

ASSESSMENT OF SMALL AND MEDIUM ENTERPRISE IN FIRE RISK MANAGEMENT THROUGH INSURANCE IN PORT MORESBY, PAPUA NEW GUINEA

MR. PETER AMOS

Abstract

Globally, Small and Medium Enterprises (SME's) make up to over ninety per cent of businesses and account for between fifty to sixty per cent of employment. It is observed that although Small and Medium Enterprises (SMEs) are extremely important in helping a large number of very poor people become less poor, they are characterised by high mortalities due to the uncertain socio-economic and policy environments that they operate in and inaccessibility to financial services insurance included.

It has been noted that the greatest risk the SMEs face in developing nation is fire. In this regard, to prevent the SMEs from such early mortalities, insurance companies have come up with various products targeting the SMEs to insure them against fire. Fire insurance is a form of property insurance which protects people from the costs incurred by fires. When a structure is covered by fire insurance, the insurance policy will pay out in the event that the structure is damaged or destroyed by fire. Some standard property insurance policies include fire insurance in their coverage, while in other cases; fire insurance may need to be purchased separately.

It is on this note that this study sought and to examine factors that influence decision to insure small and medium enterprises against fire in Port Moresby, PNG. In particular, the study aimed at establishing the level of knowledge on Fire Insurance among SME owners, assessing the attitude towards fire insurance on business (SMEs), determining the magnitude of perceived benefits of fire insurance and examining the factors that affect decision to insure SMEs against fire disasters in capital city of PNG.

Key Words: *Small and Medium Enterprise (SME), Insurance, Papua New Guinea (PNG), National Development Bank (NDB), Investment Promotion Authority (IPA) Motor Vehicle Insurance Limited (MVIL), Small Business Development Corporation (SBDC).*

1.0 Introduction

Globally, majority of the composition of business environment in an economy is Small and Medium Enterprises (SME's) which create productive employment opportunities and poverty alleviation. Although Small and Medium Enterprises (SMEs) are extremely important in helping a large number of very poor people become less poor, they are characterized by high mortalities due to the uncertain socio-economic and policy

environments that they operate in and inaccessibility to financial services insurance included.

The greatest risk many SMEs face in developing nation is fire. In this regard, to prevent the SMEs from such early mortalities, insurance companies have come up with various products targeting the SMEs to insure them against fire. Fire insurance is a form of property insurance which protects people from the costs incurred by fires. When a structure is covered by fire insurance, the insurance policy will pay out in the event that the structure is damaged or destroyed by fire so it is good to insure business to recoup the loss.

It is on this note that this study assesses small and medium enterprise in fire risk management through insurance in Port Moresby, Papua New Guinea. In particular, the study aims at establishing the level of knowledge on Fire Insurance among SME owners, assessing the attitude towards fire insurance on business (SMEs), determining the magnitude of perceived benefits of fire insurance and examining the factors that affect decision to insure SMEs against fire disasters in Port Moresby, PNG.

The purpose of this investigation is to assess SME insurance against various unforeseen disasters e.g. fire, terrorism amongst others and also to develop legislation by parliament. The purpose of this study also assesses the risk management of SMEs through the insurance companies in Papua New Guinea.

2.0 Limitation of the Study

The scope of this study assesses on fire insurance among SMEs owners in Papua New Guinea particularly Port Moresby and exclusive of other provinces in the country. This also includes assessing the attitude towards fire insurance on business, determining the magnitude of perceived benefits of fire insurance and examining the factors that affect decision to insure SMEs against fire insurance.

This study carries out only in the capital city of Papua New Guinea. The area chosen because it is one of the most vibrant capital city in Papua New Guinea and a major source of employment where many SMEs have emerged. In addition, the SME Policy through the National Department of Commerce, Trade & Industry in the last five years (2014-2018) injected SME funding as seed capital into the National Development Bank (NDB) for the growth of SMEs but services related to insurance are either unavailable or inaccessible. This study determines to evaluate, SMEs in Port Moresby that have little or no access to insurance services and thus have exhibited high mortality rates especially when calamity strikes.

