seen above, the larger entities like schools, wholesale shops and entertainment spots did not take this approach and left employees to meet any COVID-19-related medical expenses on their own.

b) Mandatory Requirement

Respondents had a good understanding of the compulsory covers, including third-party motor insurance and the National Health Insurance Fund (NHIF). The NHIF is a government-subsidized cover and is particularly useful in case of hospitalization. Zommel (2015), in studying risk-coping strategies among low-income Kenyans, found that insurance ranks low in their preferred strategies because of the time horizon that was further off into the future compared with saving via mobile money tools such as MPESA. However, it is noteworthy that medical insurance is valuable as it provides access to affordable and quality healthcare even to

low-income households; in Kenya NHIF is mandatory for workers in the formal sector of the economy, and open to voluntary enrolment. - The benefit is instant. The study respondents' views are captured below.

You know motor vehicle insurance is compulsory. I was afraid of being harassed by the police, so I took out insurance.

Respondent 15, male, owner, greengrocery

It is also a government policy, you know?

Respondent 6, male, owner, motorcycle (bodaboda) transport business

All the employees also have medical cover through NHIF (National Health Insurance Fund). I can say for medical, immediately you go to hospital, they send an alert to the school, and they pay. For me as an employee, I used the medical insurance for maternity, and they paid promptly.

Respondent 16, female, senior manager, school

Although the NHIF is a mandatory cover and has the potential to provide extensive nationwide coverage for many low-income citizens through voluntary enrolment, gaps in benefits during the pandemic period made it less attractive and useful. For instance, the cost of testing for and being treated for COVID-19 were not covered by NHIF. At the time, it cost US\$100 for testing. This figure was way out of reach for most Kenyans (Ouma et al., 2020). Some of the study respondents reported that they or their colleagues contracted COVID-19, and although they were covered by the NHIF through their employers, they could not access COVID-19 testing, vaccines or treatment.

If the insurance cover could have covered the cost of the COVID vaccines to allow you to travel from one place to another, it could have made it effective. During that time if you wanted to travel, there was a requirement for COVID injections (vaccines), and it was not really covered.

Respondent 19, male, manager, entertainment venue

The foregoing study findings demonstrate that, microinsurance uptake tends to be higher where enterprises have been exposed to various risks. This aligns with existing research (Rothschild & Stiglitz, 1976 in Ndurukia et al., 2017, Arun et al., 2012 in Ndurukia et al., 2017).

c) Safeguarding Assets

Resource-poor people invest in productive assets to generate income and, in some cases, grow their enterprises (CGAP, 2020). Shocks that lead to the loss of these assets pose significant threats to small business owners, as one respondent stated.

I have insured the premises, inventory and equipment. If I did not have insurance when my equipment was stolen, I would not have been able to recover because I was not ready financially for such an emergency. I would not have been able to buy the things directly. I could not afford it.

Respondent 5, male, owner, hairdressing business

Depending on their severity, some shocks can result in the disposal of these productive assets to pay for the illness or death of a family member (Cohen & Young, 2007), or in the case of transport operators, when their vehicles are seized by the police for violation of the traffic code, as shared by Respondent 6 below who wanted to safeguard his productive asset.

I wanted to play it safe in business. I didn't want to lose my motorbike. I don't have money to pay for a new one.

Respondent 6, male, owner, motorcycle (bodaboda) transport business

Alternative coping mechanisms, such as drawing on savings or relying on contributions from one's social network, cannot typically cover the cost of replacing lost productive assets (Zommel, 2015). As attested by Respondent 5, he could not have relied on savings to restart his business when his assets were stolen. Losses in productive assets work to drive low-income entrepreneurs further into poverty. Owning productive assets can promote the uptake of risk mitigation practices (CGAP, 2020), with microinsurance emerging as a viable risk mitigation strategy (Cohen & Young, 2007). Respondent 4, a prospective insurance client, also appreciates the value of insurance in enabling a quicker and more cost-effective bounce-back after a business shock has occurred.

Since I deal with electronics, as you can see, I have a lot of machinery here, so I need to invest in fire insurance. Insurance is good. It takes you back to the original state you were in. Having insurance means being reimbursed to the same state you were (in) before, as opposed to, when you don't have insurance, you start from scratch, you start to go for loans and all that. So, I'm sure insurance is going to be of benefit to me.

Respondent 4, male, owner, flour mill

d) Affordability

The enterprises interviewed expressed an inability to purchase microinsurance during a period of widespread tightening of the economy made worse by reduced incomes from the pandemic-induced drop in customer purchasing power. Spending their meagre and strained incomes on insurance was, therefore, viewed as an expensive and low-priority business expense as seen below.

It is costly. The money to set aside for insurance is what we are lacking at the moment.

Respondent 14, female, manager, hardware business

I would recommend that the insurance companies reduce the premiums to make them more affordable.

Respondent 15, male, owner, greengrocery

At the moment, I have two (employees). Since they are employed on a casual labour basis, I haven't planned to insure them because the economy is still tough, and I hire them on an on and off basis.

Respondent 4, male, owner, flour mill

Despite the forgoing, some MSME owners invested in insurance for certain parts of the business but could not afford to invest in others, for instance, employee medical insurance.

We have also not insured the employees because we are still recovering from the effects of COVID-19 on the business, and the tight economy.

Respondent 2, male, owner, printing and branding business

Some respondents view the requirement by insurers to have the full insurance premium upfront as onerous and advocate for shorter duration covers with corresponding lower premiums as expressed by Respondent 6 below.

For it to be more useful, we want the span or duration to be more flexible, for example, to cover periods of three months each instead of one full year in one instalment. I think insurance premiums should be flexible.

Respondent 6, male, owner, motorcycle (bodaboda) transport business

Respondent 2, however, had a positive experience regarding flexible premium payments as they aligned with his income flows.

Flexible payment because they allowed me to pay premiums in bits. I could work then pay. They gave me a good duration payment.

