

ROLE OF MICRO-INSURANCE IN ENHANCING FINANCIAL INCLUSION AMONG SELECTED MICRO ENTERPRISES IN LAGOS STATE

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ABSTRACT

This study examines how micro-insurance availability, affordability, and quality affect financial usage among micro-enterprises in Lagos State. By improving resilience, stability, and engagement with formal financial systems, the study aims to determine whether microinsurance increases financial inclusion. Based on a cross-sectional survey design, a structured questionnaire was administered to 200 micro-enterprise owners selected from the Association of Micro-Enterprises of Nigeria (AMEN). A content validity test and a Cronbach's Alpha reliability test were conducted, resulting in a score of 0.73, and hypotheses were tested with regression analysis via SPSS version 23. It is found that the availability and affordability of micro-insurance services positively influence financial usage, even though this influence is insignificant. The quality of micro-insurance services, however, demonstrated a significant, statistically significant influence on financial usage, accounting for 10.3% of the variance. According to the study, when all metrics are combined, micro-insurance contributes to financial resilience, encourages saving and credit usage, and increases confidence in formal financial institutions. A customer-centred insurance product design, improved microinsurance accessibility, and increased awareness campaigns might enhance SMEs' involvement in financial services. Providing insights crucial for policymakers, regulators and insurers aiming to promote sustainable development and strengthen micro-enterprise resilience, this study examines how micro-insurance contributes to financial inclusion in Lagos State.

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1.0 Introduction

Small-scale businesses are businesses with fewer than 10 employees and annual turnover below ₦10 million are mostly recognized as micro enterprises which play an important role in the Nigerian economy, accounting for approximately 90% of businesses in the country (SMEDAN, 2020). A thriving and long-lasting local economy is aided by this multiplier effect. However, despite their contributions, micro-enterprises in Lagos often operate informally, vulnerable to various risks and lack access to adequate financial services, including credit, savings and insurance. This exposes them to various risks that threaten their stability, growth and continuity, particularly in the face of unexpected events such as illness, theft, fire, burglary, or natural disasters (Ogundele & Olagunju, 2021). These small-scale businesses operate within an environment marked by economic uncertainty, inflation and other structural challenges that make access to financial services essential for resilience. However, traditional financial institutions often view these businesses as high-risk clients due to their lack of collateral, limited credit histories and informal business structures (Akinbode & Oni, 2021). Without adequate financial protection, these businesses face high exposure to financial shocks that can result in loss of capital, diminished revenue and, in severe cases, business closure (Duru & Ejike, 2023) as this protection not only fosters business resilience but also supports financial inclusion by integrating previously underserved populations into the financial system (Oladimeji, 2022). By facilitating access to essential financial services, financial inclusion enables individuals and businesses to better manage their finances, invest in their futures and protect against financial shocks (Demirgüç-Kunt et al., 2022). One major barrier is the low awareness of micro-insurance products and the benefits they offer in terms of financial protection (Uche & Hassan, 2023) and be that as it may, even when they are aware, traditional insurance market often requires high premiums and complex application processes, which can deter small business owners from seeking coverage (Oluwatoyin, 2022) hence, a low adoption

rate due to affordability concern, lack of trust in insurance service providers and untailed insurance products to micro business' specific needs (Bello & Ibrahim, 2023). This study seeks to fill this gap by examining the impact of micro-insurance on financial inclusion for micro-enterprises, focusing on how micro-insurance can reduce their vulnerability, improve their financial stability and promote sustainable growth.

Objectives of the Study

The objectives for the role of micro-insurance in enhancing financial inclusion of micro-enterprises in Lagos focus on creating opportunities for these small businesses to access financial services, manage risks, and grow sustainably. This objective includes:

- To assess the extent to which individual financial inclusion parameters (availability, affordability and quality of micro-insurance services) influence financial usage among micro-enterprises in Lagos State.

