



“The role of awareness in predicting the intention of microfinance entrepreneurs to buy microinsurance services in Yemen”

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ARTICLE INFO	Elham Alzain and Ali Saleh Alshebami (2022). The role of awareness in predicting the intention of microfinance entrepreneurs to buy microinsurance services in Yemen. <i>Innovative Marketing</i> , 18(2), 99-108. doi: 10.21511/im.18(2).2022.09
DOI	http://dx.doi.org/10.21511/im.18(2).2022.09
RELEASED ON	Tuesday, 03 May 2022
RECEIVED ON	Monday, 10 January 2022
ACCEPTED ON	Monday, 02 May 2022
LICENSE	 This work is licensed under a Creative Commons Attribution 4.0 International License
JOURNAL	"Innovative Marketing "
ISSN PRINT	1814-2427
ISSN ONLINE	1816-6326
PUBLISHER	LLC “Consulting Publishing Company “Business Perspectives”
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

28



NUMBER OF FIGURES

2



NUMBER OF TABLES

8

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BUSINESS PERSPECTIVES



LLC "CPC "Business Perspectives"
Hryhorii Skovoroda lane, 10,
Sumy, 40022, Ukraine
www.businessperspectives.org

Received on: 10th of January, 2022
Accepted on: 2nd of May, 2022
Published on: 3rd of May, 2022

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THE ROLE OF AWARENESS IN PREDICTING THE INTENTION OF MICROFINANCE ENTREPRENEURS TO BUY MICROINSURANCE SERVICES IN YEMEN

Abstract

The study looks into the role of microinsurance awareness in predicting microfinance entrepreneurs' intentions to purchase microinsurance in Yemen. It is based on a survey of 201 microfinance entrepreneurs who received loans from Yemen's National Microfinance Foundation (NMF) for various purposes. The analysis and hypothesis testing used PLS-SEM. Along with additional tests regression analysis was employed to examine the effect among the study variables. According to the results, microinsurance awareness and the intention of microfinance entrepreneurs in Yemen to acquire microinsurance services were found to have a significant positive association. The study specifically demonstrated the potential of microinsurance awareness to predict the desire of around 17% of microfinance entrepreneurs to purchase microinsurance services. The study proposes focusing more on increasing microinsurance awareness among microfinance entrepreneurs to attain optimal benefits. The sample size of the prospective study could be expanded to include more microfinance organizations. It could also investigate the role of formal and informal institutions in the country's acceptance or rejection of microinsurance services.

Keywords SMEs, entrepreneurship, poverty, risk, challenges

JEL Classification L26

INTRODUCTION

Despite the ongoing efforts to raise the poor's standard of living, many people worldwide continue to live in deplorable conditions. International organizations, local governments, and other development groups have long endeavored to provide a small amount of subsidized cash to the poorest members of society as a temporary means of helping them meet their needs. These efforts, however, have never had a substantial impact on improving their predicament or resulted in the development of revenue-generating activities that can boost their income. Poor people are especially vulnerable to many dangers, including illness, disability, premature mortality, property loss, crop failure, natural catastrophes, and other unforeseeable threats. Therefore, the poor have increasingly developed their own informal techniques to deal with such threats, even if they do not guarantee them safety. Improving the standard of living and providing income-generating possibilities for the poor and excluded people in society are primarily contingent on lifting them out of their precarious situations (Alshebami et al., 2020).

Before offering individuals any financial products or services, it is essential to classify low-income people into three categories: the poor,



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Conflict of interest statement:
Author(s) reported no conflict of interest

the poorer, and the poorest in any given country, based on their vulnerability in their environment (Rengarajan, 2013). On this basis, an integrated microfinance model was recently developed to assist low-income individuals who are denied access to critical financial products and services by traditional financial institutions, mainly commercial banks. This expanded model includes different financial products and services, including microinsurance products. Most microfinance operators overlook microinsurance, even though it is critical for covering uncertainties when they arise.

