

Small Businesses Weathering the COVID-19 Storm

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This paper gives us an insight into the difficulties faced by micro, small and medium sizes enterprises (MSMEs) during the COVID-19 pandemic and the ways in which they tackled these problems. We also explore how we, as actuaries, can support them.

Small fish in the pond

Small scale and household businesses have never had the upper hand in business. They continuously face competition from bigger fish in the pond who benefit from economies of scale. Large businesses have an advantage due to greater availability of finance and capital. Due to their size they have better negotiating power when it comes to policy decisions. They are likely to have more robust risk management provisions. Large businesses also tend to have more modern infrastructure and technological capabilities, which can be valuable in ways we couldn't have foreseen before the pandemic - for example when lockdowns required workers to work from home. Small businesses lack these privileges. They do not have an effective means to get their difficulties addressed. They are veritably left to fend for themselves.

However, their contribution to the economy is vital in most countries. In developed countries, micro, small and medium enterprises (MSMEs) are the backbone of the economy. In Canada, they account for more than 30% of GDP and employ close to 70 percent of the workforce¹. The statistics are no different for India, a developing country. In 2019 small and medium scale businesses accounted for 29% of GDP². The International Trade Centre (ITC), the joint agency of the World Trade Organization and the United Nations estimates that small businesses account for about 70% of jobs and half of economic activity worldwide. It also notes that small businesses employ a disproportionate share of disadvantaged groups, including less qualified workers, young people and women³.

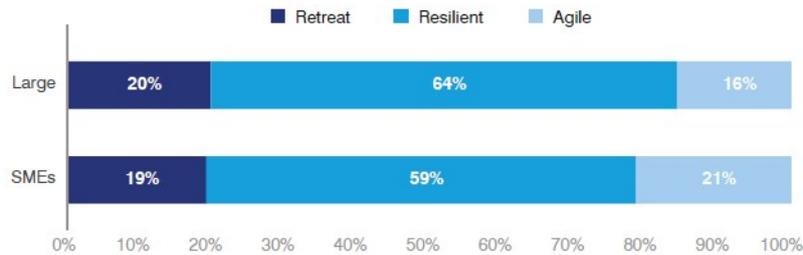
COVID-19's impact on MSMEs

COVID-19 is a major burden on the world economy but its effects to date have been unequal.

Access to state aid

During the COVID-19 outbreak, many key state support packages have been targeted at the traditional permanent employee. Those who are self-employed with irregular incomes have been more difficult to support. A survey carried out by the ITC across 127 countries, revealed that smaller enterprises found it more difficult than their larger counterparts to obtain information about COVID-related assistance programmes. About 42% of large companies found it difficult or very difficult, compared with 60% of micro enterprises. (Figure 1)

Figure 1: Smaller firms struggle to access information and benefits from government



Note: Respondents were asked 'Have you adopted any of the following strategies to cope with the crisis?' Categorizations: Agile – customized/created new products or loaned employees to other enterprises. Retreat – filed for bankruptcy, laid off employees, sold off assets, took on new debt or took no action. Resilient – didn't follow a retreat or agile strategies; chose one or more options: temporarily reduced employment; teleworking; rescheduled bank loans; greater marketing; online sales; sourcing from new suppliers; or temporary shutdown. SMEs are defined as having fewer than 100 employees. Data from 4,374 business responses in 117 countries.

Source: ITC calculations based on the ITC COVID-19 Business Impact Survey Data collected from 21 April-2 June 2020.

In Canada, about 6% of the micro businesses are facing bankruptcy, whereas for large enterprises it is only 2.6%. Furthermore, the revenues for the sector are down by 40% or more as compared to April 2019⁴. The already troubled micro-business class of emerging economies is also disproportionately impacted by the coronavirus pandemic and lockdowns. According to GoDaddy's 2020 Global Entrepreneurship Survey, 83% of the Indian entrepreneurs surveyed reported a reduction in revenue and nearly half of them (45%) had to shut their business temporarily⁵.