3.0 Objectives of the Study

The general objective of the study was to examine factors that influence decision to insure small and Medium Enterprises against fire and other calamities and destructions in Port Moresby, Papua New Guinea. The specific objectives of the study were:

- i. To establish the level of knowledge on fire insurance among SME owners.
- ii. To assess the attitude towards fire insurance on business (SMEs).
- iii. To determine the magnitude of perceived benefits of fire insurance.
- iv. To examine factors that affect decision to insure SMEs against fire disaster.

4.0 Significance of the Study

This study assesses the SME insurance in the capital city of PNG-Port Moresby and the knowledge-ability of the insurance industry and the importance of insuring the SME with the insurance companies against fire. It will help stakeholders in the SMEs sector understand

the factors hindering access to insurance in the area and their impact on the enterprises growth. This is important for the PNG National Government through the Department of Commerce, Trade & Industry and other relevant stakeholders in the sector in informing policy interventions aimed at enhancing the growth of SMEs in the country.

In addition, through the National Department of Education, this study prepares to explore the possibilities of designing a curriculum plans and programs on fire insurance which will be integrated with Papua New Guinea Education System and particular at the secondary school level. In this way every citizen of PNG will be aware of the importance of the insurance companies and have a clear understanding of the relationship between the SMEs to be insured.

This study serves to strengthen the insurance companies in their campaigns on fire insurance focusing on the SMEs owners to build up confidence in the insurance market. In addition, it builds up confidence and maintains good reputation and exposes the existence of fire insurance companies to the SME owners. This study is a model to design appropriate fire insurance policy and make awareness about the nature of the fire insurance company in the industry to fit the knowledge gap.

Moreover, this study is very helpful for the SME owners to be knowledgeable in the fire insurance and have accessibility of the benefits from the fire disaster. The SME owners make appropriate decision as this study is a model paving the way for them to insure their small business against fire with insurance companies.

To researchers and academicians, the study provides a basis for further research studies on accessing to insurance services or growth of SMEs in Papua New Guinea.

5.0 Historical Development of Fire Insurance

Fire insurance began soon after 1666, when the Great Fire of London burned for 5 days, destroying 85% of the city. In 1667, a mutual society was formed by Nicholas Barbon, originally called the Fire Office, then later renamed the Phoenix Fire Office, after the mythical bird that burned, but then reemerged from its own ashes. One policy that was recorded in 1682 costing 30 shillings to insure property worth 100 British pounds for 7 years. Other fire insurance companies were formed soon afterwards, 1st in Great Britain, then later in the United States and into the whole world, (Jonesburge B. Wilson, 1990).

The development of insurance was a response to the issues that the owners of properties and business encountered fire disaster and other harm that crippled them and notice that they lost everything they owned. To recoup the lost is very complicated and it was not rewind-able anyway, so the idea of insurance came to fit this gap which also gave confidence to the SME owners to insure their business with the insurance companies. It was on this note that the first insurance company –QBE, an Australian insurance company came to PNG in 1899 and lately other insurance firms in the industry emerged to insure the life, properties and business for many others, (Adams J. Korugle, 2000).

Furthermore, Papua New Guinea as a conquest of British colony, settlers initiated various economic activities, particularly farming, and extraction of agricultural products. These substantial investments needed some form of protection against various risk exposures. British insurers saw an opportunity in this, and established agency offices to service the colony's insurance needs. It is believed that these British have been already in Australia and from Australia they came to PNG so QBE could be owned by a British Australian citizen.