Microinsurance is a technique for supporting disadvantaged people (hereafter microfinance entrepreneurs) in effectively managing their risks (Churchill, 2006). It primarily addresses the risks faced by microfinance entrepreneurs, which have been generally overlooked by traditional insurance companies in the formal sector. It is also defined as the practice of collecting modest sums of money from microfinance businesses at predetermined times and then using it to help others who have been affected by adversity (Ngerebo, 2012). It caters to the grassroots of society, serving low-income clients with low premiums, restricted coverage, and low claim frequency (Morelli et al., 2010). Banerjee (2008) noted that it is a method to defend against a set of predetermined risks mainly relating to business, health, agriculture, and death (Ajemunigbohun et al., 2014).

Due to the obstacles encountered in implementing microinsurance, primarily operating and administrative costs, most commercial insurers overlook or avoid serving the sector of microfinance businesses. However, different pro-micro financial products, services, and microcredit for microfinance entrepreneurs in rural areas are needed, according to empirical investigations. As a result, microfinance institutions (MFIs) and insurance companies should develop microinsurance products with lower entry barriers to address the demands of microfinance entrepreneurs in distant locations (Ahuja & Jutting, 2004). It is also advised that agent commissions and administrative costs be reduced to make microinsurance products more accessible and inexpensive to the target market (Alexih et al., 1997). Microinsurance services should be affordable because microfinance entrepreneurs generally have low incomes (Churchill, 2006).

Understanding the clients' readiness to pay for insurance is critical because they will not pay for something they cannot touch or do not feel meets their basic needs. Ordinary people will not pay for something that will diminish their current purchasing power with the promise of reaping benefits in the future unless they have complete trust in the service providers. To achieve this goal, the government, private sector, international organizations, funders, and other authorities must work together to execute various initiatives, such as establishing customized microinsurance products with low premiums exclusively for these populations. Mutual health groups, community health funds, rural health insurance, and revolving health funds are all examples of community-based financing mechanisms (Kritikos, 2014). Microfinance can also be obtained through various channels, including credit unions, community-based schemes, MFIs, insurance businesses, and several global insurance firms. Incorporating microinsurance products enables MFIs and insurance businesses to diversify their operations and extend their market (Cohen et al., 2003).

Microinsurance is thought to be insufficient to protect against unforeseen risks for microfinance businesses. Thus, other risk management tools are required, which are critical to protecting microfinance entrepreneurs from sickness, thefts, disability, and other risks. To ensure optimal service delivery of microinsurance services, several important market actors must collaborate in supplying appropriately designed microinsurance products to the target market. In addition, there is a need to expand microinsurance awareness among microfinance entrepreneurs through various channels and the supply of necessary physical and financial infrastructures in the market to ensure that microfinance entrepreneurs experience greater financial inclusion.

The preceding discussion underlines the importance of raising awareness about microinsurance among microfinance entrepreneurs. With this in mind, the paper will explore how such awareness affects microfinance entrepreneurs' purchasing decisions.

1. LITERATURE REVIEW AND HYPOTHESIS

1.1. The context of the study

Yemen is one of the most disadvantaged Arab countries, beset by enduring political and economic obstacles. It relies primarily on dwindling local income from its few oil and gas holdings. The country's continuous war, which has lasted since 2015, has hampered economic development and advancement, resulting in enormous humanitarian crises that have pushed many people into poverty and increased unemployment by 14.85%. According to the Yemen Economy Outlook (2018), roughly 52% of Yemen's population lives on US \$1.90 per day.

As a result, the Social Fund for Development (SFD) and the government have established microfinance institutions (MFIs) to provide various types of microfinance products and services to microfinance entrepreneurs in the country. Currently, 11 microfinance providers from various organizations, such as banks, MFIs, NGOs, and foundations, are engaged in the market. However, it is noted that most of them have partially stopped working because of the country's current chaotic condition.