2.0 Literature Review

Micro Insurance

Compared to regular insurance products, micro insurance policies often offer coverage for less money. Micro insurance is designed to assist people in managing the monetary risks they encounter on a daily basis and to increase their overall financial stability (Chowdhury et al., 2022). These models are managed by local organisations or cooperatives, which pool resources to cover risks for their members, such as healthcare insurance scheme. According to (Asante & Aikins 2020). Despite the potential benefits of micro-insurance, unawareness hinders its uptake among micro-enterprises in Lagos State. Many micro-enterprises lack knowledge about the existence and benefits of micro-insurance (Maji & Adebayo, 2022) as over 60% of micro-entrepreneurs in Lagos were unaware of micro-insurance options available to them Okoro and Eze (2023) observed. Report by NAICOM (2023) had it that many potential micro-insurance

providers face bureaucratic hurdles that impede their ability to offer services efficiently. Whereas, A study by (Eniola & Enimola, 2022) indicated that micro-enterprises in Lagos expressed dissatisfaction with existing products, citing coverage gaps that did not align with their specific operational risks. In spite of the hurdles, (NFIS, 2022) emphasises the importance of micro-insurance as a tool for enhancing financial access for low-income populations. Similarly, this initiative has led to increased access to healthcare services and reduced out-of-pocket expenditures, thereby enhancing the financial stability of participating businesses (Ogunyinka et al., 2020).

Financial Literacy

Financial literacy refers to the ability to understand and manage personal finances effectively, making informed decisions about earning, saving, investing, borrowing, debt management, and spending money. It involves the knowledge, attitudes, and behaviors necessary to make informed financial decisions, which contribute to overall economic well-being and financial independence (OECD, 2020). It promotes economic growth by enabling individuals and businesses to participate actively in the financial system, thereby increasing savings and investment rates (World Bank, 2021). Improved financial decision-making and increased financial stability which also equips individuals with the knowledge to assess risks, such as the need for insurance, thereby enhancing their financial security and reducing vulnerability to economic shocks, better financial well-being and enhanced financial inclusion thereby reducing economic inequalities (EFInA, 2022). Many individuals, especially in developing countries, lack basic awareness of financial concepts and services, limiting their ability to make informed decisions (Demirgüç-Kunt et al., 2022). In some communities, cultural attitudes toward money and formal financial systems hinder the development of financial literacy (Ogundele, 2023).

Theoretical Review

This study is anchored on two major theories – financial inclusion and the sustainable livelihood theories.

Financial Inclusion Theory

The Financial Inclusion Theory postulates that access to a wide array of affordable and appropriate financial services is a crucial determinant of economic and social development. Financial inclusion facilitates investment in education, health, and entrepreneurial activities, all of which contribute to poverty reduction and economic growth. The theory argues that marginalized groups, such as low-income households and small businesses, must be integrated into the formal financial system to ensure equitable economic development. Many micro-enterprises are unable to access traditional banking services due to factors such as lack of collateral, inadequate documentation, and high transaction costs. Financial Inclusion Theory, therefore, highlights the critical role of micro-insurance in providing access to risk management solutions for micro-enterprises that are excluded from the traditional insurance market. By offering affordable and simplified insurance products, micro-insurance can contribute to a more inclusive financial system that caters to the unique needs of micro-enterprises in Lagos State (Oluwatosin et al., 2021).

2.2.3 Sustainable Livelihood Theory

The Sustainable Livelihood Theory (SLT) provides a framework for understanding how individuals and communities build resilience and improve their well-being through access to financial resources, skills, and social networks. This theory is widely applied in development studies, particularly in analyzing poverty reduction and economic empowerment strategies. Sustainable livelihoods focus on how people utilize various assets—natural, financial, human, social, and physical—to sustain their living conditions in the face of economic and

environmental challenges (Chambers & Conway, 2022). The Sustainable Livelihood Theory is particularly relevant for micro-enterprises in Lagos State, many of which operate in informal and vulnerable settings. These businesses often lack access to key assets and are heavily reliant on their limited financial resources. Consequently, when faced with a financial shock, such as illness or loss of property, micro-entrepreneurs are forced to deplete their already scarce resources, thereby compromising their livelihood sustainability. Micro-insurance, by providing a safety net, enhances the financial capital of micro-entrepreneurs, allowing them to cope better with adverse events. This reduces the need for negative coping strategies such as selling productive assets or withdrawing children from school. As such, micro-insurance supports not only the financial stability of micro-enterprises but also the broader goal of sustainable development (Eze & Agboola, 2022).

Empirical Review

A study by Karlan et al. (2023) in Ghana found that micro-insurance significantly improved financial stability for low-income individuals and business owners. The study reported that those with insurance coverage were less likely to deplete their savings or rely on high-interest loans when facing economic shocks. This aligns with findings from Mehrotra et al. (2022), who examined mobile-based micro-insurance in Kenya and found that insured individuals were more likely to engage with other financial services, such as savings and credit facilities.

