

Empowerment of Small and Medium Enterprise (SME) Traders Through Insurance

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Abstract—This study aims to find an empowerment model for SME traders who are considered ideal in the future with an empirical juridical approach through distributing questionnaires to 95 trader's respondents in 4 main markets in Medan city, where samples are determined by purposive sampling technique were measured using a Likert scale. The concept of SME empowerment has been regulated in several regulations in Indonesia but has not been well implemented in areas such as Medan City. The empowerment model with a fire insurance scheme and insurance consortium is considered appropriate to maintain the existence of SME traders who conduct business activities in traditional markets.

Keywords—empowerment, trader, SMEs, Insurance

I. INTRODUCTION

Small and Medium Enterprises (SMEs) are one of the drivers of development and economic growth, and commercial success in all countries is influenced mainly by the best performance of SMEs [1]. Developed countries like the United States of America and the United Kingdom, SMEs play an essential role in the economy, accounting for an estimated one-third of industrial employment and a lower percentage of output. While in Third World countries where SMEs dominate economically productive enterprises, SMEs prosperity is considered far more critical than in First World countries [2]. SMEs in China play an essential role in the promotion of economic development, the increase of the government public finance income, social employment, economical restructure, and the course of the industrialization and urbanization [3]. The role of SMEs especially since the economic crisis hit Indonesia at the end of 1997 was seen as a savior media in the process of national economic recovery. In developing countries, SMEs have a significant role. In India, for example, SMEs accounted for 32% of the total export value, and 40% of the output value of the manufacturing industry sector in that country. In several countries in the African region, the development and growth of SMEs, including micro-enterprises, is now recognized as very important to increase aggregate output and employment opportunities [4]. The latest research conducted by Harvie shows that SMEs make a significant contribution to economic and, particularly, job growth in ASEAN countries. Most of evidence suggests that SMEs contribute about 60 to 70 percent of net employment growth, so they are an important "Entrepreneurial Engine"[5]. However, behind this significant role, SMEs still have many problems. In addition to the issue of the limited availability of funding sources for

business development [6], low human resources, and lack of skill in mastering science and technology [7]. SMEs have other problem such as the high risks that threaten the existence of the business every time due to the low legal awareness of SMEs to protect themselves and businesses with insurance. Even though insurance has a significant role in controlling risk and insurance has long played a role in developed societies as a risk-reducing and risk-spreading tool [8].

SMEs Act No. 20 of 2008 has introduced one of the principles of empowering SMEs is the realization of public policies that are transparent, accountable and fair. However, currently, there are many public policies in the form of regional regulations that do not support and are far from the principle of empowerment as intended. Therefore, it is natural that in many cases of market fires in Indonesia, traders have not been able to enjoy their normative rights as mandated by law, even though traders have paid a large number of contributions.

Many researchers have conducted research on SMEs and empowerment of SMEs. Bose's research, for example, only deals with Internationalization of SMEs as one of the most important and most discussed and debated issues in modern business research today [9]. Still related to Internationalization of SMEs, Sinkovics and Penz see the importance of empowering SMEs in terms of website development in the context of marketing SME products to be able to survive in the business competition that is so fast nowadays [10]. Research conducted by Moyi only concerns the empowerment of micro and small businesses relating to the use of information and communication technology [11]. These studies are indeed relevant to the current situation but have not specifically discussed the empowerment of traders as one of the SMEs, nor have insurance use been used as a means.

This research conducted on the basis of the magnitude of the economic impact caused after the occurrence of market fires that harm SME traders. With fire insurance, losses as a result of market fires can reduce the financial burden of SME traders. This is related to the insurance functions as a tool to manage the risk of uncertain losses [12] that have known for centuries. This study has two problems as well as objectives, namely to find a picture of the concept of empowering SME traders through applicable laws and regulations in Indonesia and finding empowerment models through insurance schemes that are considered ideal and can be applied in the

future by local governments by regulating them in regional regulations Medan city. Through this research is expected that all stakeholders will synergize to raise awareness and at the same time produce the right formula to empower SME traders who conduct business activities in the market environment with a fire insurance scheme.