Respondent 2, male, owner, printing and branding business

Respondents' views are aligned to existing research that identifies affordability as a factor of absolute cost of the premium, availability of the cash to service premiums and flexibility of the premium payments (Wipf et al., 2006 in ILO & Munich Re, 2006; Ndurukia et al., 2017). Giesbert et al. (2011) argue that lack of money leads to low microinsurance uptake while Cohen & Sebstad (2003) recommend aligning the premium payments and income flows to increase affordability.

Entrepreneurs interviewed for this study stated that they grappled with a reduced number of customers and reduced incomes during the COVID-19 pandemic as well as other exogenous factors such as a high-inflation macroeconomic environment. Therefore, many did not have disposable cash for non-essential expenses. The respondents' circumstances aligned with findings by Wipf et al. (2006) in ILO & Munich Re (2006) which indicate that although the target market for microinsurance is largely engaged in informal employment with variable income flows, standard insurance premiums do not consider this and are, thus, viewed as a major financial burden. The study findings on affordability also align with recommendations by Churchill (2006b) that insurers should design products for affordability through small benefits packages and distribute premium payments over time in line with the insured's cash

flow. This approach appears to have informed CardPioneer Microinsurance's business model as explained below.

To get around the challenge of affordability and flexible premiums, CardPioneer Microinsurance (CPMI) in the Philippines developed and sold short-term policies for the most common risks faced by MSMEs (Alip et al., 2024). The initial product sold for an annual premium of PHP250 (US\$5) and offered coverage for property damage from natural calamities, accidental dismemberment, and last expense (funeral) death. Products have evolved since then and the annual premium for the lowest product is 500 pesos (US\$10) for basic personal accident, burial and fire cash assistance benefits in areas that do not experience as many natural calamities as others. Where customers require more protection, the premium is PHP2,000 (US\$40) for a family plan (and PHP1,700 (US\$34) for an individual) for personal accident (US\$3,000), burial (US\$300) and fire and calamity (US\$600) coverage; and this product is accessible via a loan payable over 6 to 12 months.

Customers can buy multiple policies in one year to increase their resilience through products covering hospitalisation cash payouts per night, surgery and emergency room care. The premiums' range is US\$5-300 per year (Alip et al., 2024).

This approach has become a cornerstone of approaches to growing microinsurance demand among MSMEs with a focus on creating bite-sized insurance options that are affordable and that meet the felt needs of the MSMEs (Alip et al., 2024).

In South Africa, Wipf et al. (2006) in ILO & Munich Re, 2006) note that one insurer, Africa Life, minimized administrative costs associated with a low-value, high-volume product by streamlining collections with weekly church attendance. In summary, for microinsurance to be viewed as beneficial by customers who face many competing financial needs on a fixed income, its benefits should be clear, immediate, and provide tangible value for money (Cohen & Young, 2007).

4.4.2 Insurance Knowledge

Insights gathered from interviews with respondents indicate that the dimensions of insurance knowledge could be grouped into insurance literacy, insurance awareness, recommendation by peers and knowledge gaps. When asked what they knew about insurance, all respondents

confirmed they knew about some aspects of insurance, including insurance at personal and business levels, the protective role of insurance through indemnification and the need to be prepared for any eventuality by having insurance, as expressed by Respondent 4.

According to what the insurance people have advised me ... insurance is good. It takes you back to the original state you were in. Having insurance means being reimbursed to the same state you were before, as opposed to, when you don't have insurance, you start from scratch, you start to go for loans and all that.

Respondent 4, male, owner, flour mill

a) Insurance Literacy

From the analysis, the respondents had varying levels of understanding of core insurance concepts and confidence in using microinsurance to mitigate business risks. Several of the respondents demonstrated a good grasp of basic insurance concepts, such as the benefits of insurance, product types and how to file a claim. Interviews revealed that as the respondents became more aware of insurance benefits, they developed a positive attitude toward insurance and were more likely to have insurance coverage as shown by Respondent 1.

We were educated on the benefits of insurance. I would say that (an) insurance cover is a good thing, especially because in case of a sudden eventuality if you have insurance cover, they can reimburse you.

Respondent 1, female, senior manager, school

The study findings align with existing literature that shows that insurance literacy includes educating people on the basics of insurance, product options, risk-pooling and policyholders' rights to boost awareness and demand for insurance products (Khan et al., 2022; Bongomin et al., 2020 in Ozili, 2020 in Kiwanuka & Sibindi, 2023). However, from interactions with the respondents, it was not expressly clear whether the concept of risk pooling had been adequately covered by insurance agents. Some respondents confirmed that they had been given knowledge of the products' coverage, how to pay premiums affordably and how to make a claim (see the sub-section below on claims' processing). The respondents also pointed out that insurance sales agents advised them on specific products based on the risks their businesses were likely to face, and this in turn influenced the types of insurance the business owners acquired.

The (insurance) salesperson was here to advise us to take out the insurance against fire and burglary. We have insured the business inventory.

Respondent 2, male, owner, printing and branding business

During periods of electioneering, businesses such as schools, faced risks such as damage from political violence. Some schools chose to insure their premises against this risk, as protestors often sought refuge in school compounds during demonstrations. Respondent 16 highlights this approach below.

Some insurance agents came to speak with the owners of the school and that is how they took out insurance for safety.

Respondent 16, female, senior manager, school

Respondent 11, whose business deals with highly flammable products which are also highly prone to theft, concurs.

The insurance agents came to our premises and educated us on the benefits of insurance for a business like ours. We have therefore insured the business against burglary.

Respondent 11, male, owner, gas cylinder refill and electronic business

However, some respondents are unaware of the types of insurance suitable for their businesses and this is captured in the sub-section below on insurance knowledge gaps. There was also a misconception that if claims are not made, then an alternative benefit, such as a cashback, should be expected by the insured respondents. This is somewhat aligned with findings by Mayoux (2001), who suggests that microinsurance can stabilize incomes for the poor through microloans and increase the ability to save for a rainy day. Respondent 6 expounds on this when he recommends that “insurers should have a linked savings product that can give customers a small loan in times of problems such as after an accident, and insurance companies should also give us back some money if we don’t claim in some time, like one year.”