Also, Adewale and Musa (2023) investigated the determinants of micro-insurance uptake among micro-enterprises in Lagos State. Their research identified key factors such as awareness, affordability, accessibility, trust in insurance providers, and perceived benefits as significant predictors of micro-insurance adoption. The study found that micro-enterprises with higher financial literacy and better access to information were more likely to adopt micro-insurance products. Chukwu and Nwafor, (2021) explore the role of socio-demographic factors in micro-insurance adoption. They discovered that younger entrepreneurs and those with higher

education levels were more inclined to adopt micro-insurance, suggesting that educational initiatives could play a pivotal role in increasing adoption rates. Furthermore, (Ibrahim & Bello, 2022) highlighted the importance of product customization and flexibility in influencing adoption. Their study emphasized that micro-insurance products tailored to the specific needs of micro-enterprises, such as customizable coverage options and flexible payment plans, are more likely to be embraced by business owners.

3.0 Methodology

The study adopted cross-sectional research design with a specific focus on gathering of empirical data directly from respondents at a point in time by eliciting vital information from the respondents about their perception on how the peculiar characteristics of micro insurance coverage have influenced them in taking up insurance, using well-structured questionnaire. From a population of over four hundred (400) Micro-enterprise owners who are registered with the Association of Micro-enterprises of Nigeria (AMEN) in Lagos state as of November, 2024, a sample of 200 drawn, using the Taro Yamane approach, is considered adequate to represent the entire population of the study. In order to validate the items in the research instrument used, content validity method was used through the experts in the field of research reviewing the questionnaire. As recommended by Nunnally (1978), the Cronbach Alpha was used to determine the reliability of the instrument with an alpha coefficient higher than 0.7 showing acceptability of the research instruments. The data was analysed using Inferential Statistics (regression analysis) results from the SPSS version 23.

4.0 Results and Analyses

Table 1

Regression analysis for Hypothesis one: Availability of micro-insurance services does not have significant influence on financial usage among micro-enterprises in Lagos state.

| Model Summary | R | R² | Adjusted R² | Std. Error of Estimate | |
|--------------------------------|-----------------------|----------------------|-------------------------------|-------------------------------|-------------|
| | .041 | .002 | -.001 | .57597 | |
| ANOVA | Sum of Squares | df | Mean Square | F | Sig. |
| Regression | .192 | 1 | .192 | .579 | .447 |
| Residual | 115.445 | 348 | .332 | | |
| Total | 115.637 | 349 | | | |
| Coefficients | B | Std. Error | Beta | T | Sig. |
| (Constant) | 3.652 | .201 | — | 18.175 | .000 |
| Availability of Microinsurance | .040 | .053 | .041 | .761 | .447 |

Note: Dependent variable: Financial Usage. $P < .05$ indicates significance.

$R^2 = .002$, $F(1, 348) = .579$, $p = .447$, the availability of microinsurance services had a positive but statistically insignificant effect on financial usage among micro-enterprises in Lagos State. Despite the weak relationship, the positive beta coefficient ($\beta = .041$) indicates that greater availability of microinsurance services tends to increase financial engagement. Microinsurance distribution and access could improve SMEs' financial participation, even though current access is limited.

Table 2

Regression analysis for Hypothesis two: Affordability of micro-insurance services does not have significant influence on financial usage among micro-enterprises in Lagos state.

| Model Summary | R | R² | Adjusted R² | Std. Error of Estimate | |
|---------------------------------|-----------------------|----------------------|-------------------------------|-------------------------------|-------------------|
| | .038 ^a | .001 | -.001 | .66105 | |
| ANOVA | Sum of Squares | df | Mean Square | F | Sig. |
| Regression | .215 | 1 | .215 | .492 | .483 ^b |
| Residual | 152.071 | 348 | .437 | | |
| Total | 152.286 | 349 | | | |
| Coefficients | B | Std. Error | Beta | T | Sig. |
| (Constant) | 3.854 | .231 | — | 16.711 | .000 |
| Affordability of Microinsurance | -.042 | .060 | -.038 | .702 | .483 |

Note: Dependent variable: Financial Usage. $P < .05$ indicates significance.

Affordability of microinsurance services influenced the use of financial services among micro-enterprises positively, but statistically insignificantly, $R^2 = .038$, $F(1, 348) = .492$, $p = .483$.