II. LITERATURE REVIEW

A. Traders as Small and Medium Enterprises (SMEs)

Traders who carry out business activities in traditional markets are generally part of SMEs, and many of them are even micro-businesses. Trading business is an economic activity that conducts collection and resale activities (without changes in form), new or used goods. Traders are individuals or business entities that carry out trade or trade activities continuously intending to seek profits [13].

The Code of Commercial Law (the CCL), Article 2 to Article 5 regulates what is meant by traders and acts of trade. Traders are those who carry out commercial acts as daily work, while the law of commerce is the act of purchasing goods for resale. Provisions regarding traders and trading actions as stipulated in the CCL above have been revoked because the scope is deemed narrow. Besides that, the traders have the opportunity to make legal relations and disputes with other parties who are not traders so that the exclusivity of the CCL only for traders to be weak. The provisions of Article 2 to Article 5 of the CCL were finally revoked on July 17, 1938, and then the terms were abolished and replaced with terms namely "company."

There are various definitions of SMEs in many countries in the world. The Bolton Committee 1971 was the first organization to provide a solid definition of SME. The Committee defined SME as "a firm is regarded as small if it meets the following three criteria, such as, it has a relatively small share of the market place, owners manage it in a personalized way management structure, it doesn't form part of a large enterprise"[14]. Indonesian SMEs Act No. 20 of 2008 Article 1 point 2 describes "Small Business as a stand-alone productive economic enterprise, carried out by individuals or business entities that are not subsidiaries or are not branches of companies owned, be controlled, or become part of either directly or indirectly from a Medium or Large Business that meets the criteria for Small Businesses as referred to in this Law."Furthermore Article 1 point 3 explains Medium Business is a stand-alone productive economic enterprise, carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled or become part of either directly or indirectly with Small or Business Large with the amount of net wealth or annual sales proceeds as stipulated in this Act. SMEs Act No. 20 of 2008 Article 6 regulates the criteria of SMEs including micro-enterprises as shown in table 1.

TABLE I. CRITERIA FOR INDONESIAN SMES

Business	Asset	Annual Sales
<i>Micro</i>	maximum of 50 million	maximum of 300 million
<i>Small</i>	>50 - 500 million	>300 million -2,5 billion
<i>Medium</i>	>500 - 10 billion	>2,5 billion - billion

The criteria for SMEs above also apply to traders who conduct trading activities in traditional markets. As in the table above, SMEs in Indonesia only cover two measures, while in other countries there can be more than two. In Malaysia for example, SMEs are defined as companies with sales turnover not exceeding RM25 million or employing workers not exceeding 150 workers for production and sales turnover not exceeding RM5 million or employing workers not transcending 50 workers for services and other sectors [15], and these criteria may change according to economic development and state regulation.

B. Insurance Function

Insurance in the viewpoint of law and economics is a form of primary risk management that is used to avoid risks that might occur with uncertain losses. Insurance is defined as a system created to protect people, groups, or business activities against the risk of financial injury by dividing or spreading risk through payment of some premiums. Mark R. Green said that insurance is an economic institution that aims to reduce risk by combining it in the management of some objects that are quite large in number so that the overall losses can be predicted within certain limits [16].

Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for periodic payment. It is a risk management strategy that protects the insured from risk for a specified fee [17]. The purpose of insurance is to protect risk-averse individuals from suffering the full consequences of those actions on the part of nature that affect them unfavorably [18] In a financial perspective, insurance is understood as a form of risk control. But from another standpoint, insurance has a function as a risk transfer, fund collector, stimulator of economic growth, investment savings means and invisible earnings, as well as a means of preventing/controlling losses [19].

The qualitative study by Cioccio and Michael about small businesses in Australia showed that for most of the respondents said that insurance is the primary tool for risk management [20]. However, Cioccio and Michael described the SMEs in their study as being aware that insurance is sometimes associated with considerable cost and that insurance covers unexpected events [20]. Hollman and Mohammad-Zadeh added that, aside from providing protection against financial losses from such events, insurance may also include other services for SMEs, even if the insured SME does not suffer any loss [21].