This highlights the need for insurance agents to continuously clarify that premiums are paid over the long term to guarantee access to insured benefits when the event arises and clear any misconceptions that premiums are paid for services (Sebstad & Cohen, 2003). Insurance agents should also invest in educating customers on the insurer’s ability and willingness to make

payouts when they are due (Radermacher et al., 2006). These actions by insurers can go a long way in promoting trust, sustaining premium renewals and ensuring customers maintain their cover. This is especially useful in reaching policyholders like Respondent 6 who may pay premiums faithfully without ever experiencing an insured event or opt not to process a low-value claim.

b) Awareness of Insurance

When respondents were asked if they were aware of insurance, all confirmed they were. Respondents had varied experiences in acquiring their knowledge about insurance and in how they had used various insurance products to mitigate business risks. Cohen & Young (2007) emphasize that basic awareness efforts should assess and enhance the target market's skills and knowledge of microinsurance. The study findings confirm that respondents who were more aware had greater skills and knowledge in using insurance.

From their responses it was evident that they were aware of the benefits of insurance including protection from multiple hazards and heightened feelings of safety as shown by Respondents 12 and 6. Some respondents were also aware that certain types of insurance are compulsory. Although both of the following respondents operate in the same industry, they gave divergent reasons for insuring their motorcycles.

I am aware that when you have a motorbike and it is insured, in case you have an accident, you can be compensated for the third-party injuries.

Respondent 12, male, owner, motorcycle (bodaboda) transport business

I have been a bodaboda (motorcycle) rider for 5 years, so I know you need insurance before going on the road. I know that comprehensive (motor vehicle insurance) covers me, the bike and customers.

Respondent 6, male, owner, motorcycle (bodaboda) transport business

Augmenting these views, Respondent 7 states that insurance is “just to protect the business”, Respondent 3, who runs a high-risk business - a restaurant - avers that “it was through awareness because anything can happen in a business”.

Contrasting views emerged regarding insurance uptake among low-income individuals and small businesses. While the need for insurance is recognized, some respondents stated that

there is reluctance to purchase coverage, often due to negative perceptions and experiences. Challenges such as exclusions, denied claims and the perceived high cost of premiums deter potential insured parties from fully benefiting from insurance coverage. Respondent 16 succinctly expressed these concerns, citing the experiences of her friends as influencing factors that contribute to the hesitation in adopting insurance solutions among low-income groups and small businesses.

I believe that many people and businesses don't take up insurance because maybe they have a tight budget and don't have enough finances, and also because of the scandals associated with insurance companies when they set limits on what can be covered. Sometimes they also refuse to pay because of one reason or the other at the time of making claims. There is (a) lack of trust in insurance companies in general.

Respondent 16, female, senior manager, school

In this last instance, insurance fails to deliver on customer expectations that, as a risk mitigation option, insurance coverage should engender solidarity in times of calamity, offer protection, promote trust in the insurer and help to create a sense of optimism that life continues after the experience of loss due to a crisis or event. Although insurance agents may do a good job of conveying these expected benefits, insurers must deliver on them to promote positive awareness of the value of microinsurance, consequently increasing demand. The subsection below on claims processing elaborates how the study respondents experienced this first-hand to further support these views.

In resonance with the respondents' experiences, Akotey (2011) in Siloya (2022) posits that insurance awareness efforts should effectively address expected benefits while Leftley & Mapfumo (2006) recommend that microinsurance agents should be very knowledgeable about microinsurance products. From the present study it was seen that respondents who had been in contact with knowledgeable insurance sales agents and had subsequently purchased insurance for their businesses, expressed an enhanced awareness and confidence in the ability to use insurance and microinsurance tools. This further aligns with existing research by Cohen & Young (2007) who emphasize that basic awareness efforts should assess and enhance the target market's skills and knowledge of microinsurance.

In reviewing efforts in the Philippines, the use of village-based agents is explored. To overcome challenges associated with increasing microinsurance awareness and demand among the target market, CardPioneer Microinsurance uses women microinsurance agents (*nanays*) in a village agent model. Well-known in the community, the women educate CardPioneer Microinsurance customers who are members of CARD on how insurance works and how to renew their policies on time to keep their coverage current. The agents use simple training materials: a large tarpaulin displaying details of the individual microinsurance plans available as well as simplified individual product flyers. In the course of the session, the *nanays* can offer training on microinsurance which is augmented by live testimonials from group members who have experienced the benefits of microinsurance (Alip et al., 2024).

c) Recommendation by Peers

Trust is an important factor in the pre-purchase phase for many consumers, especially for intangible products like insurance, where benefits are realized in the future. Respondents highlighted that trust-building elements such as word-of-mouth recommendations and positive user experiences play a significant role in influencing purchase decisions. For potential insurance buyers, social proof - evidence from trusted sources or peers - is particularly important. The study findings underscore this, as illustrated by Respondent 5, who shared how user experiences and community recommendations helped shape perceptions and build confidence in insurance products.

It is my friends who helped me know more about insurance. Some of them have businesses like mine and have insurance, so they came and told me about it. They advised me to take out insurance for my business premises and inventory.

Respondent 5, male, owner, hairdressing business

The study conforms to existing literature that leverages the social learning theory to show that behavioural change, such as adoption of insurance, is more likely when individuals interact with, observe, model and imitate others using insurance, and where this is reinforced by positive outcomes (Kiwanuka & Sibindi, 2023). Citing other researchers, Kiwanuka & Sibindi (2023) adapt Bandura's (1986) social learning theory.

d) Knowledge Gaps

Where insurance product knowledge gaps exist, insurance uptake is low (McCord, 2012). In conformity with this, some respondents confirmed that they have not taken up insurance

because some knowledge gaps remain unaddressed by insurers. These gaps relate to product types, benefits, and how claims are effectively processed and support proposals made by Dercon et al. (2008) that insurance gaps in skills, knowledge and attitudes should also be addressed if microinsurance demand is to be boosted. Respondents 9 and 14 were interested in insurance but did not have enough knowledge to take the steps to enrol confidently.

