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Looking for reasons of insurance cover gap in SME's activity¹

The article consists of a comparative analysis of the results of a survey of entrepreneurs (SMEs) regarding proper insurance coverage in selected countries (G. Britain, France, Italy, Germany vs. Poland) with respect to: the adequacy of insurance on offer, knowledge of the scope of insurance products, price of products, and entrepreneurs' expectations. The study also discusses the role and importance of insurance products on offer to SMEs for the protection of their staff and business operations.

In line with the aim of the study, the authors try to determine principles which should guide insurers in developing appropriate insurance for SMEs. They particularly indicate the necessity of covering the gap between current insurance products on offer for SMEs and their real risks they face, as well as the needs and expectations they have from insurance companies.

Keywords: SMEs, insurance products, health insurance, risk management.

Introduction

For decades the problem of risk management in medium, small and micro-size enterprises (SMEs)² has been addressed by insurance companies primarily from the point of view of their own business

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1. This study is supported by the Medical University of Łódź – research programme – 502-03/6-06-01/502-64-088.
 2. In Poland, this segment of enterprises comprises medium-size businesses, where the annual turnover does not exceed €50 m, the total annual balance does not exceed €43 m and employment ranges from 50–249; small businesses, where the annual turnover and total balance do not exceed €10m and employment ranges from 10–49, and micro firms, which are distinguished as employing up to 9 employees, with an annual turnover and total balance not exceeding €2m. It is estimated that the share of SMEs in the Polish GDP amounts to 49%, including 29.6%, 7.7% and 10.4% (24% for large ones – I don't understand what this figure is for, or what the 'large ones are – also, the first the numbers equal 47.7%, not 49%) for micro, small and medium-size enterprises, respectively, according to J. Konieczna-Sałamatin, J. Łapiński, M. Nieć, G. Rzeźnik, J.Stasiowski, R. Zakrzewski *Report on the condition of the sector of small and medium-size enterprises in Poland in the years 2012–2013*, PARP 2014.

expansion. Hence, it is commonly reduced to the question of the determinants of the sale of a range of insurance products in this segment of enterprises. Research studies commissioned mainly by insurance companies tended to be based on the assumption that what determines the demand for an insurance product is its perception, its reputation and its assessment. The assumption was in fact rarely articulated as, in accordance with the commonly accepted paradigm of the insurance industry, it is taken for granted that insurance products are sold on the same or very similar principles to any other market product. Consistently with this approach, research into the sales failures of insurance products focused mainly on the supply side – on the differentiation between types of products, on the object scope of products offered, on the extent and manner in which a risk object was covered, on the formula and conditions of an insurance contract, on procedures for the liquidation of damages and – obviously – on the prices of insurance policies. However, first and foremost, these studies explored the efficiency and effectiveness of different distribution channels for the products. New products, as well as sales campaigns developed on the basis of the results of the studies referred to above, have however only generated meagre results. Consequently, insurance companies still lack the proper key to this market segment, which is extremely interesting and attractive to them. In Poland, after over twenty years of efforts undertaken by the largest insurance companies, only an estimated 20–25% of medium, small and micro-size enterprises are thought to have any risk insurance related to their activity³. Moreover, only rarely are these insurance policies the product of an entrepreneur's conscious decision to purchase this particular insurance against the consequences of a specific risk (which are in any case mostly from the *flexa* group), being in majority mandatory insurance (primarily civil liability insurance) and insurance such as guarantees of repayment of credit, leasing and other liabilities resulting from regulations in force in tender procedures regarding contracts, requirements posed by banks and leasing companies as well as internal regulations imposed by large corporations on their subcontractors, who are most frequently SMEs.

Consequently, the opportunities for business expansion by insurance companies in this market sector still remain far from utilized, notwithstanding the common belief that the neutralization of risk present in the activities of small, medium and micro-size enterprises could not only contribute to a substantial rise in their revenues, reduce problems with investment financing, help financial liquidity and in general foster their development and business expansion opportunities; it thought that this might also – on the macro scale – double the added value they contribute to GDP. In Poland, like in many other European countries, this figure amounts to as much as 49% of GDP. The significance of SMEs for European economies is best characterized by the parameters given in Table No.1.

3. These are the most common estimates from sales departments of insurance companies offering products addressed to SMEs; compare, e.g., *Finanse MŚP 2013 – rynek usług ubezpieczeniowych*, QUALIFACT, 2013.

Table 1. Parameters of SMEs studied in selected European countries

Parameters \ State	Poland	Great Britain	France	Italy	Germany
Number of active SMEs	1.49 m ⁴	1.66 m	2.4 m	3.69 m	16.3 m
Percentage of SMEs in the total number of active enterprises	99.8%	99.6%	99.8%	99.9%	99.5%
Share of SMEs in GDP generation	48.5%	49.8%	49%	49.9%	49%
Share of SMEs in the gross added value of enterprises	50.5%	49.8%	58.5%	68%	53.8%
Number of people employed in the SME sector	5.9 m	9.4 m	9.1 m	12.0 m	28.6 m
Share of people employed in SMEs in the private sector	68.2%	52.4%	62.6%	80%	62.2%

Source: Own elaboration on the basis of Eurostat data⁵

The problem of the use by SMEs of finance-insurance products should thus be viewed in at least three dimensions: (1) in the interest of the national economy, as better utilization of these products translates into a higher GDP through their increased share in GDP; (2) in the particular interests of individual small, medium and micro-size enterprises as well as branches and whole sectors which they create and form part of; (3) in the interests of insurance companies, banks, leasing firms and other entities which address their market offerings to these particular enterprises.

The problem of the resultant gap to be covered with a market offering related to the risks involved in the activity of these enterprises has so far been primarily a subject of concern for the producers of these products. However, research commissioned by insurers who have attempted to enter this market has hitherto failed to generate results which could be deemed a solution to the problem, or at least to offer a satisfactory explanation. Hence our attempt to approach the subject in a slightly different way, namely, by examining the attitude to an offering neutralizing a specific risk in the activity of medium, small and micro-size enterprises from the point of view of the interest being understood as a probability of the occurrence of a contingency, i.e., an event which can infringe on the interests of an enterprise or a particular entrepreneur. A study on this subject was conducted by the Insurance Market Observatory of the Warsaw School of Economics (SHG) and the National Insurance Institute (KIU) in May-September 2014. The study sample was selected with the use of the quantitative method. The choice of this method was dictated by the low implementation level of randomized trials in the SMEs sector (20–25%) by other public opinion poll centers in Poland⁶. The study made use of two parallel research methods: paper & pen personal interviews (PAPI) on the basis of a prepared questionnaire, and in-depth interviews (IDI) conducted according to a script. Owners, co-owners and decision-makers of significance in the enterprises (board

4. Acc. to GUS [Main Statistical Office] figures (*Działalność przedsiębiorstw niefinansowanych w 2012 roku*, GUS, 2014, p. 14) in 2012 there were approximately 1.79 million active enterprises operating in Poland.