According to the SFD's 2018 Annual Report, 2,327 loans totaling YR 1,527,000,000 were disbursed to all the MFIs in the country. Unfortunately, none of the Yemeni MFIs provide microinsurance, either separately or with other microfinance services. What is currently available is a very basic micro *takaful* in one or two foundations, which does not fulfil the purposes or meet the needs of the businesses. It only provides a small amount of assistance to the afflicted entrepreneurs if they adhere to the group's terms and conditions. No clear plan exists with MFIs or other entities in the market on how to begin microinsurance, and some are fearful of entrepreneur constraints, religious beliefs, conventions, and other obstacles. Nevertheless, microinsurance promises to be an excellent alternative service for microfinance businesses that are constantly affected by conflict, Covid-19, or loss; even if the amount received is tiny in case of emergency, it will still have a positive impact on

entrepreneurs' lives. As a result, there is an immediate need for various stakeholders in Yemen to collaborate to raise awareness about the benefits of microinsurance, which involves identifying the needs of microfinance entrepreneurs and building appropriate microinsurance services for them. As a contribution to that collaborative effort, this study looks at the intention of microfinance entrepreneurs to purchase microinsurance services by emphasizing the relevance of awareness in their decision-making.

1.2. Microinsurance level of awareness and buying intention

Marketing is an essential aspect of any business's first stages. To introduce a new product or service to the market, it is necessary to inform others about its features and the benefit of purchasing it. Before making a purchase decision around any products or services, the service receiver does a cost-benefit analysis, regardless of their financial status. Microfinance entrepreneurs employ a similar approach in managing their day-to-day living expenditures. They think twice before electing to spend a portion of their revenue on products that may or may not benefit them in the future, which indicates the significance of client awareness of a particular product. Therefore, it is recommended that awareness be raised around microfinance products to reduce clients' chances of rejecting them.

Even though insurance firms have consistently improved their services and attempted to foster an understanding of microinsurance, it seems that reaching entrepreneurs in remote areas remains a barrier to the provision of these services (Ajemunigbohun et al., 2014). To counteract this, various techniques, such as educational programs and mass media campaigns aimed at improving financial literacy among microfinance entrepreneurs are used to promote awareness in this respect. There is also a need to lower MFIs' operating and administrative costs in order to achieve maximum outreach with low-cost financial products and services.

When microfinance entrepreneurs are more aware of the benefits of microinsurance, they are more likely to apply for it. If not adequately managed,

these dangers will harm the poor and, more broadly, the nation's progress. Such dangers also affect the general well-being of microfinance entrepreneurs, forcing them to use and mix resources from diverse sources to meet an unforeseen scenario that may cause them difficulties in the future (Mohammed & Mukhtar, 2011). Accordingly, spreading awareness about microinsurance among microfinance entrepreneurs is essential, which includes making clear the exact terms and conditions of the insurance contracts. Furthermore, crucial to the success of microinsurance delivery is the need for products and services to be designed in a way that takes into account the criteria of both the demand and supplier sides, such as coverage, cost, accessibility, timeliness, and awareness (Cohen et al., 2003).

Factors such as customers' awareness, marketing, complaint handling, and education in the microinsurance field will all help it to grow and expand. Besides this, there are a few crucial considerations to consider when investing in microinsurance: Do microfinance entrepreneurs require microinsurance to mitigate their vulnerability? Is microinsurance thought to be the best solution for them? Are they able and willing to pay for this service? (Brown et al., 2000). Even though microinsurance is a vital tool for ensuring the protection of microfinance entrepreneurs (Ahuja & Jutting, 2004), the low level of individuals' experience with it is a major determinant in the growth of this sector (Arun & Steiner, 2008).

Therefore, by demonstrating the benefits and significance of microinsurance, microfinance entrepreneurs might be persuaded to purchase it. There is thus a need to raise knowledge and trust in microinsurance while disseminating useful information (Manik & Mannan, 2017) that will motivate clients to try it out. It is important to note that the target market for microinsurance is a segment of society that traditionally has been denied access to formal financial goods and services (Rungruangpatanakul, 2012). Consequently, the socio-demographic and economic characteristics of this group may influence their impression of microinsurance (Reddy & Jahangir, 2015).