The resilience of MSMEs

The industries hardest hit by the pandemic did not have the luxury of waiting for normality to resume. They needed to come up with new ideas and concepts to keep their businesses running and revenue streams flowing in order to survive. Some diversified by selling groceries, face coverings and hand sanitisers alongside their traditional wares. Others pivoted completely to new lines of business.

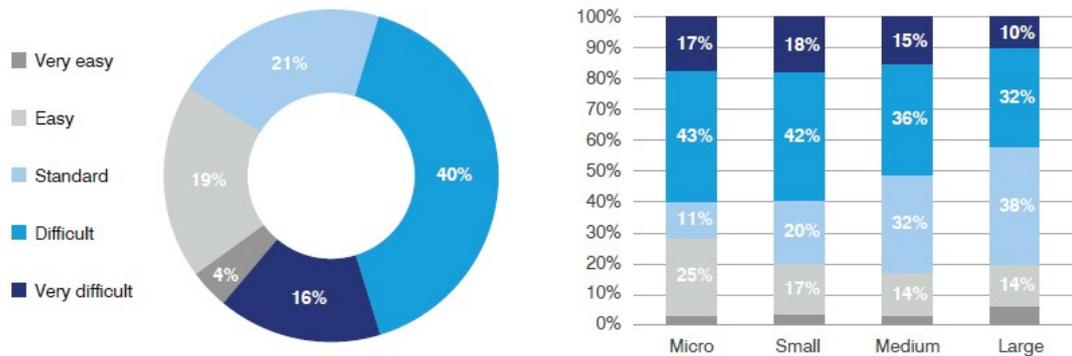
MSMEs can be more agile in the face of change

Many MSMEs took advantage of their small scale to bring about quick operational changes in their businesses and got back on their feet with noteworthy agility. Many household and small businesses not only acclimatised themselves to the new challenges posed by the lockdowns, but also seized the opportunity to branch out with products and services that people were missing during the pandemic.

From our personal experience, we saw many examples in the food industry: a large number of food-based deliveries started up to meet the needs of the local community - be it bakery products, delicacies from the world or even a simple local-styled wrap. Some were able to attract new customers because dine-in and delivery services were heavily obstructed. Many well-established business owners who were not spared the fury of the lockdown also found it beneficial to sell fresh fruit and vegetables to provide extra cashflow. Restaurant food suppliers whose client base disappeared overnight figured out ways to market directly to households – tapping into the demand for restaurant quality food at home. Fitness instructors who could no longer hold gym classes put yoga and cardio classes out on live webinars. The pandemic has been the making of some entrepreneurial self-employed businesspeople. In Indian communities, many women engaged in online sales of homemade baked goods and second-hand products in order to supplement the household income whilst also paving a course for greater independence and self-determination. In Canada, there are many examples of sales moving from face-to-face to online. For example, some of the farmers' markets started 'virtual markets' accompanied by a home-delivery service.

In its survey of over 4,000 businesses across 117 countries, the ITC found that SMEs were more likely to have adopted agile strategies than large enterprises. Large businesses were significantly more likely to adopt a resilient approach than SMEs, underscoring their greater capacity to ride out the storm (Figure 2).

Figure 2: Small firms are more likely to opt for agile strategies³



Note: Respondents were asked 'How easy is it to access information and benefits from government COVID-related SME assistance programmes?' and 'How many full-time employees does the business have?' Data on 3,920 businesses in 127 countries. Response rates vary across countries and regions.

Source: ITC calculations based on ITC COVID-19 Business Impact Survey. Data collected from 21 April–2 June 2020.

The role of digitalisation

The use of social media platforms for marketing has been crucial for the small business. On a global level, it is recognised that SMEs lag in the digital transformation. Organisations such as the OECD are taking efforts to bridge the gap of digitalisation between large corporations and the SMEs, providing extensive support to small businesses⁶.

Does the insurance market serve them well?

Small business owners, being self-employed do not enjoy the benefits of an employer's remuneration package with benefits and protections such as paid sick leave, paid holidays, pension plan contributions, and life and health insurance. This leaves small business owners very exposed to becoming ill and potentially losing their livelihood.