III. RESEARCH METHODS

This research was conducted in Medan City, North Sumatra Province with an empirical juridical approach through the distribution of questionnaires to 95 traders respondents in 4 main traditional markets in Medan City namely Brayan Market, Helvetia Market, Petisah Market, and Sukaram Market, where samples were determined by purposive sampling technique. Questionnaire instruments were measured using a Likert scale. The interview method is carried out on stakeholders such as the Government of Medan City (GMC), Cooperatives and SMEs Office, Industry and Trade Office, Regional Market Company

(RMC) and several General Insurance Companies. Data will then be analyzed qualitatively and quantitatively.

IV. RESULT AND DISCUSSION

A. The concept of empowering SMEs according to the prevailing laws and regulations in Indonesia

SMEs are an essential part of the economy of the country or region, and this causes the government (central and regional) to endeavor to empower this business group. The birth of the SMEs Act No. 20 of 2008 is a form of concern and government efforts to empower SMEs including micro businesses. Empowering SME traders amid globalization and intense competition today is a must. If not done, concerns that they will not be able to survive amid the current global competition are becoming a reality. But keep in mind that empowering traders as SMEs is not only in terms of capital, management, and marketing, but also includes empowerment in terms of self-protection and business against the risk of loss with accuracy. Empowering SME traders can improve family living standards and optimize their resources [22]. In addition to growing and develop the ability of SMEs to be a strong and independent business (Article 5.2, SMEs Act No. 20 of 2008).

The SMEs Act No. 20 of 2008 introduces that one of the principles of empowering SMEs is the realization of public policies that are transparent, accountable and fair. But now there are many public policies in the form of regional regulations that do not support and are far from the principle of empowerment as intended. Therefore, it is natural that in many cases of market fires in Indonesia, traders do not enjoy the rights that should be obtained. The local government or regional market company is not anticipatory in dealing with all the possibilities that will happen to the traders and businesses and unable to provide appropriate means of protection for traders in the form of insurance, even though they have paid a significant amount of contributions.

Normatively, the concept of empowering SMEs has been regulated at least in two statutory provisions. Trade Act No.7 of 2014 has arranged the empowerment of SMEs in the trade sector. Article 73 states that the Government and the Regional Government empower the Cooperatives and SMEs sector. Empowerment is carried out through the provision of facilities, incentives, technical guidance, access, and capital assistance, promotional assistance, and marketing. The Government and Regional Government in empowering cooperatives and SMEs in the Trade sector can cooperate with other parties. Through this article, it can be understood that the task of empowering SMEs in the trade industry is carried out or is a burden and responsibility of the Central Government and Regional Government, this is in line with what has stated in the opening of the 1945 Constitution, the 4th aline, in which the state has the duty and responsibility to promote the welfare of its people equally (regardless of ethnicity, race or religion).

SMEs Act No. 20 of 2008, empowerment is carried out through methods of growing the business climate (article 7), business development (article 16), financing and guarantees (article 21), and partnerships (article 25). Among these articles are not strictly regulated by empowerment through insurance. However, through partnerships,

cooperation can be done with insurance companies as a means of transferring risks that might occur later trader SMEs. Which can be developed through other partnerships as mandated by article 26.

B. The model for empowering SME traders

Empowerment Through Fire Insurance Scheme

The Regional Market Company (RMC) as the agency responsible for the management of markets in the Medan City area, Cooperative and SMEs Office (CSO) and General Insurance Companies (GIC) in Medan are both aware of the large role of insurance, especially fire insurance in providing protection to SME traders in the market environment of Medan City. Such insurance can reduce the risk of losses experienced by SMEs, especially among traders. But not all traders can get the protection, because the majority of SME traders have not followed the intended insurance.

Although throughout 2001 to 2013 there were 9 cases of market fires in Medan City [23], until now, until now the willingness of traders to provide themselves with insurance is still very low. Moreover, this type of insurance is voluntary because there is no one type of compulsory insurance designed and implemented by the government to protect the market and merchandise belonging to traders, even if there are some (consortium) insurance who are willing to take over the risk, but the participation of traders in the insurance consortium is also voluntary, so there is no coercion and depends on the needs of the traders themselves whether or not to equip themselves with the insurance policy in addition to the fundamental problem of insurance awareness that still low.

The Government of Medan City (GMC) must consider the importance of insurance as a form of effort/empowerment program that must be given to SME traders to deal with the risks that threaten the traders and their businesses while selling on the market. One option that deemed appropriate is fire insurance. But on the other hand, there are obstacles on the part of general insurance companies, most of whom feel reluctant to close or take over the market fire risks considering the market is one of the places that are very vulnerable to fire, this is an unfavorable factor for insurance companies.