According to QBE Insurance Time Magazine, Jones B. Krux (2007), PNG after independence in 1975 the insurance companies flourished and in the mid 2000 there are 29 insurance firms in the industry. Of all these insurance companies, only famous renown in the country are; QBE insurance, Pacific MMI insurance, Life insurance, MVIL, Tower insurance Port Moresby, Capital Life insurance, Kwila insurance, National Teachers' insurance Ltd, PNG Health insurance, Kanda insurance and others as well. These insurance companies recently emerged in the industry and many of the SME owners are not aware of the importance of the business to be insured with these insurance companies. It is of this note that this research is determined to assess and prepare an educational awareness campaign and training in the SME sector for the insurance industry.

Despite this growth in the insurance sector, the sector has largely failed to attract SMEs. The policy and regulatory framework has no provisions pertaining to micro insurance and current initiatives are either conducted within the existing general policy and regulatory environment of mainstream insurance or informally from existing regulation. The insurance companies are generally ignorant of customers' insurance needs and are thus unable to match customer's perceptions with expectations. Alongside the industry has failed to address the issue of price and the mode of payment with the current regulation of cash and carry worsening the situation rendering the perception that insurance is as a service for the rich. The industry has also failed to educate the people with many consumers in the informal/formal sector lacking an understanding on the principles of insurance.

6.0 SMEs and Insurance Companies: A Global Perspective

SMEs and Insurance Companies in a global perspective make comparison with other countries like Australia. By looking at the way Australian government is supporting the SMEs and insurance industry, PNG can learn from this perspective, EMTV News reported by Rose Amos, 2018.

The PNG SME Sector has no significant connection between the insurance companies and this review of the literature compares SMEs in Papua New Guinea with other SMEs in the world as a global perspective. The global perspective gives a better understanding on SMEs and insurance companies. The nature of the relationship that other countries have established between the two sectors helps to provide a clear understanding of the relationship that exist between SMEs and insurance companies. However, this relationship between the insurance companies and SMEs in Papua New Guinea is unavailable and seen absent.

7.0 SME and Insurance Companies in Australia: A Global Perspective

According to SME studies conducted in Australia, the rate of Small and Medium business failure is reduced by the business having insurance covers. With modern business insurance, the policyholder should be better off. Cover is available and is often taken with reinstatement conditions. In layman's terms, this means, "new for old". Therefore, the business suffering the loss will be compensated, not for the written down or market value of their building, machinery and plant, and other contents, but rather the cost of replacing the item with new property (Manning and Allan 2004).

The monetary value and benefit to the business owner can be substantially different. After the loss, the business may have all new assets. These assets are often more efficient or require less maintenance than the property destroyed. Subject to adequate cover, the major benefit

of course is that the business does not have to refinance to purchase the new property when it is lost as the “new for old” cover provides the additional funds to meet these costs (Manning and Allan 2004).

The modern insurance policy goes further since it provides an additional cover under the extra costs of reinstatement memorandum. This cover protects the policy holder from the additional costs incurred to bring the premises, and any plant and equipment up to the standards required by the current building, local government, environmental protection agencies, worker cover, fire brigade or state and the government regulations. The benefit of the modern insurance policy in Australia does not stop at the property loss which is referred to as the material damage cover. It also covers the loss of profit sustained by the business. This is known as Business Interruption, Consequential Loss or loss of profits insurance (Manning and Allan 2004).

With this cover providing significant additional benefits, the business assets, although damaged, should be able to be put back with no financial loss to the business owner. In fact, on paper, the business should be better off with buildings and equipment upgraded to modern equipment. The reality is that some businesses survive the fire or loss and some businesses do not.

Looking at the way that the Australian government has supported the small business sector and the insurance industry through the legislation, the Papua New Guinea government can do the same. This perspective actually shows that a relationship between SMEs and insurance companies can have an improved relationship where both parties can benefit.

8.0 SME and Insurance Companies in UK: A Global Perspective

Studies were also carried out in the United Kingdom that illustrate that it is possible for a business relationship to be forged between SMEs and insurance companies. Most SMEs have a tendency not to insure their businesses which becomes a problem. They need to ensure that their business is kept running in the event that their key personnel who is usually the owner of the business is unavailable due to one reason or another (Thorpe 2004).