Microinsurance is distinct from standard insurance because of its simplicity and accessibility (Churchill, 2006) in offering products and

services that are tailored specifically to microfinance entrepreneurs. These clients may be more eager to buy microinsurance if they are allowed to participate in its product design, accessibility, and organizational structure. Insurance companies in India, for example, are required by law to set aside a portion of their capital for microinsurance growth. Microinsurance development in microfinance entrepreneur communities can also be aided by research and development groups, which can assist in countering the lack of information regarding microinsurance that contributes to microinsurance delivery failure (Rungruangpatanakul, 2012).

Microfinance entrepreneurs are frequently locked in a chronic poverty cycle due to the lack of a safety net (Akter, 2012) and other tools to help them rise out of their precarious conditions. The tiny size of insurance groups, insufficient resources for risk evaluation, information asymmetries, and cost of insurance premiums are all issues impacting microinsurance (Biener & Eling, 2012). Microinsurance can come in a variety of forms. Life insurance products, for example, are more critical in some nations, whereas insurance against disasters caused by loss, theft, and fire are thought to be more necessary in Yemen than life insurance. Insurance agents are an essential factor to consider when evaluating microinsurance. These agents are regarded as the most critical source of microinsurance advertising, whether in rural or urban settings. Relatives and friends are also essential in this process because they influence the household's decision to purchase insurance services (Agarwal & Shukla, 2014).

The preceding discussion concludes that a microfinance package, which includes various products and services, is critical for assisting microfinance entrepreneurs; however, microinsurance is more essential than other microfinance goods and services. As a result, for microfinance entrepreneurs to derive optimum benefits, they must obtain a high level of knowledge about microinsurance and its benefits. To this end, it is deemed worthwhile to look into the effect of microinsurance awareness on microfinance entrepreneurs' willingness to purchase microinsurance services. Accordingly, the following hypothesis is formulated:

H1: *There is a positive relationship between microinsurance awareness and microinsurance buying intension among microfinance entrepreneurs in Yemen.*

2. AIMS

The study investigated the role of microinsurance awareness in predicting the intentions of microfinance entrepreneurs in Yemen to buy microinsurance.

3. METHODS

3.1. Conceptual framework

The study model is depicted in Figure 1. The entrepreneurs' awareness of microinsurance is the independent variable, while their desire to purchase microinsurance is proposed as the dependent variable.

3.2. Participants and data collection

The paper employed primary data and referenced secondary sources, such as prior studies, books, articles, reports, and other relevant resources to gather additional information. It used a structured e-questionnaire delivered to a sample of Yemeni microfinance entrepreneurs from the National Microfinance Foundation (NMF). Both males and females with various businesses filled in the questionnaires. In total, 210 replies were obtained for analysis. 201 of the whole sample were valid for research, accounting for almost 96% of the total. Furthermore, the questionnaire was tested with the help of 10 independent entrepreneurs, who reviewed the quality and appropriateness of the measures and found no problems. The questionnaire was then sent to the entrepreneurs to respond to and kept online for one month.

Table 1. Demographic information

Source: Primary data.

Description	Types	Frequency	Percentage
Gender	Male	182	90.5
	Female	19	9.5
Marital Status	Married	175	87.1
	Single	26	12.9
Availability of Insurance Policy	No	195	97
	Yes	6	3
Type of Project	Commercial	112	55
	Service	49	25
	Agricultural	37	18
	Animal	3	2

According to Table 1, 87.1% of the study sample were married. In comparison, 12.9% were single, highlighting the need for microinsurance to help this group deal with unforeseen uncertainties. It also revealed that 97% of the respondents reported they did not have an insurance policy, while only 3% said they had. The study believes that those who said they had insurance only had micro takaful, which has a limited scope, or that they misinterpreted the question. It was also discovered that 55.7% of the respondents own small businesses, 24.3% work in the service industry, 18.4% engage in agriculture, and 1.4% raise animals.