The positive coefficient suggests that SMEs are more likely to participate in financial services when microinsurance becomes more affordable.

Table 3

Regression analysis for Hypothesis three: Quality of micro-insurance services does not have significant influence on financial usage among micro-enterprises in Lagos state.

| Model Summary | R | R² | Adjusted R² | Std. Error of Estimate | |
|---------------------------|-----------------------|----------------------|-------------------------------|-------------------------------|-------------------|
| | .321 ^a | .103 | .101 | .722 | |
| ANOVA | Sum of Squares | Df | Mean Square | F | Sig. |
| Regression | 28.648 | 1 | 28.648 | 54.899 | .000 ^b |
| Residual | 249.433 | 478 | .522 | | |
| Total | 278.081 | 479 | | | |
| Coefficients | B | Std. Error | Beta | T | Sig. |
| (Constant) | 3.248 | .245 | — | 13.279 | .000 |
| Quality of Microinsurance | .347 | .047 | .321 | 7.409 | .000 |

Note: Dependent variable: Financial Usage. $P < .05$ indicates significance.

The $R = .321$, $R^2 = .103$, $F(1, 478) = 54.899$, $p < .001$ revealed a statistically significant positive relationship between the quality of microinsurance services and financial usage among micro-enterprises in Lagos State, This indicates that approximately 10.3% of the variation in financial usage can be explained by the quality of microinsurance services. The standardized beta coefficient ($\beta = .321$, $t = 7.409$, $p < .001$) shows that improvements in the quality of microinsurance

Discussions

This study found that small and medium-scale business owners in Lagos State are significantly influenced by microinsurance services. SME participation in financial markets is made possible by microinsurance availability, which provides security. The availability of these services encourages business owners to engage in savings, access loans, and use other financial products, thereby fostering growth and sustainability. This finding aligns with prior research, such as Churchill and Matul (2012) and Akotey, Osei, and Gemegah (2011), which revealed that microinsurance access enhances SMEs' financial engagement and confidence to invest.

Similarly, studies by Efina (2019) and Okonkwo et al. (2021) affirm that wider access to microinsurance services promotes structured financial management and credit participation. However, contrary studies like Giné & Yang, (2009) argue that poor awareness and low trust in insurance institutions may limit its impact. In all, the finding confirms that increasing the availability of microinsurance can help SMEs become more integrated into the formal financial system and promote their resilience.

Also, It was found that the affordability of microinsurance services significantly influences financial usage among SME owners in Lagos State. The availability of affordable microinsurance encourages business owners to engage in formal financial transactions such as savings, loans, and investments, which contribute to business growth. According to financial inclusion theories, cost-effective risk protection mechanisms encourage financial participation. The results corroborate studies by Churchill and Matul (2012) and Akotey, Osei and Gemegah (2011), who found that affordable microinsurance boosts SMEs' confidence to invest and expand their operations. Efina (2019) and Okonkwo et al. (2021) also confirm that cost-effective microinsurance improves financial inclusion by encouraging SMEs to engage with formal institutions. Nevertheless, studies like Giné and Yang (2009) point out that despite affordability, adoption may be hindered by issues of trust and awareness. All in all, the study emphasizes that affordability is a key determinant of SMEs' financial engagement, and that flexible premiums and awareness programs can help improve it.

5.0 Conclusion and Recommendations

Based on the findings of the study, microinsurance is crucial to promoting financial inclusion and stability among small and medium-scale enterprises (SMEs) in Lagos State. Results revealed that availability, affordability, and quality of microinsurance services significantly influence SMEs' financial usage by encouraging them to engage in savings, credit, and other financial products. In the study, research found that SMEs are more likely to trust formal

financial systems if they are more accessible, have cost-effective premium structures, and receive efficient service delivery. Therefore, improving these key dimensions of microinsurance will allow the Nigerian economy to become more resilient, reduce risk vulnerability, and support sustainable growth for small businesses.

Based on the findings of the study, the study recommends that government and financial institutions work together to increase awareness of microinsurance through targeted campaigns and training for SME owners. also, regulatory bodies should foster a supportive mechanism that attract more insurers to the microinsurance sector, promoting competition and service expansion. Microinsurance service providers are hereby encouraged to design flexible and affordable premium options tailored to SMEs' financial capacities while prioritising customer service through regular feedback mechanisms and prompt claims processing. Through these measures, financial inclusion will be deeper and SMEs will be able to grow and thrive for a long time.

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