5. *Performance of SMEs in 2012: amidst challenges, prospects improving for most Member States*, Brussels, 26 November 2012, http://europa.eu/rapid/press-release_MEMO-13-1045_en.htm of 26 November 2013 – collected on 1 October 2015.

6. W. Dąbała, *Wybór próby i szacowanie wyników w badaniu przedsiębiorców sektora MŚP*, [in:] *Rzemieślnicy i biznesmeni: właściciele małych i średnich przedsiębiorstw prywatnych*, ed. J. Gardawski, Wydawnictwo Naukowe SCHOLAR, Warsaw, 2013, p. 480.

members, chief accountants] were included in the study sample. The study covered enterprises with their seat in the territory of Poland. The sample consisted of a total of 459 medium, small and micro-size enterprises in proportions that corresponded to their presence in the general population; it was thus comprised of 75% micro-size, 16.5% small-size and 5.5% medium-size enterprises. IDIs were applied to 100 respondents. It is hard to assess to what extent this was a representative sample. A glance at other related studies of this kind on different samples of the population of SMEs shows that none of them has been fully representative. This stems from the fact that it is difficult to obtain a representative sample of enterprises which are arbitrarily segmented – in our case according to the number of people employed, the level of revenue, type of activity conducted, assignment to a specific branch or other similar formal parameters. This is because these parameters and proportions keep changing, which makes it even largely arbitrary to classify enterprises as belonging to a particular branch.

Our study covered representatives of 4 branches: transport, construction-assembly, trade and services. In our selection of enterprises for the study we took into account first and foremost the number of people they employed. Yet the number of people employed also varied as enterprises, in particular small and micro-size ones, are a perfect place for 'illegal' work. Sometimes, in particular in micro-size enterprises, the number of people actually working happens to be double the number of workers officially registered. We also encountered branch qualification problems with the so called 'production-trade-service' enterprises. It was not clear which branch to assign them to when even these small, not only micro-size, enterprises happen to change the profile of their activity a few times a year depending on the market situation and other factors – in this way they protect their place in the market, in a specific market niche or in the branch in which they operate. This explains our obvious failure to fully satisfy the requirement of representativeness. From our point of view it was thus a sample consisting of 459 cases which was nonetheless, in our opinion, fully sufficient to serve as grounds for deriving the conclusions of interest to us. Our conviction seems to find confirmation in the reports of the Boston Consulting Group researchers who conducted a very similar poll almost concurrently, in the same months of 2014, on a total sample of 2 500 enterprises in 6 countries: the United States, Japan and four European countries (Great Britain, France, Germany, Italy). We therefore assume that the results of the analyses performed on 2 500 enterprises in 6 countries can be reasonably compared with the results we obtained studying 459 Polish enterprises.

Assuming that the utilization of the insurance product offering to provide as full as possible a coverage of risks present in the activity of the SME sector is in the interest of not only and exclusively insurance companies but also, and perhaps first of all, in the both narrowly and broadly perceived interest of medium, small and micro-size enterprises themselves, the aim of our study was to determine the attitude of this group of entrepreneurs to the insurance products on offer from the point of view of their perception of the role these products perform/can perform and possibilities which they create/can create, in their opinion, for the protection of their interests.

The principal goal of our study was to recognize whether and, if so, how and to what extent insurance products offered to SMEs meet their needs (the needs which are named and clearly articulated, as well as those specified and described in categories other than those to be found in insurance conditions and even those which are not clearly named by entrepreneurs), whether they support their interests by securing them against risk and thus contribute to making their management more efficient. Consequently, the study had to take into account not only the question

of whether entrepreneurs are familiar with the insurance on offer, but also offered assistance in finding out whether they properly understood the protection against the risks involved in the activity of a given enterprise which they are offered.⁷

The scope and research methods applied in the 'Polish'⁸ and the 'American'⁹ studies were similar to such an extent that they allow for a comparison of the opinion of entrepreneurs on the insurance products they are offered, at least in relation to the following issues:

- adequacy of the insurance on offer,
- knowledge of the scope of the product on offer (policy),
- price of the product/policy,
- expectations of entrepreneurs.

Market product offering of insurance companies in the opinion of entrepreneurs from Poland, Germany, France, Italy, Great Britain, U.S.A.

Adequacy of SMEs risk coverage by the insurance on offer

SMEs in the Boston Consulting Group study

The BCG results show that in the opinion of entrepreneurs from the U.S.A., Great Britain, Italy and Germany the insurance products offered on their markets are poorly diversified in terms of the need to cover a variety of risks. Almost half of respondents from Italy (45%) agreed with the statement that *offered insurance products are vastly similar*. The situation looked almost the same in Germany where this answer was chosen by 41% of respondents, with 33% of the German businesspeople included in the study choosing the 'I don't know' answer, thus refusing to express any attitude towards the statement. On the other hand, in Great Britain 37% and the U.S.A. 36% of entrepreneurs agreed with the statement (Figure 1).

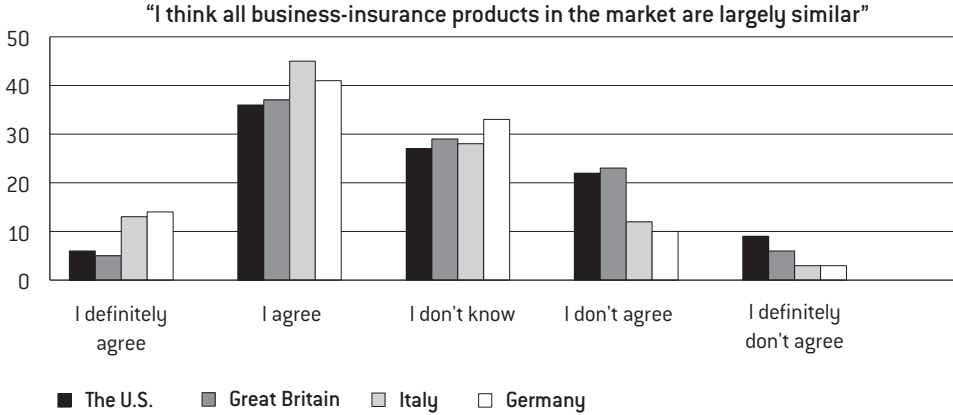
The presented results show clearly that in the opinion of SME entrepreneurs the offerings of insurance companies were not sufficiently diversified and consequently did not meet their real needs sufficiently. It should be emphasized that the BCG study covered only non-specific risks and thus risks related to threats generally involved in conducting economic activity. The inclusion in the BCG study of the specificity of individual branches would allow the actual needs of entrepreneurs resulting also for risks specific to the type and form of the activity conducted to be determined and would thus help to determine the scope of the absence of diversification in the insurance available on the market.