According to a survey in UK, managers were asked to rank the top three types of insurance, again key person and director's or partner's share protection came in at the bottom of the list. As with individual insurance, companies just do not perceive this insurance as important, given their other protection and business needs. However, although the respondents do not perceive key personnel insurance to be as important to their company, they do recognize the importance of the key person to their company. Therefore, businesses are aware of the risk to their ability to continue trading should they lose a key person for a length of time. However, they do not rank the insurance that would help their business continue through these troubled times, as important (Thorpe 2004).

Studies were also carried out in the United Kingdom that illustrate that it is possible for a business relationship to be forged between SMEs and insurance companies. Most SMEs have a tendency not to insure their businesses which becomes a problem. They need to ensure that their business is kept running in the event that their key personnel who is usually the owner of the business is unavailable due to one reason or another (Thorpe 2004).

9.0 SME Policy in Papua New Guinea

The SME Sector is the skeleton of any economy of a country in the world. The entrepreneurs of the sector could be in the formal sector or in the informal sector. These two sectors

contribute towards the growth of the economy. Every entrepreneur should be informed and be given the opportunity to be aware of their SMEs for insurance. The purpose of insurance is not only for the big entities but it should also include the SMEs and the entrepreneurs should be informed of the insurance so that they should make decision to insure their SMEs with insurance companies.

PNG SME Policy, (2016) defined SME qualitatively in two sub-sectors as: (1) Informal Sector and (2) Formal Sector. Of these two sectors, formal sector should be taken into consideration for insurance purpose because of the nature of the business and its legality and authority granted by the PNG Investment Promotion Authority (IPA). These SMEs operating in the formal sector have the possibility to insure their SMEs with the insurance companies in Port Moresby. Under the definition of PNG SME Policy, the formal sector has differentiated from the informal sector by establishing these characteristics, registered business unit, mainly family owned and self-employed, managed by owners(s), use of hired labor, higher capital intensity and financed mainly from retained earnings.

10.0 SMES and Insurance Companies: PNG Perspective

It is important to get a Papua New Guinea perspective on the relationship between SME sector and insurance industry when comparing the global perspective of the SME and insurance companies. In the following paragraphs gives a brief description of the PNG SME sector and insurance.

A business relationship between SMEs and insurance companies is possible even within PNG context. In Papua New Guinea, the collapse of several promising SMEs and other businesses in the business landscape in the last few years has been attributed to lack of awareness by the business owners mainly on the need to strengthen their risk-taking ability and long-term sustenance of their enterprise through adequate and appropriate insurance coverage for their investment (Nenge, 2011). In an article called, “PNG: Cornerstone Seeks Growth of SMEs Through Insurance Support”, (Nenge, 2011) mentioned that SMEs in PNG can benefit a lot from the different types of insurance products that are being offered by insurance companies. Such as Fire insurance, Life insurance, Property insurance, MVIL insurance and others. The Managing Director of the Fire Insurance an insurance company in PNG, during a SME Summit in Madang province, advised that SMEs should not deprive themselves of many benefits from insurance. These benefits include provision of long-term funds and strengthening of their risk-taking ability; provision of credit-linked insurance to support SMEs growth.

SMEs should not deprive themselves of job creation, risk transfer and indemnification, enhanced productivity through insurance-backed risk and avoidance of bankruptcies. The main aim of the SME Summit in Madang was to advise business leaders to embrace insurance, especially tailor-made insurance solutions and other financial cushion that could sustain businesses in the long-run (Nenge, 2011).

It is of great importance that insurance companies do away with the misconception and myth that have been woven around insurance. The trust in the insurance industry in PNG is understandably low because of the negative perception of insurers. However, things have changed for the better in the last few years. Insurance companies are now promptly settling genuine claims and deploying technology to enhance service delivery (Nenge, 2011).