I believe the business is not insured at the moment because we have never been enlightened on the benefits of insurance for our business. I think insurers should promote awareness about insurance products for MSMEs like us.

Respondent 9, male, manager, uniform production business

If they (insurers) focus on creating more awareness first that would be good. With a little more insurance education, I will reconsider taking out insurance for my business.

Respondent 14, female, manager, hardware business

Although Respondent 8 experienced a burglary in the early days of the pandemic-induced total lockdown, he was not aware that he could have insured his equipment against burglary and wished that he had this information beforehand. When the PlayStation™ used by his gaming customers was stolen, he had to close his business for two weeks and spent KES 70,000 (~ US\$600) from his savings to replace it. This entrepreneur missed out on the protection and indemnification benefits of insurance.

I was aware of NHIF but not aware about how a business like ours can be insured.

Respondent 8, male, owner, cybercafé business

Educating low-income customers about how to effectively process a claim and the timelines to expect during the enrolment process can help to increase the proportion of MSME owners who later receive payout on a valid insurance claim. This will address the misconception that insurers do not want to pay claims. For instance, one respondent expected the insurance firm to offer cashback to him because he had not made a claim. However, as far as the author is aware, such products have not yet been developed in the Kenyan market and therefore the insurance agents could not have been able to address this. Other respondents cited the long timelines and extensive back-and-forth processes involved in the verification of the legitimacy of a claim. As Respondent 6 states, "... the process sometimes takes too long because you have

to contact the claims officer. They will look whether you are on the wrong side or it was the other guy.” This is a standard procedure. However, in the context of repeated experiences of claims not being settled by insurers, it creates a negative perception and is an important area to be addressed upfront by insurance agents. It also aligns with the views of Radermacher et al. (2006) that insurance agents should invest in educating customers on the insurer’s ability and willingness to make pay-outs to customers when they are due.

4.4.3 Utility

The findings of this study show that the value that clients derive from microinsurance can be made clear in the pre-purchase phase and can influence demand. Respondents expressed the fact that they obtained emotional value, including peace of mind, reduced worry and a sense of security by purchasing insurance. The study found that it is common for motorcyclists to be harassed by traffic policemen for no reason on the pretext of checking for compliance with traffic rules. Having a valid insurance cover provides additional peace of mind, as reported by Respondents 12 and 6, a finding that is also supported by existing research (Churchill, 2002 in Giesbert & Steiner, 2014).

I feel safe having insurance because when I go somewhere, even if I see the police, I just show them my insurance.

Respondent 12, male, owner, motorcycle (bodaboda) transport business

Another thing (about having insurance), you feel safe and confident.

Even if you are operating safely, you feel just safe because any risk will be taken care of by the insurance.

Respondent 6, male, owner, motorcycle (bodaboda) transport business

As explained earlier, the study was conducted within the context of a challenging macroeconomic climate characterized by high inflation, widespread economic slowdown, and high unemployment. These factors created a highly unstable environment, leading to greater insecurity for small businesses, and many experienced burglaries, as captured by Respondent 4 below.

In the long term, I will invest in risk from theft because the more the economy starts to be tight, the more the insecurity gets high.

Respondent 4, male, owner, flour mill

4.4.4 Claims Process

The study found that respondents consider these key dimensions of the claims processes: the time taken to pay out the claim, the responsiveness of the insurance company representatives when a claim is lodged, the smoothness of the entire process and whether a claim is paid out in full or not. Where the claims process is timely and smooth and the entrepreneurs received a claims payout, the respondents found the experience positive. Conversely, where there were complications in the claims process, and the claims took too long or were not paid out, then the respondents had a negative experience. These different experiences are captured below.

a) Positive Claims Process

MSME owners and employees value timeliness greatly because any downtime in their operations directly affects their productivity and profitability. Respondents appreciate the processes as “being fast”, “not taking long” and “immediate”.

It didn't take long. It just took a little time, and they assisted me. I filled out some forms, and they processed the payment.

Respondent 5, male, owner, hairdressing business

They came fast when we experienced a burglary. The (claims) process was fast.

Respondent 11, male, owner, a gas cylinder refill and electronic business

Where the respondents had a smooth claims process, facilitated by responsive insurance representatives, this created a positive experience while offering relief from the shock of the event experienced. The respondents described the process as being “smooth and effective”, “very good” and “positive”.

It was smooth and effective. I can say for medical, immediately you go to the hospital, they send an alert to the school, and they (the insurance company) pay.

Respondent 16, female, senior manager, school

It was very good. When we made claims, the insurance company did not disappoint us.

Respondent 1, female, senior manager, school

It was a positive experience. The insurance company paid out the claims without much delay.

Respondent 7, female, manager, agrovet business

Several respondents also showed the power of word-of-mouth marketing, which comes from a positive claims experience. This can be vital in giving an insurer a competitive edge in a sector, as seen here.

It was a good experience because the insurance company compensated us during the accident. Many matatu owners have taken AMACO insurance because they are fast in processing claims. In our industry, that is a good thing because we have to keep the vehicles on the road.

Respondent 13, male, manager, mini-van (matatu) transport business

From the study's findings, respondents whose MSMEs were insured would renew their insurance policies even during difficult financial times because of the positive claims experience. This finding corresponds with research by Wipf et al. (2006) in ILO & Munich Re (2006), which shows that customers who derive fulfilment from a positive claims experience are more likely to renew their coverage than those who do not.

b) Frustrating Claims Process

Frustrations among microinsurance policyholders result from unmet expectations, particularly when claims are delayed or left unpaid, as seen from the experiences of respondents. This leads to mistrust towards insurance products and firms. The respondents' experiences display an array of frustrations with microinsurance claim processes; respondents describe them as "difficult," "taking long," and being "cumbersome".

Some respondents stated that information regarding the claims process that should have been communicated upfront by insurance sales agents was only brought up when making a claim after a shock event. The fine print in insurance contracts requires that entrepreneurs have some legal competence if they are to argue their case with insurance firms or for those who can afford it, to hire lawyers to represent them. This negates the value of having insurance and causes the MSME owners to incur additional costs, placing an enormous strain on small business owners such as Respondent 2, whose firm lost 80% of revenue in the early days of the pandemic.