7. In accordance with the insurance doctrine we speak of 'risk' in the singular, as of a probability of the occurrence of an unwelcome event, i.e., an event whose consequences potentially threaten/infringe the interests of the entity concerned; on the other hand, in insurance practice, due to the variety of insurance objects, risk-generating events, diversity of interests which can become threatened or infringed, we speak of different 'risks', i.e., we use the plural form. Compare: R. Holly, *Zarządzanie ryzykiem – czyli czym?* [in:] *Rynek Ubezpieczeń. Współczesne problemy*, ed. W. Sułkowska., Wyd. Difin, Warsaw 2013, p. 15–26.

8. R. Holly (ed.), *Ryzyka związane z działalnością przedsiębiorstw średnich, małych i mikro (na przykładzie sektorów: budowlano-montażowego, transportowego, usługowego i handlowego) a rynkowa oferta produkcyjna*, research report, KIU, Warsaw, 2015.

9. T. Hiying, R. Agarwal, S. Rapsch, Y. Sasaki, *Mining the Untapped Gold in SME Commercial Insurance*, Boston Consulting Group 2014.

Figure 1. SMEs opinion on the diversification of the insurance product offer

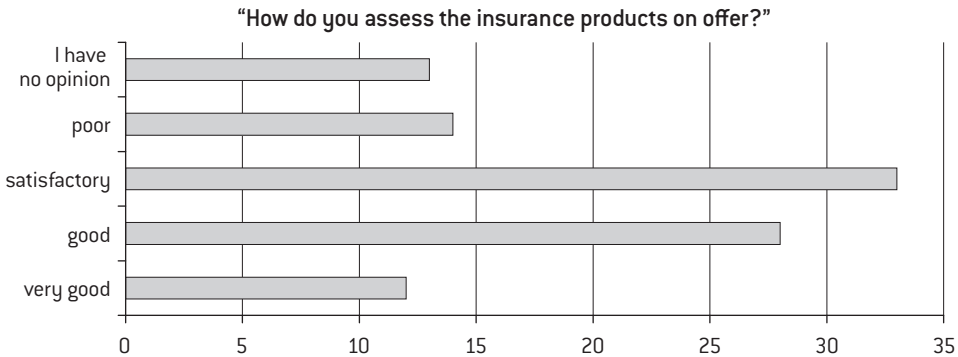


Source: own elaboration on the basis of: T. Hojng, R. Agarwal, S. Rapsch, Y. Sasaki, *Mining the Untapped Gold in SME Commercial Insurance*, BCG, 2014, p. 11–15 (The authors of the report referred to did not include in their study the answers given to this question by French entrepreneurs).

SME opinions on the adequacy of insurance offerings to the risks involved in the activity of enterprises in the Polish study

The coverage of the insurance needs of Polish entrepreneurs can be determined on the basis of the assessment by respondents of the current product offerings addressed to them by insurance companies. This was addressed with the question: "How do you assess the diversification of the existing products on offer?" In the study sample, 33% of respondents assessed the insurance on offer as satisfactory. A total of 40% of respondents assessed this as very good or good. Definitely negative opinions accounted for 14% of all answers, while 13% of respondents declared that they had "no opinion" on the subject. Moderate opinions on the adequacy of the insurance on offer thus prevailed in the sample population (Figure 2).

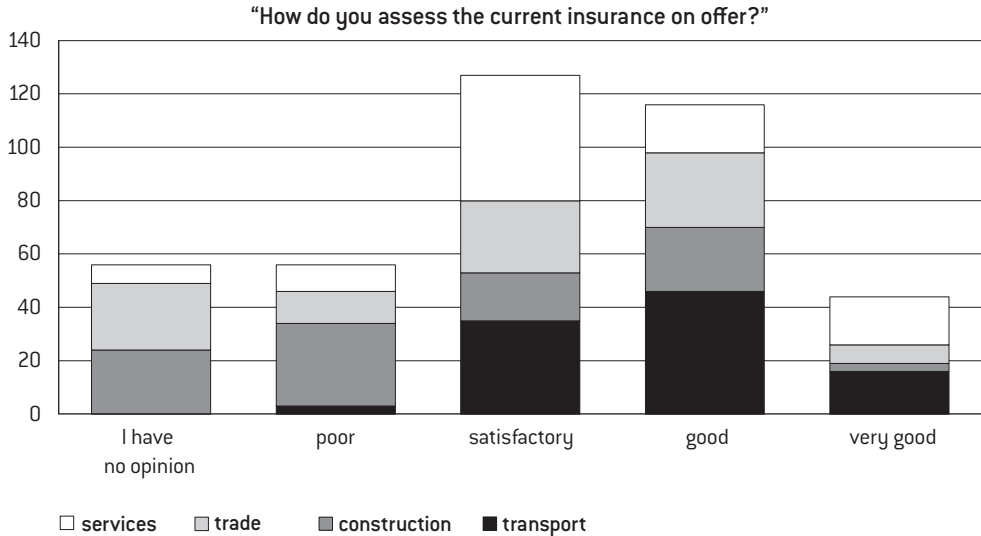
Figure 2 Assessment of the current insurance on offer addressed to micro, small and medium-size enterprises (total presentation)



Source: R. Holly (ed.), *Ryzyka związane z działalnością przedsiębiorstw średnich, małych i mikro a rynkowa oferta produktowa zakładów ubezpieczeń, banków i firm abonamentowych*, research report, KIU, Warsaw 2015, p. 96

“Satisfactory” answers also dominated in terms of the division into branches (Figure 3), with the product offerings of insurance companies looking worst in the eyes of the construction branch (31% negative assessments). On the other hand, the offering is assessed as good by representatives of the trade and transport branches. Only 2–18% of respondents assessed the offering as very good.