Furthermore, PNG SME policy has been a driving mechanism for the SMEs to support in terms of financial assistance through the National Development Bank and nurturing the SMEs by relevant government departments and other associated agencies through providing SME trainings.

However, the PNG SME Policy do not capture the SME insurance for any future disasters. In addition, entrepreneurs are not aware of the importance of SME insurance and this led to negative perception of the insurance industry that the insurance companies only look at the bigger entities like Brian Bell Ltd than the SMEs operating in Port Moresby. Therefore, this assessment should be the foundation for the development of educational program and activities through the Department of Commerce, Trade & Industry and in partnership with other relevant government authorities to conduct awareness on the importance of the SME insurance. And when the entrepreneurs are aware of this insurance industry, they should have no problem in insuring their SMEs with the insurance companies. These entrepreneurs should be given their rightful information for decision making in terms of insuring their SMEs with the insurance companies so that they should not be missing out on the benefits of being insuring.

11.0 Gap that the Study Shall Bridge

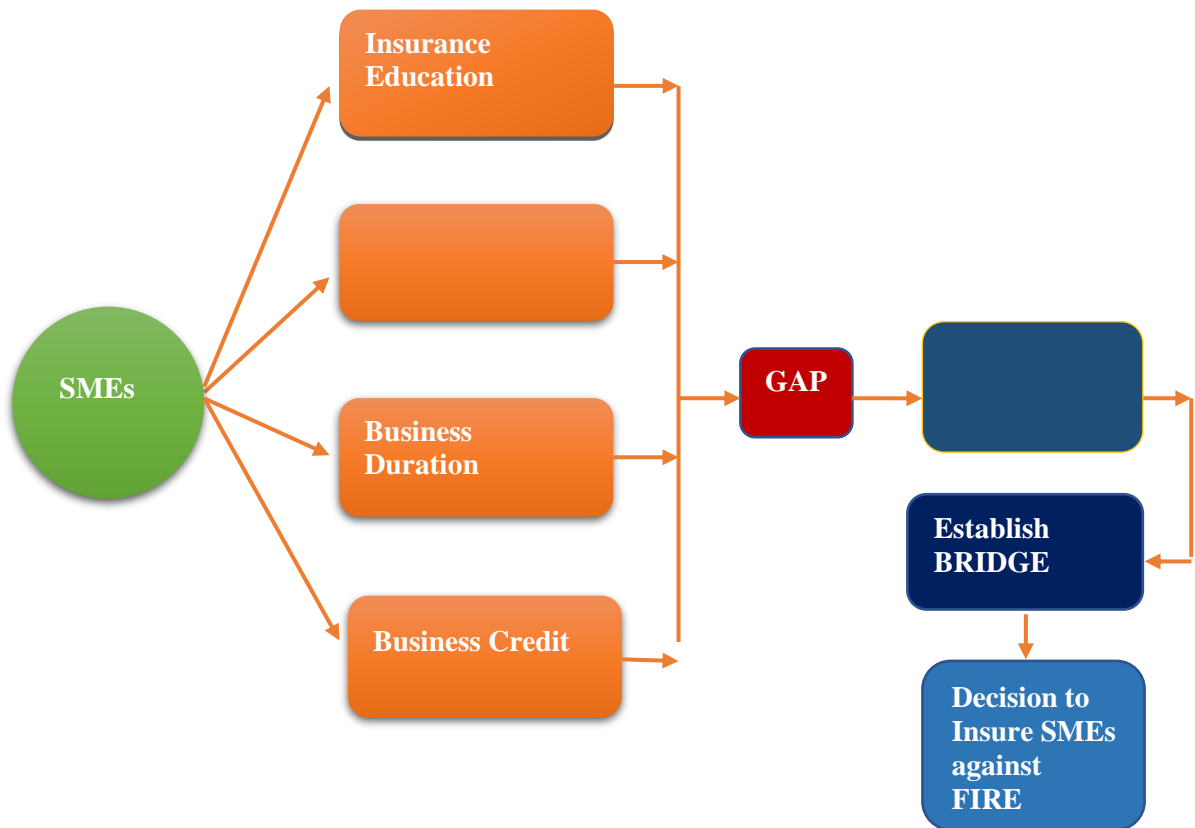
The review of related literature and studies revealed that SME owners have less knowledge on the insurance industry. The importance of SME insurance has never been known by the entrepreneurs because of the insurance companies' lack of awareness and education in the SME sector. Due to the lack of knowledge of the benefit of insurance SME owners were reluctant to insure their business and at the same time they perceived that insurance companies were only for the big entities which were the negative perception they have. Therefore, this assessment of SME insurance will improve on this weak point of negative perception on the insurance industry.