Everything is rosy when you're paying the premium. But now, when you need compensation, your problem comes. You need good representation by a competent lawyer.

Respondent 2, male, owner, printing and branding business

From his experience, this respondent trust in insurance firms' and their promises has been broken. In exploring the dimensions of trust in microinsurance, Patt (2009) in Medard & Rodrigue (2021) provides three lenses: trust in the product, trust in the organization and trust among insurance agents. Insurers must strive to increase trust among their target customers because lack of trust has been blamed for low insurance uptake among low-income populations and small businesses.

Some respondents found the claims process to be very complicated and time-consuming. This was a major drawback because MSMEs that needed to keep their operations running had to either pay out of pocket for minor repairs or go through lengthy processes, as explained by some respondents.

You know, for you to claim it, it is a cumbersome process. I haven't (processed a claim) because if it's minor, sometimes, I just repair the bike myself to save time.

Respondent 6, male, owner, motorcycle (bodaboda) transport business

The process was good though the only complication I found was the aspect whereby there are some garages that the insurance companies prefer for you to take the vehicles after road accidents. I took the car to a garage I prefer and had the repairs done there at my own cost and to save time. When the car is at the insurers' preferred garages, it takes long and you cannot be operational. After this, the process of getting a claims payout from the insurance company took three months. I found this too long because I needed to keep transporting fruits.

Respondent 15, male, owner, greengrocery

The insurance companies just need to find a way of making this compensation thing easy on their clients. That's the only problem we have. There is a lot of back and forth before they pay. It can even take you eight months to ascertain that the burglary indeed happened. Eight months and you're supposed to be operational. It doesn't make sense.

Respondent 2, male, owner, printing and branding business

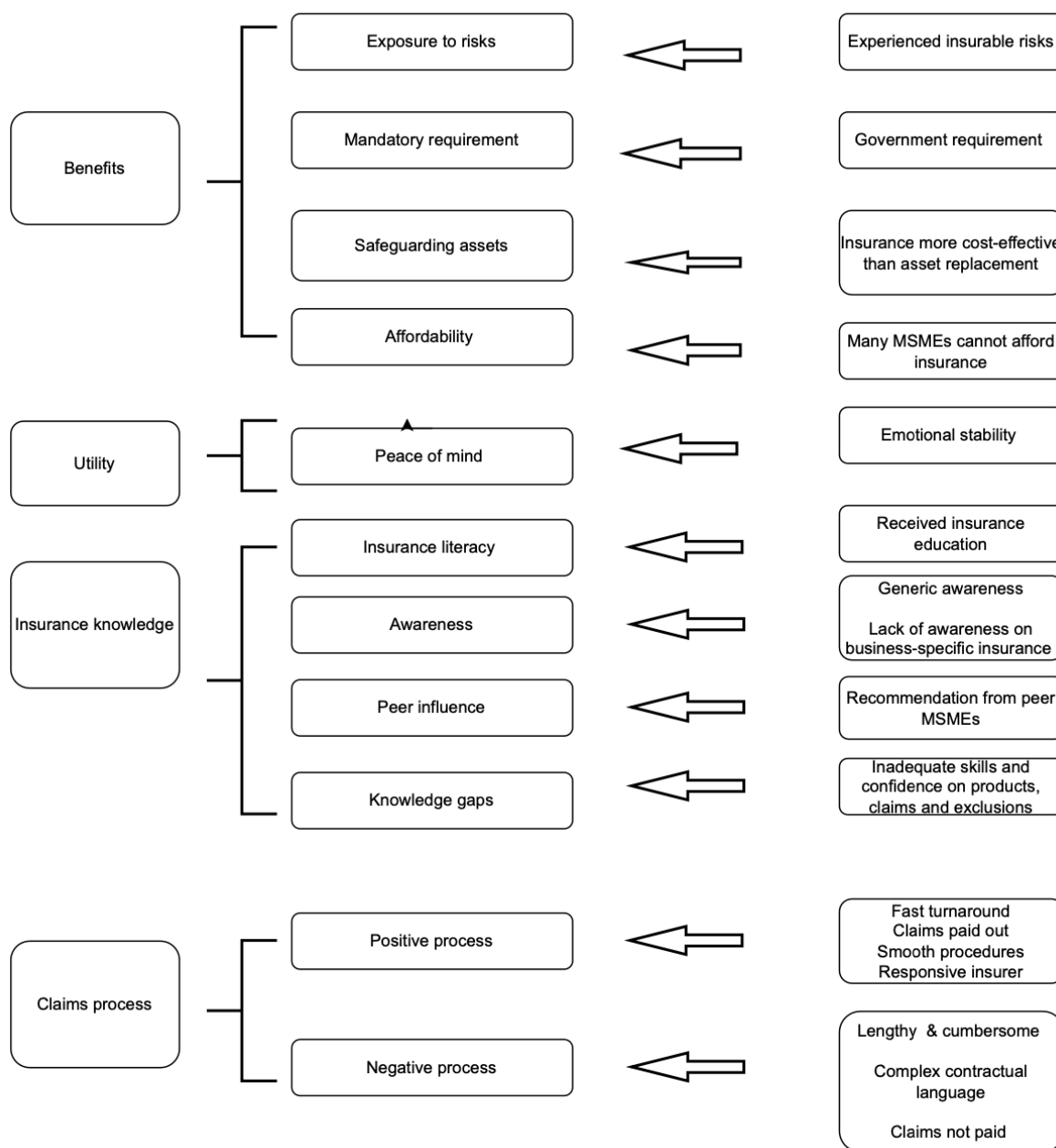
Where the timelines were untenable, some MSME owners gave up entirely on processing a claim and pursuing settlement. Such negative experiences take the protective promise of insurance further and further away from the reach of those who need it the most.

Difficult ... somehow difficult because of the time it took, and I also didn't have time to go chasing for the claim.