Figure 3. Assessment of the current insurance on offer addressed to micro, small and medium-size enterprises (according to branch division)



Source: R. Holly (ed.), *Ryzyka związane z działalnością przedsiębiorstw średnich, małych i mikro a rynkowa oferta produktowa zakładów ubezpieczeń, banków i firm abonamentowych*, research report, KIU, Warsaw 2015, p. 96

The answers “I have no opinion” and “I don’t know”, which appear in both studies, could indicate that some entrepreneurs do not understand or are even not aware of the products on offer from insurers.

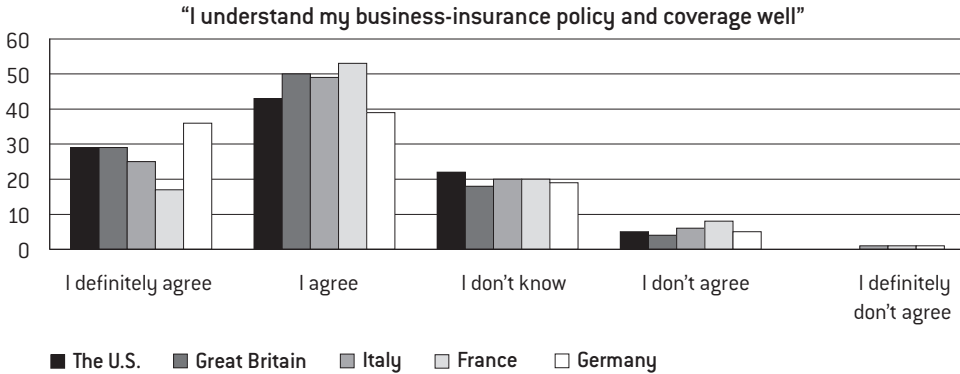
Knowledge of the scope of risk coverage by the offered product (policy)

SMEs in the Boston Consulting Group study

The Boston Consulting Group also investigated whether entrepreneurs in the countries included in their study understood the scope of risk coverage specified in an insurance contract. Positive assessments prevailed in the study sample: 36% of respondents from Germany, 29% from the United States and Great Britain and one quarter from Italy declared a definitively good understanding of the insurance contracts concerning their enterprises.

At the same time, 22% of enterprises from the United States, 19% from Germany, 18% from Great Britain and every fifth respondent from Italy and France declared that they “don’t know” whether they know the object of the insurance product offered to them really well (Figure 4).

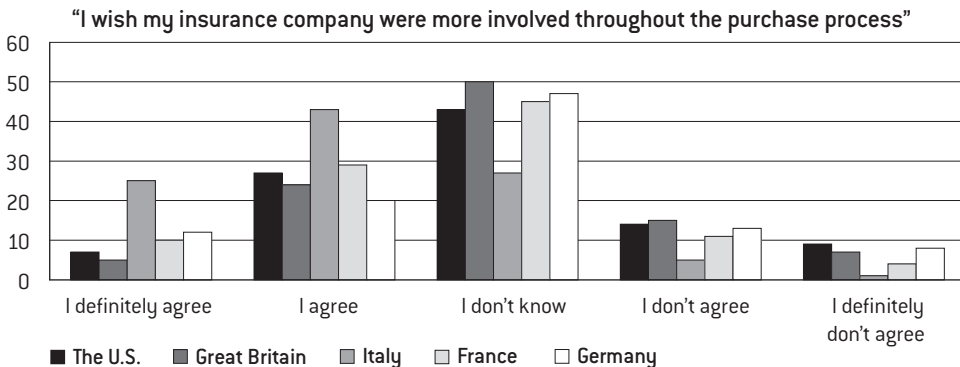
Figure 4. The declared degree/level of understanding by SME entrepreneurs of insurance products offered to them.



Source: own elaboration on the basis of: T. Hoying, R. Agarwal, S. Rapsch, Y. Sasaki, *Mining the Untapped Gold in SME Commercial Insurance*, BCG, 2014, p. 11–15

BCG’s research also explored whether, given the difficulties in understanding the products on offer, SME sector entrepreneurs actually expect greater support on the part of insurers in the policy purchase process. In the studied sample of respondents from Germany, France, Great Britain and the U.S., “I don’t know” answers significantly prevailed [47%, 45%, 43% and 35%, respectively]. In the case of entrepreneurs from Italy, 43% wanted like to see greater involvement on the part of insurance companies while 27% chose the “I don’t know” answer. In almost all groups of entrepreneurs, positive answers prevailed over negative ones (Figure 5).

Figure 5. Support on the part of insurance companies expected by SMEs in the policy purchase process



Source: own elaboration in the basis of: T. Hoying, R. Agarwal, S. Rapsch, Y. Sasaki, *Mining the Untapped Gold in SME Commercial Insurance*, BCG, 2014, p. 11–15

SMEs in the Polish study

As revealed by IDIs conducted with 100 entrepreneurs selected from the study sample, as a rule, Polish businesspeople consider insurance products “too complicated”. They believe that the actual scope of SME-targeted insurance can be assessed only and solely by specialists. In the opinion

of entrepreneurs, a client cannot appreciate the insurance products available on the market due to the broad range of products on offer that refer to a variety of data and use arguments which they find incomprehensible. Entrepreneurs, in particular these from small and micro-size firms, perceive insurance as an unnecessary cost because they feel insurers will evade paying the compensation due when a specific risk materializes. In the opinion of Polish entrepreneurs, a potential client, without pertinent professional knowledge, is not able to assess or even detect in an insurance contract clauses providing for the limitation or even exemption of an insurer's liability in specific circumstances.

Let us also remember that according to managers of Polish insurance companies approximately 20–30% of enterprises in the SME sector do not have property insurance¹⁰. Reasons for this can be sought in both the lack of transparency of the insurance on offer and the difficult access to them.

The research findings presented confirm that SME sector entrepreneurs, both in Poland and in other comparable countries, expect greater involvement and support on the part of insurers in the choice of an insurance policy. Satisfactory cooperation at the stage of the presentation and purchase of a policy not only provides broader information about the significance and scope of risks in the activity of their enterprise but also shows the influence of the price of the policy on the scope of the insured risk coverage. In effect, it encourages them to be more aware of risk management.