Studies have been collectively investigated on SME insurance in the global perspective and narrow it down to PNG and in particularly Port Moresby to eradicate the negative perception about the insurance industry and give confidence to the SME owners. This research aimed to create education program to make awareness about the insurance industry to the SME sector. Thus this awareness program provides opportunity for the entrepreneurs to make right choice in insuring their SMEs.

12.0 Conceptual Framework and Its Paradigm

The conceptual framework used in this study is shown in the figure 1. The illustration demonstrates how the different concepts applied in this research interplays and relate with each other in order to investigate on SME insurance in Port Moresby, Papua New Guinea and eradicate the negative perception about the insurance industry and give confidence to the SME owners.

This research study evaluates the impact of insurance services on the growth of SMEs in Port Moresby. The independent variables of this study sought to be insurance education, performance of SME's, Business duration and credit. This study therefore seeks to establish the influence of the independent variables on the dependent variables which is affordability and decision to insure SME's against fire.

Figure 1: Conceptual Framework Model**13.0 Data Collection and Analysis**

In this study, a qualitative data was collected using in-depth interviews. SME owners from Port Moresby were sampled to determine the perception of SME insurance pertaining to the key areas; insurance education, SME performance, business duration and credit. These four areas served as baseline to determine the knowledge-ability of SME insurance and benefits to assist the researcher to bridge the gap. This gap, viewed as opportunities for improvement in the SME sector and insurance sector for SME to be insured. Responses from the participants who owned small businesses in Port Moresby indicated that there has been inadequate knowledge about the insurance market for their SME to be insured incase of future calamities and destructions. Most of them even never knew about the importance of the business to be insured. It has been indicated that some have never been to formal education of which they would not make an informed decisions to insure their small businesses with insurance firms.

Furthermore this study on the assessment of SMEs in fire risk management through insurance in Port Moresby, Papua New Guinea is based on published journals, books, and PNG SME Policy and in-interview methods.

14.0 Findings

The writer of this article has been working with the Public Sector in particularly the Department of Commerce Trade & Industry where the National Government initiated and formulated the SME Policy. With his wider experience in regard to the SME, he identified this need of establishing the relationship with SMEs and insurance markets for the business sustainability after encountering calamities and destructions and even fire. Moreover, the

author has been a consultant to many SME owners and SME trainers even in the private sector and volunteer to NGOs in Papua New Guinea.

This study on SMEs in fire risk management through insurance has never been known by SME owners due to many factors like lack of awareness campaign, lack of knowledge of insurance markets, not aware of the benefits of insuring and even the Government has not created an environment suitable and conducive for the SME to be insured with the insurance firms. If the Government revisited its SME Policy and cater for the small business to be catered for insuring then all SMEs owned by Papua New Guineans will be insured for the prevention of exiting the market after any unfortunate events encountered.

15.0 Conclusion

Small and Medium Enterprises to be insured against fire and any other calamities is greatly influenced by the knowledge-ability of the insurance industry in Papua New Guinea. SMEs have not been fully insured with the insurance firms due to the lack of knowledge on fire insurance among SME owners, lack of knowledge on assessing the attitude towards fire insurance on business (SMEs), lack of knowledge on the benefits of fire insurance and other factors that affect decision to insure SMEs against fire disasters is very poor in Port Moresby, Papua New Guinea. This is basically because most of the SME owners are mothers and fathers who are illiterate and thus, hardly access relevant information to influence their decisions for the business to be insured.