Respondent 18, female, owner, retail business (small supermarket)

Researchers recommend that products be designed to be simple with straightforward claims processes to promote demand and uptake (Churchill & Cohen, 2006). Consumers should be educated on how and when to make claims to increase the likelihood of receiving a settlement. Lastly, insurers should prioritize paying out claims. For instance, CardPioneer Microinsurance operates on this principle regarding paying out claims: all valid claims should be paid within five days (Alip et al., 2024).

Figure 6: Factors Affecting Demand for Microinsurance by MSMEs



Source: Author's research

4.5 Summary

This chapter presents the results of the study interviews about the impacts of COVID-19 on MSMEs in Kenya and the factors affecting demand for microinsurance among MSMEs in times of widespread economic shocks like the COVID-19 pandemic. The effects of COVID-19 on MSMEs can be summarised as business interruption, business as usual, cost of COVID-19 compliance, and shifts in demand for goods and services. The study shows similarities and

differences in the impacts of the pandemic on MSMEs in Kenya and other parts of the world, especially in emerging markets. According to this study, the factors affecting the demand for microinsurance as a risk mitigation strategy emerged as benefits, insurance knowledge, utility and claims process which were explored as themes under thematic analysis.

CHAPTER 5

CONCLUSION AND POLICY RECOMMENDATIONS

5.1 Introduction

The two main goals of the current study were to establish the impact of COVID-19 on MSMEs in Kenya and to determine the factors affecting the demand for (micro)insurance among these MSMEs. Twenty (20) MSMEs operating businesses in various sectors in Nairobi and the surrounding counties were interviewed.

5.2 Conclusion

5.2.1 Impact of COVID-19 on Small Businesses in Kenya

The impacts of COVID-19 on small businesses were wide-ranging, including no effect (business as usual), business disruptions, costs of COVID-19 compliance and changes in demand for certain goods and services. Despite the challenges presented by the pandemic, some businesses opted to remain open, which aligns with established studies on how agile and resilient enterprises respond to economic shocks. The study established that businesses adopted new operational models such as online marketing and home deliveries while others adjusted their operating hours in line with curfew guidelines. In line with the rising global demand for personal protective equipment (PPE), some small businesses switched to making cloth masks to utilise what would otherwise have been idle garment manufacturing capacity. Businesses involved in essential goods like food and medicine reported increased revenues, as did their global counterparts. The global boost to online working that emerged from the strict stay-at-home guidelines boosted online commerce and increased digital skills. Due to the considerable heterogeneity among the enterprises studied, the impacts of the pandemic and adaptation strategies employed were similarly diverse. What was strikingly similar across all businesses that remained operational was the unwavering desire to increase resilience through innovation and agility.

In contrast to the businesses above, some small businesses experienced major disruptions, including losses in income and customers, losses to inventory due to expiry, and supply chain disruptions. Contrarily, movement restrictions and increasing unemployment due to widespread layoffs, saw businesses dealing in non-essential goods and services experience loss

of customers and revenues. These factors also resulted in the expiry of some fast-moving consumer goods such as cosmetics. Demand for goods also declined with the introduction of remote work routines while layoffs and lower productivity resulted in reduced spending power. The pandemic also exposed China's centrality to global supply chains and trade and its far-reaching implications for the availability of essential and non-essential goods worldwide. The study determined that the strict lockdown in Wuhan and other Chinese cities at the beginning of the pandemic, coupled with those in other major manufacturing hubs in North America and Europe, affected the availability of manufactured goods in Kenya, notably among the interviewed enterprises. Inter-county travel restrictions affected the supplies of fresh fruits and vegetables from the countryside and manufacturing inputs for some businesses. Retailers of consumer-packaged goods were affected adversely by the lockdown as well as movement restrictions, especially for those in counties outside the main manufacturing hubs in Nairobi and major cities.

COVID-19 costs, including the setting up of wash stations, reconfiguration of business premises to allow for social distancing, regular sanitization of goods and business premises, as well as the purchase of PPEs, were found to be significant constraints for the business that were studied. Some businesses in the services industry that require proximity to clients, such as beauty salons, found it quite difficult to comply with the strict social distancing requirements. However, they complied with the use of PPEs. The compliance requirements also negatively affected the transport industry and workers in essential services that relied on personalized transport from motorcycle riders. These riders passed on additional costs to their customers, including the purchase of PPEs for both rider and passenger, and the cost of inter-county permits or bribes to police to escape being arrested for violating the dusk-to-dawn curfew. This is a little-documented aspect of the impact of COVID-19 on small businesses and deserves closer examination for the design of large-scale mitigation strategies.

Strikingly, as some businesses declined, the study found one that thrived during the pandemic because of the confluence of unemployment and its product offerings. Sales of whole grains used to make low-cost animal feeds benefitted from the search for alternative sources of employment by workers affected by recent layoffs. One respondent, who sells cereals, grains, and blended flours, experienced a spike in demand for his products, which were used to make livestock feeds as individuals who had lost their jobs took up raising small livestock. This

switch in income-generating activities by ordinary citizens is a unique finding from this study.

5.2.2 Factors Affecting Insurance Demand by Small Business Owners in Kenya

This study set out to explore small business owners' and managers' views and experiences in using insurance more broadly, as well as its role in mitigating specific business risks. Further, the study examined the factors thought to contribute to the uptake of insurance by small business owners in Kenya.

Some respondents argued that insurance benefits their businesses by safeguarding assets in case of any eventuality. In contrast, others felt that insurance was more useful where their businesses had already been exposed to specific risk events such as burglary. An interesting finding was that the business owners derived benefits from complying with mandatory insurance requirements, such as employee medical coverage such as the National Health Insurance Fund (NHIF) and motor vehicle insurance, especially third-party coverage for motorists. The aspect of affordability took on different dimensions as business owners reflected on operating within a context of overlapping macroeconomic crises, including high unemployment, declining economic performance before the pandemic and COVID-19-related loss of revenue, which decreased the availability of extra funds to set aside for insurance - even where business owners appreciated the value of insurance. Other elements of affordability related to the absolute value of the premiums and the timing of the premium payment requirements. It emerged that lower premiums and more flexible premium payments were more favourable for increasing demand and uptake of insurance. Operating in an unpredictable environment with overlapping risks further increased the probability of burglary or damage from political hooliganism. This, in turn, increased the demand for insurance among businesses both in terms of renewals and enrolments. An unexpected finding from the study is that, given the unprecedented and highly unpredictable nature of the pandemic, the entrepreneurs perceived gaps in the products offered by insurance providers. For instance, some entrepreneurs would have preferred an income replacement benefit to cater for recurrent operational expenses like rent and employee salaries. In contrast, others would have preferred extended medical coverage to cater for COVID-19 vaccines or tests in the early days of the pandemic. This offers an area for future research and exploration by insurance firms.