The government has not been able to provide solutions to problems suffered by traders when there was a market fire, and each of the traders is looking for a solution to each of them with the case of fire.

TABLE II. THE CITY GOVERNMENT PREPARED A SPECIAL SCHEME TO TACKLE THE CAS OF MARKET FIRES

Criteria	Frequency	Percent
<i>Not answered</i>	10	10,5
<i>Strongly agree</i>	19	20,0
<i>Agree</i>	52	54,7
<i>Neutral / doubtful</i>	13	13,7
<i>Disagree</i>	1	1,1
Total	95	100,0

Regarding the importance of tackling future market fires, the researchers found that the majority of traders respondents agreed the GMC prepares a particular scheme to address market fires and their economic impacts in the future. The agreement is shown in table 2 above. Where 54.7% agreed, 20% stated strongly agree, did not agree (1.1%), and 10.5% did not determine their attitude (abstention). However, there were still 13.7% of respondents were hesitant or unsure of the ability of the GMC to prepare the intended scheme.

The statement of respondents who agreed was 54.7% plus 20% who strongly agreed, a large number or percentage. This indicates a great expectation or desire for SME traders so that the government takes serious steps in overcoming the impact of fires that harm and threaten the existence of SME traders businesses.

Empowerment of SME traders is a necessity and is the responsibility of the government to realize it according to the mandate of the law. Given the importance of empowerment in question, researchers found that the majority of respondents agreed that in the future GMC would soon find a way out to solve the problem of fires that often occur and afflict and harm SME traders. Even the majority agreed if the solution was a fire insurance scheme.

TABLE III. FIRE INSURANCE SCHEME AS A SOLUTION IN OVERCOMING LOSS OF TRADERS

Criteria	Frequency	Percent
<i>Not answered</i>	11	11,6
<i>Strongly agree</i>	10	10,5
<i>Agree</i>	30	31,6
<i>Neutral / doubtful</i>	26	27,4
<i>Disagree</i>	18	19,0
<i>Total</i>	95	100,0

Based on data table 3 above, 31,6% of respondents stated that they agreed if the way out in overcoming massive losses on the part of SME traders was to have a fire insurance policy. There were even ten respondents (10,5%) who stated that they strongly agreed with the program. Unfortunately, the percentage of respondents who agree is still below 50%. It was because SME traders were still not convinced that the ability of the insurance program was able to overcome the problems faced by SME traders. This fact is indicated by the existence of some respondents who were still hesitant or neutral (27.4%), and some of them even said they did not agree with the program offered (19%).

Insurance has the main benefit of placing the insured's financial position back to the time before the loss occurs. Besides, insurance can also reduce risk uncertainty, can reduce financial burdens, provide peace of work, and other benefits [24]. Based on these reasons, fire insurance is necessary for SME traders. Besides these benefits, with a fire insurance scheme, an effort to stabilizing the society (SME traders) and adequately dealing with fire accidents [24] can be realized. If empowerment with an insurance scheme is not designed immediately, then the fire cases that afflict SME traders will be the government's responsibility to pay the

indemnity for every accident, that would be a heavy financial burden [25].

Although fire insurance is seen as a good solution, the RMC doubts whether the traders are willing to take part in the insurance program because the insurance company will only receive a risk transfer if traders are willing to pay a premium. Some markets in the market area of Medan City often experience fires, with such huge losses, until now the GMC does not have a long-term and permanent program either through insurance or other forms to empower and provide maximum protection to traders in Medan city. Likewise, the Office of Industry and Trade in Medan claimed not to have an empowerment program directly aimed at the traders in the market environment of Medan City. Even Cooperatives and SMEs Office that are generally known to be responsible for empowering SMEs in all lines of business also do not yet have a special empowerment program for traders especially those in the form of fire insurance.

Even though the SME traders agreed to accept fire insurance as a solution to overcome market fires and their merchandise, unfortunately, SME Traders are generally reluctant to be charged with paying insurance premiums.