3.3. Measures

After a careful review of previous studies, measures were developed, and a 5-item likert scale was used to measure the study's variables, ranging from 1 = total disagreement to 5 = complete agreement. Sample items included the following: "You have sufficient information on microinsurance policies and services", "Knowledge awareness of the possible threats and how to manage it enhances people's confidence in applying for small loans", "You are ready to apply for microinsurance for your project if you find a suitable insurance premium", and "You have the desire to know about the services provided by microinsurance". All the measures were distributed and administrated in the Arabic language.

Source: Author's elaboration.

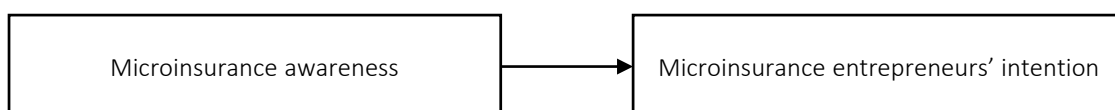


Figure 1. Model of the study

4. RESULTS

4.1. Measurement model

The study's data were analyzed using structural equation modeling partial least square (PLS). The SMART-PLS was chosen for the study because it assesses the psychometrics of the scales and path coefficients in a nonparametric manner. It is also less constrained in linearity, normalcy, and sample size (Hair et al., 2012). The overall scale of reliability, convergent, and discriminant analyses were shown. To continue with examining the measurement model, Factor loading, Cronbach's alpha, composite reliability, and average variance extracted were the four methodologies used to assess the variables' reliability and validity (AVE). In terms of the factor loading, Chew et al. (2019) reported that values of the variables in factor loading of less than 0.6 should be avoided, while values greater than 0.6 should be considered; thus, the threshold value for factor loading is 0.6.

The variables in Table 2 were discovered to have a value greater than 0.6; hence, entries below that threshold were deleted. Cronbach's alpha assesses the variables' internal consistency, which counts as the reliability, according to Vaske et al. (2017). The construct is considered reliable when Cronbach's alpha and the composite reliability are more significant than 0.70. If the internal consistency of variables is less than 0.6, the internal consistency of the variables is weak. According to the Cronbach's alpha and composite reliability values in Table 2, the study variables have a value greater than 0.6, indicating trustworthiness, and therefore may be tested.

According to the study, the last element analyzed is AVE, which has a threshold of 0.5 (Shau, 2017). The AVE value of the study variables is more significant than 0.5, which meets the criteria. The analysis findings conclude that the variables are reliable and valid, allowing for future testing.

Table 2. Constructs' reliability and validity

Source: Primary Data.

Construct	Factor Loadings	Cronbach's alpha	Composite Reliability	Average Variance Extracted
Microinsurance Intention	–	0.860	0.899	0.641
Item 2	0.799	–	–	–
Item 3	0.833	–	–	–
Item 4	0.839	–	–	–
Item 5	0.799	–	–	–
Item 6	0.728	–	–	–
Microinsurance Awareness	–	0.807	0.872	0.631
Item 3	0.763	–	–	–
Item 6	0.716	–	–	–
Item 7	0.835	–	–	–
Item 8	0.855	–	–	–

Table 3. Cross-loadings

Source: Primary Data.

Description	Microinsurance Awareness	Microinsurance Intention
Microinsurance Intention 2	0.314	0.799
Microinsurance Intention 3	0.321	0.833
Microinsurance Intention 4	0.256	0.839
Microinsurance Intention 5	0.357	0.799
Microinsurance Intention 6	0.375	0.728
Microinsurance Awareness 3	0.763	0.367
Microinsurance Awareness 6	0.716	0.209
Microinsurance Awareness 7	0.835	0.316
Microinsurance Awareness 8	0.855	0.379