Opinions on the price of an insurance product

SMEs in the Polish study

The Polish study reveals that the question of price relates in particular to private health insurance¹¹. In 2014 Poles spent approximately PLN 400 m (ca USD 100 m) on medical insurance and approximately PLN 3 bn (USD 750 m) on subscriptions for private medical centres¹². According to cyclical surveys of the conditions and quality of life in Poland, three quarters of Poles fail to declare any interest whatsoever in private health care insurance, 24% would be ready to pay a maximum of PLN 100 (ca USD 25) a month for it and only 2.5% would be willing to pay more than that¹³. Our own study found, moreover, that only some 10% of the firms studied declared that they had any additional form of health insurance (8% in the form of medical subscriptions and 6% in insurance policies). Asked about reasons for the absence of interest in benefiting from additional health insurance, most entrepreneurs pointed to the prohibitively high prices of the health insurance policies offered – this was the reason indicated by almost every second respondent (Table 2).

10. M. Kwiatkowska, *Polisa dla MŚP jak dla korporacji*, „Dziennik Gazeta Prawna”, No. 189 (29 September 2015) p. E2.

11. R. Holly (ed.), *Ryzyka związane z działalnością przedsiębiorstw średnich, małych i mikro a rynkowa oferta produktowa zakładów ubezpieczeń, banków i firm abonamentowych*, KIU, Warsaw 2015, p.202.

12. According to the Polish Insurance Chamber, <http://piu.org.pl/analizy/project/1878/pagination/1>. Access: 20 September 2016.

13. Compare also: A. Kublik, *Jesteśmy zadowoleni z siebie*, *Gazeta Wyborcza* 28/246, 17 September 2015, p.13.

Table 2. Reasons for the lack of readiness to make use of additional health insurance by SME sector entrepreneurs – total presentation

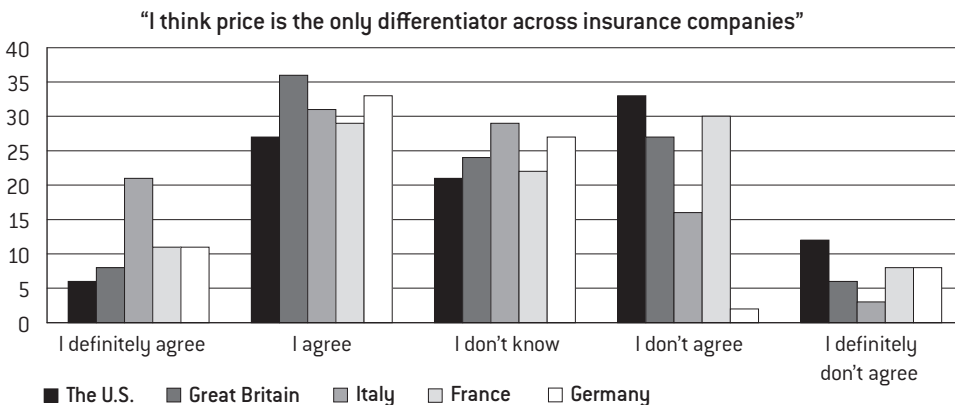
Reasons for declining to purchase a policy	Share of answers
Absence of an product adequate to their needs	22.8%
Absence of sufficient information about insurance products	14.9%
Absence of need for insurance	16.2%
Absence of interest among SME's employees	5.2%
Prohibitively high price of insurance policies	40.9%

Source: R. Holly (ed.), *Ryzyka związane z działalnością przedsiębiorstw średnich, małych i mikro a rynkowa oferta produktowa zakładów ubezpieczeń, banków i firm abonamentowych*, research report, KIU, Warsaw 2015, p. 202

Simultaneously, almost a quarter of the entrepreneurs covered by the study found the insurance products offered to them not sufficiently adequate to their employees' needs. This may have resulted not so much from the inadequate scope of the coverage offered as from a lack of diversification and customization, if only in terms of the name and the overall scope of the product offered, for individual branches. This conclusion seems to find confirmation in replies to the question referring to possible solutions that could increase entrepreneurs' interest in insurance.

SMEs in the Boston Consulting Group study

BCG researchers also performed an evaluation of the role that the price of a policy plays in the decision-making process underpinning the choice of an insurance product. Entrepreneurs from the countries covered by the BCG survey gave diversified responses to the statement that *price is the only differentiator across insurance companies* (Figure 6).

Figure 6. SMEs opinions on the importance of price as an insurance product differentiator

Source: own elaboration on the basis of: T. Hoying, R. Agarwal, S. Rapsch, Y. Sasaki, *Mining the Untapped Gold in SME Commercial Insurance*, BCG, 2014, p. 11–15.

36% of entrepreneurs from Great Britain agreed with the statement that price is the only differentiator across insurance companies, while 27% of British entrepreneurs chose the “I don't agree” answer. Price was the only differentiator between insurance policies in the opinion of 31% of Italian

entrepreneurs, while 29% of them chose the “I don't know” answer to this question. The results of the opinion survey in Germany looked similar, with 33% of entrepreneurs agreeing with the statement in question and 27% having no opinion. For 29% of respondents in France and 27% in the U.S. price constituted the sole differentiator between insurance products, while 30% of French and 33% of U.S. respondents found it of little significance.

The analysis of the survey questions thus seems to indicate that entrepreneurs vary in their perception of price as the sole differentiator between offered insurance products, the opinions for and against being almost equal. It can therefore be concluded that price plays only a limited role in the choice of an insurance policy by SME entrepreneurs, being an important but not crucial criterion in the decision-making process. The study findings also showed that initially entrepreneurs, in particular from small firms, seek mainly low-price insurance products but that with the development of their enterprise they begin looking for ever “better” solutions that suit their changing (as a rule, growing) needs, offering broader risk coverage and coming, consequently, at a higher price.

SME's expectations with respect to insurance companies

SMEs in the Polish study

Following the suggestions resulting from the pilot study conducted within the framework of the standardization of research tools, we also asked the respondents what would, in their opinion, contribute to an increase in the interest of entrepreneurs in health insurance (with the possibility to choose more than one answer). The obtained findings can be seen in Table 3. (total and divided into branches)¹⁴.