TABLE IV. WILLINGNESS OF SME TRADERS TO PAY PREMIUM

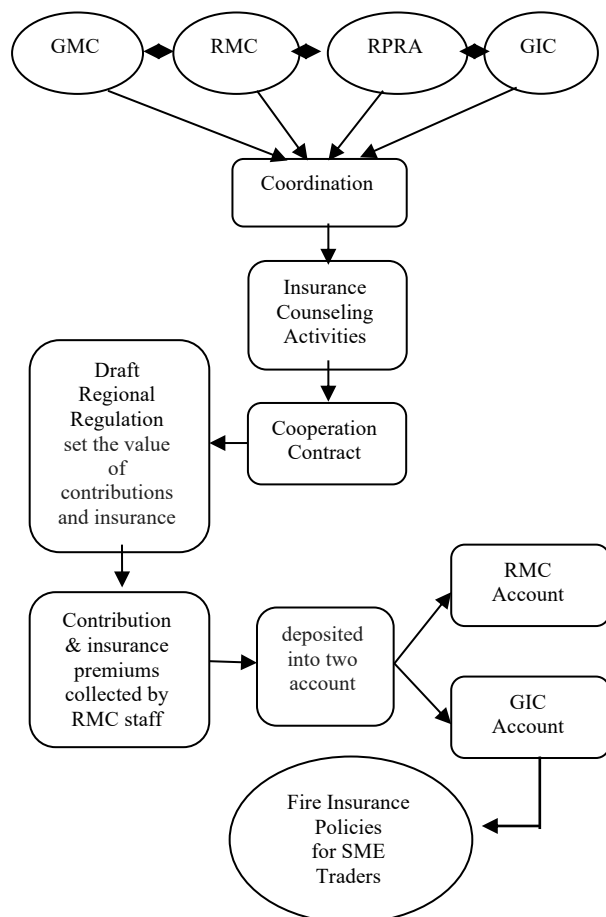
Criteria	Frequency	Percent
<i>Not answered</i>	5	5,3
<i>Strongly agree</i>	5	5,3
<i>Agree</i>	18	19,0
<i>Neutral / doubtful</i>	21	22,1
<i>Disagree</i>	46	48,4
<i>Total</i>	95	100,0

Based on table 4 above, the majority of respondents (48,4%) refused to pay insurance premiums if the local government applied the regional regulations regarding these obligations applied by the local government, because the reality is only 19% of respondents agree, and 5.3% strongly approve.

The reluctance of to pay premiums which will later be borne them not caused by a lack of legal awareness of SME traders about insurance and how it works, but there are other factors that they have not been able to disclose to researchers. They are willing to take insurance if the premium is free or paid by the local government because of the many contributions they had spent so far. Based on this reality, it will be difficult for the GMC and GIC to empower SME traders through insurance schemes, this concept is contrary to the principle of commercial insurance which is "no insurance if there is no premium."

Empowerment of SME Traders from a legal perspective can mainly conduct through coordination methods. Coordination among stakeholders, namely the GMC, RMC, RPRA, and GIC. Through this coordination, synergies can be created between stakeholders by jointly planning and designing an ideal empowerment model through insurance schemes to SME traders who are expected to reduce the burden on the government in the event of fire cases that hit markets and traders in this city. An

empowerment model for SME traders through the fire insurance scheme as shown in the illustration below.



Empowering SME Traders can be realized if responsible stakeholders in this sector have a strong commitment to empowering SME Traders. In addition to the strong commitment meant, empowerment efforts will be able to run well if it has been preceded by insurance counseling activities and insurance law regularly so that SME traders understand the importance of insurance in dealing with the risks that may occur, future traders, especially aftermarket fires. The insurance counseling aims to raise awareness of insurance law among SME Traders who are suspected of being still low. Legal awareness is a decisive prerequisite for the success of empowerment programs designed by the government and stakeholders. The counseling activities must be followed up by the GMC by bringing together several stakeholders, namely RMC, GIC and RPRA as legislators to carry out a kind of agreement or cooperation contract. Through this collaboration, it is expected to produce a standard and mature conception to regulate juridical empowerment programs in local regulations regarding market management and other local laws related to the market, either by revising or by updating existing regional regulations. Based on the issued local regulation, market managers in Medan City are currently under the authority and responsibility of the RMC will get a clear legal umbrella. Thus, empowerment of SME traders and market management can be carried out well without causing other problems in the future, both concerning regulations and the number of interests that must harmonized about

empowerment of SME traders on the one hand and market management on the other.