The Actuary news⁷ in 2018 reported that SMEs in the UK would welcome more risk management advice. According to the research carried out by Allianz Insurance, only half of the 500 SMEs surveyed believed they fully understood the threats facing their business.

The obvious solution to this problem is to purchase insurance. However, for SMEs, unlike for large corporates, the time and cost associated with acquiring an insurance protection plan could act as a deterrent against doing so. Furthermore, due to the fragmented and heterogeneous nature of SMEs, it has been challenging for insurers to serve this segment, resulting in a significant insurance protection gap.

COVID-19 has unleashed a myriad of unprecedented risks and liabilities that make it clear that insurance is a necessity.

The 'new normal'

In its report "COVID-19: The Great Lockdown and its Impact on Small Business", the ITC looks beyond the immediate crisis response to the future and the 'new normal'. It expects that the new normal will have four characteristics³.

1. **Resilience** – societies will no longer accept being unprepared for external threats.
2. **Digital** – the full power of digital technologies has become clear in the context of crisis.
3. **Inclusive** – this pandemic has highlighted and exacerbated existing inequalities. It will be crucial to ensure that the recovery phase manages to help all sectors of society in order to maintain popular support for global open economies.
4. **Sustainable** – if we want to avoid a climate shock as the next global crisis.

Our contribution as actuaries

Of the four characteristics, "resilience" is where we believe we can make an impact.

Products

We should ask ourselves if our product offering meets the needs of the heterogeneous SME sector. In developing countries, microinsurance can be another means to access small and household businesses. The types of microinsurance that might help the small business include crop and livestock/cattle insurance and insurance against natural disasters. As insurance product providers could we be doing more?

Webinars/Blogs

To raise awareness about how insurance can protect small businesses, product development actuaries could engage in speaking roles for SME groups. Tailored presentations for the market/sector could be very helpful to demystify the benefits, costs and availability of insurance products. Seminars or webinars on risk management and pensions could also prove beneficial. Blogs are another effective means of disseminating information.

Volunteer

Volunteering is encouraged in the IFoA and the profession has a strong volunteering record. Within the profession there are numerous working parties in operation. For example there are currently vacancies for Financial Education Volunteers based in the UK to provide financial education to young people in partnership with primary schools and share their enthusiasm and knowledge of finance and business. The IFoA's "Great Risk Transfer" campaign launched in January 2020 also speaks to some of these issues. The campaign explores the different ways financial risks have been transferred in recent decades from institutions – such as employers, insurers and the state – to individuals. Externally, local MSME support organisations or money advice organisations may accept volunteers.

Influence

Finally, the actuarial profession can voice its opinions to policymakers on areas where it feels policy change is needed to better support this important sector.

Conclusion

During the pandemic, these small businesses have been fighting for survival and a considerable portion of them have managed to weather the storm. The pandemic has woken businesses and society at large up to the very real need for increased resilience. We can take this challenging time as an opportunity to support this vital sector. With improved measures of support, the MSME sector can thrive, build back better and become a stronger part of the world economy.

¹ <https://pm.gc.ca/en/news/statements/2017/10/16/statement-prime-minister-small-business-week#:~:text=%E2%80%9Csmall%20businesses%20are%20the%20backbone,businesses%20prosper%2C%20so%20does%20Canada.>

² <https://www.ibef.org/industry/msme.aspx>

³ <https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/ITCSMECO2020.pdf>

⁴ <https://www150.statcan.gc.ca/n1/pub/45-28-0001/2020001/article/00088-eng.htm>

⁵ <https://www.businesswireindia.com/indian-micro-businesses-remain-resilient-amidst-covid-19-economic-impact-godaddys-2020-global-entrepreneurship-survey-finds-69325.html>

⁶ https://www.oecd-ilibrary.org/industry-and-services/the-digital-transformation-of-smes_bdb9256a-en

⁷ [SMEs reveal appetite for more risk management advice | The Actuary](#)