Table 3. Possible approaches to increasing the interest of SME entrepreneurs in health insurance

Possible and desired solutions	Total	Commerce	Construction	Transport
Easier online access	59%	26%	66%	100%
Clear website	25%	8%	72%	0%
Visits from insurance brokers	20%	11%	46%	6%
Access to insurance calculator to calculate insurance contributions	56%	40%	82%	58%
Guarantee of the organization of comprehensive treatment	38%	22%	70%	32%
Higher care comfort	46%	11%	46%	96%
Treatment concentration in one unit	54%	36%	40%	98%
Organization of treatment customized to employees' needs (adjustment for the specificity of a firm)	62%	20%	86%	98%
Offer of prophylactic services	25%	20%	18%	42%
Access to rehabilitation services	26%	21%	46%	14%

Source: R. Holly (ed.), *Ryzyka związane z działalnością przedsiębiorstw średnich, małych i mikro a rynkowa oferta produktowa zakładów ubezpieczeń, banków i firm abonamentowych*, research report, KIU, Warsaw 2015, p. 206

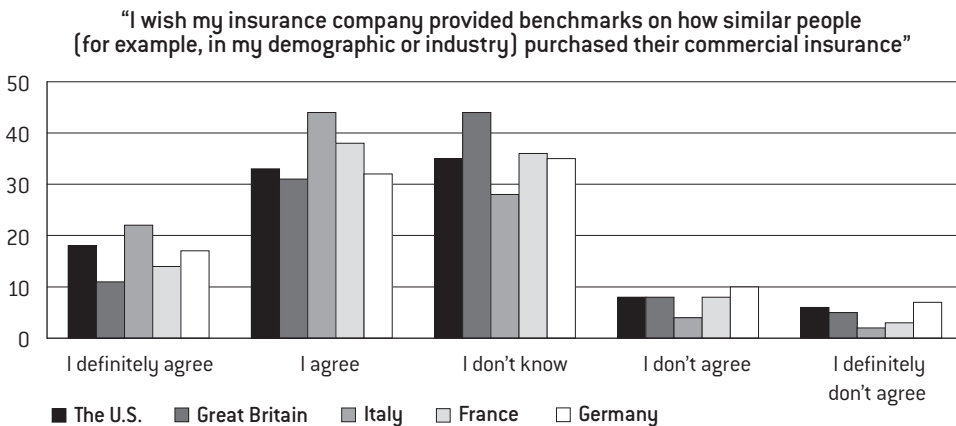
14. Representatives of the SERVICE INDUSTRY are not covered in this part of the study.

Thus, according to entrepreneurs, the most important factors that can contribute to an increased interest in health insurance include: adjustment for the specificity of their firm/branch, access to an insurance calculator which would enable them to calculate an insurance rate on their own and also easier online access. The least frequently indicated were the need for prophylactic services and access to rehabilitation services. What is also clearly visible is the differentiation of answers within individual branches. This further confirms the rationale for the customization of products to specific needs.

SMEs in the Boston Consulting Group

The BCG survey of SME entrepreneurs' expectations was based mainly on asking the respondents if, and how important, information on other [analogous to them] purchasers of insurance products, i.e., analogous socio-demographic categories [and/or enterprises] of similar market parameters, was for them [Figure 7].

Figure 7. SME's opinions on the usefulness of comparisons of insurance products in terms of the characteristics of their purchasers



Source: Own elaboration on the basis of: T. Hoying, R. Agarwal, S. Rapsch, Y. Sasaki, *Mining the Untapped Gold in SME Commercial Insurance*, BCG, 2014, p. 11–15

In the study sample a total [combined ‘definitely agree’ and ‘somewhat agree’] of 66% of entrepreneurs from Italy and 52% from France wished insurance companies provided comparisons of insurance products in terms of their purchasers of a similar socio-economic status or those operating in the same branch. On the other hand, 44% of respondents from Great Britain, and 35% from the U.S. and Germany remained neutral in this respect. The survey findings seem to indicate that there is no obvious need to provide comparative analyses of this kind to British, American and German entrepreneurs, while entrepreneurs from Italy and France would welcome them.

Generally speaking, the comparison of the “Polish” and “American” results shows both similarities and differences in the opinions of SME entrepreneurs. What comes out first of all is that the products on offer from insurance companies available within individual markets do not adequately target the needs of the majority of SME entrepreneurs. At the same time, the price of insurance products

is but a limited obstacle to the choice of an insurance policy, though only in some countries (The U.S., France). This does not apply to Polish entrepreneurs, who consider price the most important, decisive, criterion in the purchase of insurance. Over three quarters of foreign entrepreneurs declare that they know and understand the scope of risk coverage specified in an insurance policy. Entrepreneurs from Italy and France, however, expect greater involvement on the part of insurers in the insurance policy purchase process, as well as broader information about the products available on the market, the scope of risk coverage and comparisons to analogous demographic groups or enterprises with similar market parameters. In the opinion of Polish entrepreneurs, only specialists can really assess the scope of insurance. They believe that the rich range of insurance products addressed to SMEs makes it in fact more difficult, rather than easier, for a potential client to independently choose a product that would be tailored to the needs of their enterprise. Moreover, they often express the wish to have access to an insurance calculator so as to be able to calculate the insurance premium on their own, and they would also like easier online access to insurance offers.

The role of insurance in the protection of SME's interests

The study findings can be interpreted simply literally. This means that answers to questions of the kind: 'Do you like our offerings?' can be treated as final results. 'Percentage' is then calculated and referring to individual branches and types of enterprises. Next, insurance companies adjust their products accordingly so that they are more 'likeable', address them to target clients and as rule, much to everybody's surprise, entrepreneurs do not purchase the products. Following assessments of the presented products, we find out that entrepreneurs do not really like them, in particular when we explain to them in detail what they consist of. When we discuss insurance with them, we gain up to 70% approval, but the products are then purchased by a mere 2% of SMEs¹⁵. This can be explained in many ways, though it seems most likely to be caused by the fact that the way of securing the interest of an enterprise offered an insurance, banking or generally financial product involves referring to a risk of the fourth or fifth importance, concerning minor threats of lesser significance from the point of view of the safe functioning of the enterprise.

Table 4. Importance of different types of threats in the activity of SMEs in the opinion of Polish entrepreneurs.

'What elements of the market environment can pose a threat to the enterprise?'	Number of indications
Competition, particularly on the part of corporations and 'unfair competition' practices (e.g. dumping)	55
Changes in legal regulations	20
Changes in technology	6
Clerical actions	1
'Gray zone' competition	1
Exchange rate fluctuations	1

Source: R. Holly (ed.), *Ryzyka związane z działalnością przedsiębiorstw średnich, małych i mikro a rynkowa oferta produktowa zakładów ubezpieczeń, banków i firm abonamentowych*, research report, KIU, Warsaw 2015, p. 67.