In the local regulations issued later, the provisions regarding the importance of fire insurance (as part of general insurance) for SME traders must be clearly regulated and immediately after that must be followed up with the issuance of technical regulations from the RMC director that governs the working mechanism and amount of market contributions and fire insurance premiums that must be paid by each SME traders.

With the payment of market contributions (retributions) that include premiums in it, the interests of SME traders such as stock of merchandise from an early age have been protected from risks caused by market fires. By this scheme, the burden of the government in overcoming the victims of market fires that have been heavy and the solution is protracted can be overcome. For practical reasons, the premium collection is carried out together (one package) with market contributions (retribution) by RMC staff, so that SME traders do not feel disturbed and burdened as if many levies must be paid each month. Collection officials then deposit premiums and market contributions that collected into different accounts (RMC account and GMC account) according to their designation. The model of empowering SME traders through insurance schemes as shown in the illustration below.

Empowerment through the Insurance Consortium

There are two insurance consortiums known and be used as a tool of empowering SME Traders. First, the Special Risk Insurance Consortium (SRIC) and second, the Micro Insurance Consortium (MIC).

The SRIC as the first scheme, protect objects in the form of markets and merchandise belonging to traders. In particular, this insurance is said to be fire insurance where the purpose of coverage that given protection has such a tremendous value. Therefore, fire insurance with large value objects such as markets and merchandise belonging to traders cannot be taken at risk by an insurance company but must collaborate with several similar insurance companies by dividing risk (risk share). The basic concept of loss insurance or fire insurance in the form of a consortium has been introduced explicitly in the CCL, also known as double insurance.

Double insurance exists when two or more insurers cover the same person for a loss resulting from the same risk [26]. The CCL Article 278 states that "if in the individual policy, even on different days, by various underwriters a hold exceeds the price, then they are together, according to the balance of the amounts for which they have signed the policy earlier, carrying only the actual price insured. The same provisions apply, if on the same day, regarding the only item, various underwriting has been held". Based on the article above, this type of double insurance is closed on different days or at the same time, made in one policy and with several insurers. Policies covered by the insured exceed the insured price. If there is an event, then each guarantor is only responsible according to the balance of the amount of each insurance. Typically this type of dual insurance is also called the alliance of mutual insurers [27], or the current term is called an insurance consortium.

The MIC as the second scheme, regulated by the Financial Services Authority Regulation Number 23/POJK.05/2015 concerning Insurance Products and Insurance Product Marketing, then confirmed through the Financial Services Authority Circular Number 9/SEOJK.05/2017 Concerning Micro Insurance Products and Microinsurance Product Marketing Channels. Indonesian Microinsurance is an insurance product that is intended for low-income people whose features and administration are simple, easy to obtain, economical in price and immediately in the completion of their compensation.

Microinsurance development is intended so that low-income people including SME traders can have insurance as a protection mechanism for the risk of losses faced. Micro-insurance characterized by low premiums or coverage and typically targeted at more depressed income individuals who are unable to afford or access more traditional insurance. Micro-insurance tends to be provided by local insurance companies with some external insurance backstop (e.g., reinsurance) [28]. Objects that can protect in a microinsurance program are the assets, lives, and interests of the participants. Insurable risks are financial losses due to damage or loss of property, illness, disability, death, and injury of interests of participants due to the risks guaranteed in the insurance policy. Microinsurance products can protect one type of risk or a combination of various kinds of risks. □

V. CONCLUSION

The concept of empowering SME traders has been regulated in several legal regulations in Indonesia both in the SMEs Act No. 20 of 2008 and in the Trade Act No.14 of 2017 but has not implemented rightly in the regions. Empowerment for SME traders can be realized if all responsible stakeholders in this sector have serious attention by designing a market fire insurance scheme. Empowerment for SME traders can also be achieved through an insurance consortium, both the Special Risk Insurance Consortium (SRIC) and the MicroInsurance Consortium (MIC).

ACKNOWLEDGMENT

The author would like to thank the University of North Sumatra for giving us the opportunity and funding this research to become a scientific article.

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