The Prime Minister James Marape for the Independent State of Papua New Guinea is very vocal in supporting the SME in the country through PNG SME Policy which is a lubricant for the small business to sustain, however, the SME insurance side of this policy is absent a big time. In order for the sustainability of SMEs despite of fire and other calamities causes by nature and man, insurance industry is the life resuscitating source after the sudden dead of small businesses.

16.0 Recommendations

It has been seen that many SME owners have no knowledge or lack of knowledge in terms of insuring their business with insurance firms. Therefore, Government through the Department of Commerce, Trade and Industry intervene to revisit the PNG SME Policy and cater for the linkage with the SMEs and insurance industry for the businesses to be insured especially the indigenous small business. And also Government should intervene to revisit the Insurance Policy in the country and ensure the fragile small business is insured as other big companies in the policy.

It is also recommended that appropriate Government authorities with the insurance companies in the industry should make an awareness campaign about the benefits of SME insuring with those insuring firms. For a long term insurance knowledge based education, it is also recommended that Government through the Education Department should create programs for insurance as one of the subjects in the education curriculum system which will contribute towards making informed decisions when venturing into small business later on in the future.

17.0 Acknowledgement

The writer of this article would like to thank International Training Institute for every support in terms of edition and words of encouragement during the time of writing.

References

- [1] Adams J. Korugle, (2000). QBE insurance Magazine.
- [2] Australian. Society of Heterodox Economists Conference University.
- [3] Becker, Gary. (1976). "The Economic Approach to Human Behavior," in *The Economic Approach to Human Behavior* (Chicago and London: The University of Chicago Press).
- [4] Bokea, C., Dondo A., and Mutiso J. (2003). 'Physical infrastructure.' In: A. Mullei and C. Bokea, eds. *Micro and Small Enterprises: Agenda for Improving the Policy Environment*: International Centre for Economic Growth.
- [5] Bryman B. (2007). Mixed method research: Research method journals.
- [6] Easter (2008). Research variable and concept: handout lecture note, Lae University of Technology, PNG.
- [7] Hechter M. (1997). University of Arizona, Sociological Ration Choice Theory
- [8] Hill, T. (2004). *Small business production/operations management*. Macmillan Education Ltd.
- [9] John (2009). Research and publication: Flinders University, Australian.
- [10] Jones B. Krux (2007). QBE Insurance Time Magazine.
- [11] Jonesburge B. Wilson, (1990). *The great fire of London*.
- [12] Kothari (2004). *Research design and methodology*: Harvard University, UK.
- [13] Manning, A. (2004). *Business Interruption and Claims – A Practical Guide*. (3rd Edition). Mannings of Melbourne Pty Ltd, Camberwell, Victoria, Australia.
- [14] McClelland, D. C., Atkinson, J. (1953). *The achievement motive*. New York: Appleton-Century-Crofts.
- [15] Mugenda, O. M., & Mugenda, A. G. (2003). *Research Methods: Quantitative And Qualitative Approaches*. Nairobi: Acts Press.
- [16] Mwangi B. (2006). Factors affecting provision of non-financial services by NGOs to micro and small enterprises. Unpublished Research Project.
- [17] Nenge, (2011). In an article called, "PNG: Cornerstone Seeks Growth of SMEs Through Insurance Support".
- [18] Robinson, S. (2002). *Research Methodology*. Washington D.C.: National Academies Press.
- [19] Rose Amos, (2017). EMTV News Report.
- [20] Steven Merah, (2016). PNG SME Policy.
- [21] Thorpe, S. (2004). "Claims Preparation". *The journal of the Australian and the New Zealand Institute of Insurance and Finance*, Volume 27 Issue.