15. R. Holly (edit.), *Ryzyka związane z działalnością przedsiębiorstw średnich, małych i mikro a rynkowa oferta produktowa zakładów ubezpieczeń, banków i firm abonamentowych*, research report, KIU, Warsaw 2015, p. 58

This explanation also sounds plausible in light of the research findings of J. Gardawski. In his book 'Craftsmen and Businessmen' he draws attention to the role of the hierarchy of threats to the functioning of an enterprise¹⁶. The first and most important group of threats is the oppressiveness of state apparatus, its institutions, agendas, including fiscal apparatus, against which an entrepreneur is helpless, powerless and defenseless. The next group of threats, in terms of significance, is related to the pressure of the great capital represented, in the opinion of entrepreneurs, precisely by Polish banks, which prove merciless, even cruel, in executing the conditions of cooperation imposed on enterprises. The third group of threats are those generated by the great corporations which cannot be competed with, which are always ready, if so they wish, to buy out, destroy and eliminate small businesses.

The fourth group of threats comprises permanent and, in the opinion of entrepreneurs, unjustified pay demands on the part of employees who continue to pose such demands despite being incompetent, disloyal, generally unpredictable and unreliable.

Table 5. The need to insure SMEs against the largest threats in the opinion of Polish enterprises

Is it important in the activity of an enterprise to insure against possible claims on the part of?	Neutral	Definitely agree	Somewhat agree	Somewhat disagree	Definitely disagree
Banks	37%	24%	18%	16%	5%
Business partners	19%	12%	18%	21%	30%
Is it important for the managerial staff of an enterprise to have security/insurance against possible claims on the part of:	Neutral	Definitely agree	Somewhat agree	Somewhat disagree	Definitely disagree
Organs of state administration	19%	36%	22%	7%	30%
Third parties for consequences of actions undertaken	38%	19%	5%	17%	21%

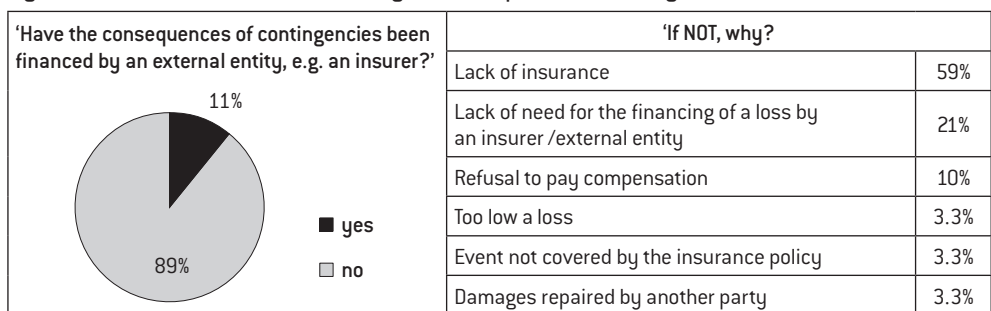
Source: R. Holly [ed.], *Ryzyka związane z działalnością przedsiębiorstw średnich, małych i mikro a rynkowa oferta produktowa zakładów ubezpieczeń, banków i firm abonamentowych*, research report, KIU, Warsaw 2015, p. 142.

For entrepreneurs, frustrated with all these threats and left to their own resources, any contingencies against the unwelcome consequences that insurance is to protect them from are treated as being of at best of fifth-rate importance. This attitude finds its best illustration in statements from in-depth interviews conducted with our respondents in the aftermath of the questionnaire. To paraphrase one of them briefly: "I like the medicine proposed. I agree it's great and must be effective for a runny nose but what do I need a medicine for a runny nose for when I am facing cancer or some other kind of paralysis caused by the fiscal office? In addition, there are competitors only ready to jump me, and so on and so forth. Indeed, I like the medicine but it doesn't solve my predicament. It will be but a redundant, at best, marketing ornament to my business activity." We must note here that entrepreneurs' assessment of financial products largely concerns their packaging, that is, their formal rather than substantial attractiveness. This only be conjecture. It is, however, difficult to obtain a clear opinion and evaluation from entrepreneurs because they seem to use language and words different from those of insurers when referring to the same risks. It is also often the case that entrepreneurs themselves are not fully aware what risks actually threaten them.

16. J. Gardawski [ed.], *Rzemieślnicy i biznesmeni. Właściciele małych i średnich przedsiębiorstw prywatnych*, Wyd. Naukowe Scholar, Warsaw, 2013, p. 286–287.

They have neither the understanding nor the terminology to communicate clearly and unequivocally in the area. However, in general, it seems that entrepreneurs expect from insurance companies, and from banks, something different from what they are offered. What insurance products guarantee is first of all restitution, full or partial, of the state from before the risk event through financial compensation: you will rebuild your house when it burns down but first it must burn down; you will have your warehouse restored only after it has been burnt down, been flooded, been burgled, but first this must happen; only then, after a lapse of some time when we have liquidated the damage, will you get the calculated amount. “So what?” – an entrepreneur may say – it may even be an amount adequate to the loss I have sustained, but if my enterprise no longer exists when I get my insurance money, because it was the only warehouse I had, with all the products, spare parts, raw materials, simply all my assets... as is often the case for a small enterprise. For SMEs, a loss of even one element of business infrastructure often means being pushed out of the market altogether. Sometimes the loss of one ordinary, not necessarily “key” employee, as they are described in large enterprises – an important designer, constructor or chief accountant – is enough to bring a small business down. In a micro firm, the loss of one member of a 7–8 person team is enough to cause the whole production line to stop. Hence, what is at stake is not a “classic” insurance product of restitution character which should be offered to them, but a product which could support their activity by preventing the occurrence of a given threat; and if this threay does occur, the insurer, the bank or the financial firm should, through their actions – e.g., under the assistance formula or any other similar logistic support – prevent the worst from happening – dgf and the worst here is the appearance of the effect for which the insured will receive compensation, but only after a lapse of some time when the ‘cancer’ has already become incurable, making money for treatment useless and redundant even if it is finally received. It is exactly this scenario that proves the fundamental defect of the standard products on offer. This ensues, indirectly, from answers to the question about the financing of the consequences of contingencies by insurance companies (Figure 8).

Figure 8. The role of insurance in financing the consequences of contingencies



Source: R. Holly (ed.), *Ryzyka związane z działalnością przedsiębiorstw średnich, małych i mikro a rynkowa oferta produktowa zakładów ubezpieczeń, banków i firm abonamentowych*, research report, KIU, Warsaw 2015, p. 44.