All respondents were aware of some aspect of insurance based on their use of insurance products or knowledge about insurance acquired through peers' experiences or from insurance agents. However, they had different views on the adequacy of insurance literacy and awareness efforts. There was generally a heightened awareness of insurance where an entrepreneur enjoyed the insurance benefit after an insured event and was able to safeguard a business asset. The study established that where insurance agents had actively invested in insurance literacy, there were higher levels of awareness of and confidence in investing in the appropriate business-specific insurance cover. Some businesses enjoyed the indemnification benefit of insurance when a loss occurred and were thus able to bounce back faster than if they had had to buy back all the business assets that had been lost. This was often aided by awareness through peer recommendations. This demonstrated that trust in the information source, product, and insurer played a significant role in the insurance knowledge efforts and subsequent demand for insurance products.

Conversely, where there was low insurance awareness and literacy, businesses suffered significant losses that could have been prevented or minimized by having an insurance cover in place. There was also evidence that negative awareness of insurance could emanate from the negative experiences of peers with any aspect of insurance, including exclusions, non-indemnification or high premium charges. Other knowledge gaps raised by the study were in basic concepts such as risk pooling, insurance coverage duration, and effective claims processing. This points to the need for insurance agents to scale insurance literacy and awareness efforts, especially on the specific business insurance suitable for different kinds of businesses and the basic insurance concepts such as product options, exclusions and risk pooling.

The study determined that insurance purchasers did so to derive feelings of peace, stability and security. Interestingly, the insured bought coverage both to comply with mandatory requirements, on the one hand and to protect their assets on the other. The implications for the insurance industry are that insurance agents should invest more in highlighting the benefits of safeguarding assets through insurance. These agents should promote insurance classes that serve small business interests to enhance the enterprise owners' peace of mind. This is particularly useful within the context of a challenging macroeconomic climate, as presented by the COVID-19 pandemic and declining economic performance, which in turn creates a volatile

environment that can lead to greater insecurity and increased risk exposure from events such as burglary.

Claims processing emerged as the make-or-break factor among most insured and prospective insurance clients in the study. During the claims processing stage the promise of insurance and customer expectations either align or diverge. Where claims were paid out swiftly and in full by responsive insurers, the entrepreneurs classified the claims experience as positive. The converse was also true. Some entrepreneurs argued that insurers were more interested in collecting premiums than providing indemnity for business risks. Complex paperwork and verification processes were identified as a deterrent to processing claims, leading either to fatigue during the process or requiring the enlistment of competent legal professionals to follow up on legitimate claims. A major drawback identified by the study was that of entrepreneurs, despite having insurance cover, opt to pay out of pocket for insurable incidents - such as for motor vehicle damage following accidents - , to avoid bureaucratic delays, minimise downtime, and remain operational. These insights are critical in informing insurance firms of the need to build trust in the protective benefit of insurance through prompt payment of claims when due, and as highlighted above, the related need to close insurance knowledge gaps by informing prospective clients on the precise steps involved in effective claims processing to avoid negative experiences.

5.3 Recommendations

The study provides evidence that where insurers equip their agents with the skills to competently inform prospective MSME clients of the benefits, product options, and effective processing of claims process, then both enrolled and prospective MSME clients have a positive attitude towards insurance as a business resilience tool. The results also suggest additional benefits that MSMEs in Kenya attach value to in buttressing their business resilience. These include business interruption coverage to compensate for lost earnings and cater for salaries and rental charges, expanded medical coverage for business owners, employees and their families, and complementary financial inclusion products such as embedded micro-savings. The study yielded several recommendations for policymakers, insurers and MSMEs.

Design affordable and appropriate insurance products: The mismatch between what insurers have to offer and what MSMEs need remains a challenge to the effective uptake of insurance by MSMEs. By investing time to engage more closely with MSMEs to understand

their need, particularly needs based on their exposure to multifaceted and layered business risks such as was experienced during the COVID-19 pandemic, insurers will gather insights that can inform effective product design in terms of coverage, affordability and suitability. Insurers that successfully pivoted to provide appropriate products in line with the challenges brought about by the pandemic, not only managed to increase enrolments but also enhanced retention. Affordability remains a key question and requires insurers to consider the cost of the absolute premium, frequency of income inflows and to offer bite-size products that allow MSMEs to experience insurance for the first time, thereby boosting confidence and future demand.

Invest more in insurance literacy and awareness efforts: MSMEs are heterogeneous in nature, and in the case of the pandemic, many were operating within a rapidly changing business environment, further increasing the complexity of identifying and deploying resilience solutions. Insurers needed to understand needs that can be effectively solved with existing solutions and to identify emerging needs requiring solutions. The pandemic increased exposure to risks and the propensity of MSMEs to consider using insurance as a business risk management strategy. Closing knowledge gaps could enhance the uptake of basic yet essential insurance products such as those against burglary.

Deliver on the insurance promise through paying claims: Unpaid claims and cumbersome insurance claims processes both deter MSMEs from using insurance. In a cash-strapped environment in which MSMEs often operate and one made even more so by the complex risk environment presented by the pandemic, claims that were not paid out for whatever reason came to be viewed as a wasted investment. Linked to the insurance literacy recommendation, insurance agents should invest in clearly explaining what insurance is, how it works and how to effectively make claims. In tandem, these efforts will increase both knowledge and trust in insurance and ultimately contribute to increased demand for insurance by MSMEs.