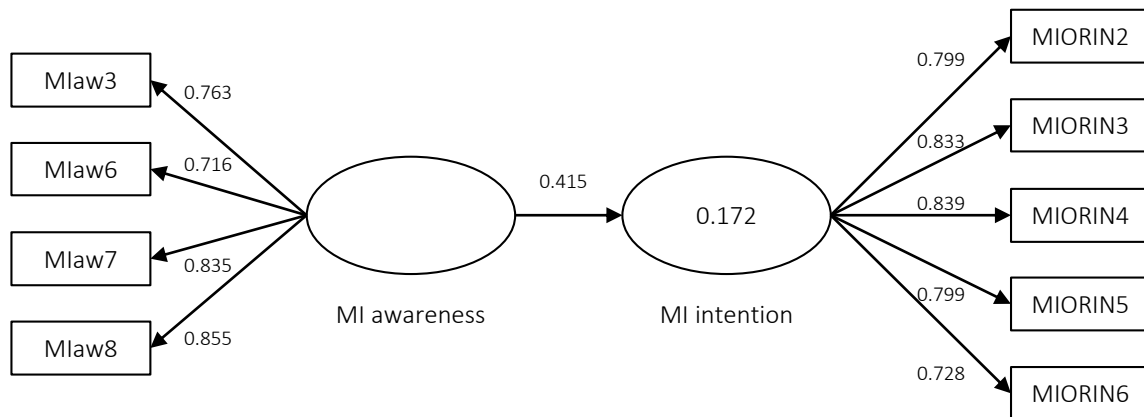


Figure 2. Results of the path coefficients

The values related to the factor loadings, Cronbach’s alpha, composite, and average variance extracted, are shown in Table 2, indicating the reliability and validity of the constructs.

An indicator’s outer loadings on a construct should be higher than all its cross-loadings with other constructs, which Table 3 confirms.

Table 4. Discriminant validity

Source: Primary data.

Construct	Microinsurance Awareness	Microinsurance Intention
Microinsurance Awareness	0.794	–
Microinsurance Intention	0.415	0.801

According to the criterion of Fornell-Larcker, the square root of the AVE of each construct must be greater than its highest correlation with any other construct in the study. This is shown in Table 4.

Figure 2 shows the path coefficients and the loadings of the study measures.

Table 5. Latent variable correlations

Source: Primary Data.

Description	Microinsurance Awareness	Microinsurance Intention
Microinsurance Awareness	1.000	0.415
Microinsurance Intention	0.415	1.000

Table 5 shows the correlations among the latent variables of the study, clearly indicating a moderate correlation between microinsurance awareness and the intention to buy microinsurance services. This is also shown in Figure 2.

Table 6. R Square

Source: Primary data.

Description	R Square	R Square Adjusted
Microinsurance Intention	0.172	0.168

Table 6 shows the r-value of the relationship between microinsurance awareness and microfinance entrepreneurs’ intention to buy. It offers a moderate effect of microinsurance awareness to purchase microinsurance services by microfinance entrepreneurs (Cohen, 1988).

4.2. The structural model

4.2.1. Hypothesis testing

After the study’s validation, a bootstrapping procedure was carried out with 500 resamples for testing the hypothesis.

Table 7. Hypothesis testing

Source: Primary data.

Description	β	T. Value	P. Value	Decision
Microinsurance Awareness → Microinsurance Intention	0.415	5.848	0.000	Supported

According to the results shown in Table 7, the study hypothesis relationship was supported. The microinsurance level of awareness construct significantly affected the microfinance entrepreneur’s intention to buy microinsurance services ($\beta = 0.415, p = 0.000$). Accordingly, the alternative hypothesis is supported, and the null hypothesis is rejected.

4.2.2. Construct cross-validated redundancy

Table 8. Construct cross-validated redundancy

Source: Primary data.

Description	SSO	SSE	Q ² (=1-SSE/SSO)
Microinsurance Intention	804.000	804.000	–
Microinsurance Intention	1005.000	905.922	0.099

Table 8 reveals the values of 1-SSE and 1-SSO as greater than zero, confirming the adequacy of the model to predict.