From the point of view of an entrepreneur, insurance should not be only *ex post* but at least a little *ex ante* in relation to actual threats anticipated by the entrepreneur. An aspect that also deserves particular attention is the great differentiation between the four branches we studied with regard to the products in question. Some evaluated them these products better, others worse, but

generally they evaluated them differently. This can be explained and understood because reaction to the same individual threats may be very different in relation to the activity of different branches. This points to the fact that products are too standardized, manifesting a stark lack of understanding of the specificity of individual branches.

Does this mean, however, that the specificity of a given branch is the only factor to be taken into account in the construction of an insurance product? It does not appear so. If we chose to differentiate between enterprises in another way, we would most likely have a different result. This may mean that the criteria for the division of enterprises into small, medium and micro-size do not constitute sufficient grounds for the construction of an insurance product addressed to SMEs, even if within the thus differentiated categories of enterprises, we take into account that they belong to different branches. Taking into account these criteria, we might even develop dozens of products related to the same risk. Would this solve the problem? This also does not seem likely. It turns out that it is not the formal division of enterprises into, small, medium and micro-size as discussed here that matters. A division resulting from the character and involvement of these enterprises, which in turn results from the role and place they perform in the national economy, as well as their place in the environment in which they operate, is far more important. What could prove more useful in this case is the typology and classification of SMEs adopted by J. Gardawski, inspired by the author of a well-known book from 25 years ago about how “the small is not beautiful”¹⁷. According to this approach, it is suggested that enterprises should be differentiated depending on the extent to which they are (1) “cross-linked”, (2) innovative, (3) isolated, (4) dominated or (5) dependent on corporations, most commonly as a subcontractor, loosely connected with the entrepreneur in terms of organization, function or capital. Smaller firms are indeed dominated by bigger ones, the market offerings enforced by lower prices and worse employee wages, as result they are not able to overcome these barriers. Isolated firms operate in niches which are of no interest to large enterprises due to the absence of market expansion in a given niche, either due to the low profit or ‘difficult’ client. However, once possibilities appear in these areas, ‘small’ entrepreneurs who have so far operated in these niches are immediately eliminated. Innovative firms, and this category often includes small or medium-size firms operating in market niches with a high demand for innovation, for new products, or for new services, continue operating in this particular vein until they gain a position or a market and once this happens, they are swallowed by corporations. Finally, we have “cross-linked” firms, that is, clustered firms that are functionally and organizationally interconnected to encourage better know-how diffusion and to facilitate staff rotation within these clusters. This solution works, for instance in Poland, in the case of hospitals negotiating conditions of third party liability insurance for medical errors with insurance companies. If we take into account these division criteria, we can classify SMEs just according to interests that entrepreneurs would like to have protected and not only formally defined from the point of view of the official classification of risks. Bound by this formal division, because they have this particular formal license-permission for activity within the scope of a specific segment and group of risks, insurers cannot produce offerings other than those which fall within the framework of the risks named, and they frequently do not match what they are to actually neutralize. This may constitute a partial justification for the failure on the part of insurers. It is for the same reason that insurers often ask researchers inadequate questions about the risks they formally define, instead of about

17. A. Rainnie, *Industrial relations in small firms: Small isn't beautiful*, Routledge, London 1989, p. 62.

the interests that should be secured. And it is the question that determines the answer. This accounts for the failure that comes as a surprise to both parties involved.

Another source of this failure can be sought in the so-called insurance or banking industry paradigm, that is, simply speaking, rules in accordance with which insurance is a business, an industry, the same as any other, which makes and offers its products in compliance with marketing principles. What suffices is to have a good distribution channel, recognition of possibilities for making a client interested in a product and sales efficiency at least potentially sufficient to put this product on the market and sell it. Conversely, the fact that the product sells in any way will suffice to put it on the market. It turns out that even though we satisfy these conditions, the demand for our insurance products is more often than not absent. Why? Because the scope of insured risks and the interests of entrepreneurs differ significantly.

In addition, insurers also rely largely on the results of product benchmarking and in effect all insurance companies construct products encumbered with the same errors. The market offering is thus only seemingly highly diversified. Also, the understanding of risk differs and, hence, it has different definitions. For instance, "high" risk does not mean the same for an insurance company or a bank as it does for a small, medium or micro-size firm. For the latter, the absence of one employee on the production line or a lost warehouse with a value of only tens thousands are no risks for the insurer, but can constitute a "high" risk event. There is an obvious disparity between the understanding and treatment of risk officially, formally and from the point of view of a particular business. This is also true of the perception of the object of insurance, such as, for instance, "health". And it is the definition of the object of insurance that determines how it is insured.

In general, we tend to see the reason for the disparity between the supply and the demand of insurance products in the use of criteria entirely different from the business interest criterion of these enterprises. Hence the general postulate: SMEs should be divided into types and classified according to the identified, quantified and properly classified business interests of enterprises. Thus, what is necessary to solve the problem discussed is to classify small, and medium-size enterprises in terms of their interests rather than in terms of parameters determining their membership in these groups.

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Poszukiwanie przyczyn ubezpieczeniowej luki pokrycia ryzyk związanych z działalnością przedsiębiorstw średnich, małych i mikro

Artykuł podejmuje problem stopnia i sposobu wykorzystania przez SMEs produktów ubezpieczeniowych służących zarządzaniu ryzykami związanymi z prowadzoną przez te podmioty działalnością. Wyniki badania przeprowadzonego w połowie roku 2014, które objęło 459 polskich przedsiębiorstw małych, średnich i mikro z czterech wybranych branż, porównano z analogicznymi uzyskanymi w tym samym czasie przez Boston Consulting Group w sześciu państwach na próbie 2,5 tys. przedsiębiorstw. Obydwa sondaże wykazały, że oferta produktowa zakładów ubezpieczeń jest w znacznym stopniu ignorowana przez przedsiębiorców nie tylko z uwagi na jej nietrafność (roz mijanie się z realnymi ryzykami),

nadmiernie wysoką cenę, nieznajomość/niezrozumienie oferty ale przede wszystkim dlatego, że dotyczy ona ryzyk stosunkowo mało istotnych z punktu widzenia prowadzonej przez nich działalności.

Słowa kluczowe: MŚP, produkt ubezpieczeniowy, ubezpieczenie zdrowotne, zarządzanie ryzykiem.

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