Create holistic business resilience solutions at macro, meso and micro levels: Insurance for MSMEs cannot be created and deployed as a business resilience solution in a vacuum. It requires collaboration among various actors to build a functional ecosystem. For instance, during the pandemic, there were various funding envelopes from governments, development finance institutions (DFIs) and philanthropists. Yet, microinsurance did not feature among the proposed and deployed packages of relief to MSMEs and low-income households despite its proven value in safeguarding assets and keeping businesses operational. In future pandemics

and other similar crises, insurance companies and industry actors should advocate for insurance to be included in the package of resilience-building solutions. Further, policymakers and DFIs should collaborate to improve the set-up for MSMEs to increase resilience in case of future shocks from the dimension of minimizing business interruptions and increasing access to finance, including insurance.

Microinsurance can create a virtuous loop of financial security, capital accumulation, and business resilience for MSMEs and their owners by allowing them to increase savings and maintain their living standards.

5.4 Limitations and Further Research

From the findings of this research, a basis for future research emerges. Firstly, the study could be expanded to include more MSMEs across Kenya. Secondly, exploring the supply-side dimensions of insuring MSMEs during times of great economic shock, such as during the COVID-19 pandemic, would add useful knowledge to the industry. Lastly, further research could be undertaken on the role that policymakers and development finance institutions can play in boosting the uptake of insurance by MSMEs as a business resilience strategy to mitigate the adverse effects of future multifaceted socio-economic shocks.

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ANNEX 1 INTERVIEW PROTOCOL FOR MSMES

Master of Commerce in Development Finance

INTERVIEW/SURVEY CONSENT FORM

Participant name:

I volunteer to participate in a research project conducted by **Anne Wangalachi** as partial fulfilment of the requirements for the **Master of Commerce in Development Finance Degree** at the UCT Graduate School of Business. I understand that the research is designed to gather information about **the factors affecting the use of insurance by MSMEs in Kenya** and that I will be one of approximately 20 people being interviewed for this research.

Objective(s) of the research

- To explore the drivers of microinsurance uptake by MSMEs in Kenya
- To identify the innovation gaps in product design, distribution and pricing to be tackled by insurers to meet MSME insurance needs in Kenya

Ethics approval

The ethical clearance for this study was approved by the UCT GSB Research and Ethics Committee on 16th September 2023.

Participation and confidentiality

I understand that my participation in this research is voluntary, that I will not be compensated and that I may withdraw at any time. The interview will take approximately 45 - 60 minutes to complete and will be audio recorded.

I understand that I will not be identified by name in any reports using information obtained from this interview and that my confidentiality as a participant in this study will remain secure. Subsequent uses of records and data will be subject to standard data use policies which protect the anonymity of individuals and institutions.

Should you have any questions or concerns please contact me (annewangalachi@gmail.com) or my supervisor (latif.alhassan@uct.ac.za)

Consent

I consent to participate in this interview, based on the terms outlined above and subject to the following additional condition of my own (if any).

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Signed by interviewee
.....

Date
.....

Signed by Student

Date

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Questions

Section 1: Demographic information

1. Gender of Respondent
2. Age of respondent
3. Nature of business
4. Years of experience
5. Current role in business

Section 2: Interview questions

This section will gather information of nature of business risks insured by MSMEs, the effect of the COVID-19 on MSME operations and revenues, and criteria of appropriately designed MSME insurance products for business resilience.

Section A: Questions on understanding of business risks

1. What are the main risks that have been faced by your business in the past 3 years? (Prompts: fire, flooding, burglary, illness, other)
2. How did these events affect your business? (Prompts: business closure, loss of income, loss of customers, reputation loss)
3. Were there any unexpected expenses you had to pay for? Which were they?

Section B: Questions on the impact of COVID-19 on the business

1. What were the impacts of COVID-19 pandemic on your business, i.e. how did it disrupt your business in terms of goods/services offered, operations, location, and revenue?
2. Did you receive any financial support to help you with running your business during the COVID-19 pandemic? If yes, which sources did this come from? (Prompts: sources include Government of Kenya, non-governmental organizations, banks, other)
3. How else did your business cope with the socio-economic effects of COVID-19 on the business, its employees, customers and operations?

Section C: Questions on coping strategies for mitigating business risks

1. Which strategies do you usually use in your enterprise to manage the other business risks that you mentioned earlier?
2. In your view, were the strategies you used effective? Which ones were more effective than others? Which were less effective?

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3. Are there other ways you could have managed the situation more effectively?

Section D: Questions on insurance and business risk management

1. Do you have an insurance cover at the moment? Which type of insurance product is it?
2. Has any part of the business been insured? (Prompts: premises, inventory, employees, third parties, vehicles)
3. Which of the risks you mentioned earlier were managed by (micro)insurance?
4. How was the decision to take out insurance for these risks arrived at? (Prompts: awareness, financial literacy, affordability/value for money, recommendation from peers, other.)
5. In your view, is insurance an effective strategy to manage business risks that your firm has encountered? What makes it effective?
6. How was the process of making claims and receiving a payout for you and your firm?
7. How was the experience in using insurance to cope with the business risks experienced in your enterprise? Would you recommend insurance to other business owners in your industry based on this experience?
8. Which other products or services should be combined with insurance to make this solution more effective for managing your firm's business risks?
9. What features of the (micro)insurance you purchased for your business made it attractive to you and the firm? (Prompt: price, technology, product knowledge, flexible payments, customer experience, other)

Section E: Questions about links between COVID-19 and business risk insurance for MSMEs

1. What is your opinion on using (micro)insurance to manage some of the risks your business faced during COVID-19
2. How could this insurance have been designed to help you, your employees, suppliers and customers during COVID-19? What features would have made it appropriate, useful and attractive?
3. Before the next pandemic, if there was a microinsurance product available to prevent the kind of business interruption that happened before, would you buy this insurance product?

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4. As we conclude, is there anything else you would like to add about using microinsurance to manage business risks?

Thank you very much for your time in sharing your thoughts and suggestions on this important topic.

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