5. DISCUSSION

In most nations, particularly in the developing ones, improving the standard of living of microfinance entrepreneurs has been a significant challenge. Governments have been working together for years in collaboration with international funders and other development groups to devise appropriate strategies for enhancing and establishing income-generating businesses. One of these options has been to promote so-called microfinance (social finance), which consists of a collection of pro-micro financial products and services crucial for assisting those who have been left behind and are unable to access the vital financial assistance available to the rest of society. This disadvantage has pushed them out of the financial inclusion sphere, forcing them to live in isolation due to their financial inability to comply with the terms and conditions of financial institutions.

Microfinance entrepreneurs are poor and thus especially prone to external shock, which creates many difficulties for them. As a result, microinsurance was created to protect them and ease

their hardships in dealing with such externalities. Microinsurance can cover various risks, such as illness, thefts, loss, fire, life damage, and others, depending on the demands of microfinance entrepreneurs and the competence of insurance firms. As a result, both the demand and supply sides must be considered when developing microinsurance goods and services. Microinsurance services, for example, should be simple to comprehend, accessible to the poor, and have a low premium, as it is challenging to persuade someone who earns a small and irregular income to purchase an insurance policy that shows no immediately tangible benefits. Furthermore, microfinance businesses believe that insurance installments are still too exorbitant and, as a result, they tend to reject microinsurance.

Microinsurance presents a substantial obstacle that prevents insurance companies from entering the market, for example the high operational costs associated with providing it, and its accessibility to rural locations. Societies' social and religious structures can also be a barrier, and people's apprehension about obtaining insurance for their businesses or lives exacerbates the problem. Microfinance in general (Alshebami & Khandare, 2014) has a potential market, including those markets where microinsurance has never been implemented. Therefore, a flourishing microinsurance market can be predicted if an intensive awareness campaign is conducted before designing microinsurance services. This would almost certainly encourage microfinance enterprises to learn about it and be prepared to pay for it. According to the aforementioned findings, if microfinance entrepreneurs have a high degree of awareness and knowledge about microinsurance and its products and services, they would be more likely to apply for it. The research supports this result (Manik & Mannan, 2017; Tomchinsky, 2008), which emphasizes the necessity of microinsurance expansion and knowledge using different channels and various stakeholders' assistance.

CONCLUSION

Microinsurance and other micro-financial services are essential for micro-entrepreneurs worldwide, notably in Yemen. Extant literature suggests conducting rapid market research on several microinsurance regions to uncover significant difficulties that could hamper the microinsurance sector's growth and development in Yemen from both the demand and supply sides. It also stresses providing microfinance entrepreneurs with better awareness education and introductory programs.

The study also suggests that the government should improve financial literacy among microfinance entrepreneurs by utilizing today's vast media space (Alshebami & Seraj, 2021). Another recommendation is to require the private sector, represented by insurance companies, to allocate a portion of their capital to aid these small businesses, directly or in collaboration with MFIs and other NGOs. In addition, MFIs should focus on lowering their operating expenses, building solid relationships with insurance firms and the private sector, and developing customized microinsurance products and services to meet the needs of microfinance businesses. Finally, a concerted effort should be made to fully exploit available technology and aim it toward the market's target groups.

Concerning the limitations of the study, it should be noted that the study focused on a single point of data collection method that could be influenced by external circumstances, such as respondents being too busy or weary, causing them to lose interest in participating fully. Second, the study only looked at one microfinance institution, the National Microfinance Foundation (NMF), which could limit its applicability to Yemen's other MFIs. The study also did not look at characteristics such as microfinance entrepreneurs' costs, needs, quality, trust, coverage in high-quality health facilities, and other service qualities that could encourage them to buy microinsurance. The focus of future studies could be on expanding the research sample and including additional MFIs in the market. New research should also focus on incorporating more variables that could influence the acceptance or rejection of microinsurance services in the study region, such as analyzing the impact of formal and informal institutions on the country's approval or rejection of microinsurance services.

AUTHORS CONTRIBUTIONS

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ACKNOWLEDGMENT

This work was supported through the Annual Funding track by the Deanship of Scientific Research, Vice Presidency for Graduate Studies and Scientific Research, King Faisal University, Saudi Arabia [Project No. AN000340].

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