

A Theoretical Model to Measure the Business Success of Micro-insurance (MI) in South Africa

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ABSTRACT The paper develops a theoretical model to measure business success of micro-insurance in South Africa. This is achieved by researching historical MI models from the literature and to identify from these models the constructs that influence business success related to Micro-insurance. An exploratory research perspective examined a vast range of survey-based business success influences and then fifteen more important variables were identified. The variables were further examined and a number of questions to measure each variable were formulated from the literature review. This has led to the final result, namely the theoretical model to measure business success. The research is valuable to the Government, Microfinance institutions, Microinsurers, Insurers, NGOs, academics and other researchers among others. The stakeholders will be able to apply the model to determine which specific influences are the most important for their products and services, while also identifying where their business success fails.

INTRODUCTION

It is argued that, inadequate access of cover by the poor is a major cause of poverty in developing countries due to financial exclusion of the low-income households (Jean-Luc 2006:17). Worldwide around 1 billion people live in extreme poverty (World Bank 2008). The World Bank defines persons living in extreme poverty as those who have less than a dollar a day to live on. As one of the main objectives of Millennium Development Goals (MDGs) is to half poverty by 2015, micro-insurance has been classified as one of the important financial tools to bring down poverty (Micro-insurance Network 2010). In view of the fact that approximately 33% of the low-income earners (those earning less than R3000) has some kind of formal and informal insurance policy in South Africa, the government is continuously emphasizing on the need for micro-insurance products and services (National Treasury 2011). Approximately 65% of the low-income households do not have an insurance cover, the development of insurance products designed specifically to meet the needs of the poor, is lacking, and the need for low budget insurance solutions continues to escalate (McCann 2010). South Africa's development challenge therefore remains in finding sustainable poverty eradication strategies, offering MI cover and ultimately brings business success.

Micro-insurance refers to insurance that is accessed by the low-income population (also known as the mass market), provided by a number of different providers and managed in accordance with generally accepted insurance practices. It forms part of broader insurance market, distinguished by particular low-market market segment focus (National Treasury of South Africa 2011).

Further MI relates to a mechanism to protect poor people against risk (accident, illness, death in the family, natural disasters, etc.) in exchange for insurance premium payments tailored to their needs, income and level of risk (Churchill and Matul 2012).

Since a MI policy targets the low-income niche clientele, it is characterized by a low premium rate; that put pressures on the profitability of the micro-insurer (Association of Savings and Investments of South Africa (ASISA) 2009). High charges include the transactional costs for instance, the costs to reach the low-income households in their most remote residence areas and therefore remain a challenge for business success of a micro-insurance provider.

For the purpose of this paper, business success of micro-insurance refers to the measure of success of a micro-insurance firm, through an increase in sales and targets, growth in market share, an increase in the return on investment, earnings per share and return on equity, a rise in

the market share, profitability, a decrease in costs, and an increase in the number of satisfied clients (Angove and Tande 2011; Evans and Bermans 1994; Forbes 2011; Kotler 2003; Lancaster and Reynolds 2004; Reichard and Ravi 2006; Seller and Gurewitsch 2005; Shaun and Merrick 2005).

Further, since MI was identified later than Microfinance and relatively a new area, it has become a prominent topic of research recently. As research intensifies in MI, the MI models become more refined. One challenge however often experienced by researchers is the construction of a reliable and valid measuring instrument for MI with regards to business success. It becomes even more challenging when a number of variables are involved.

Objectives

The primary objective of the study is to construct a theoretical model to measure business success of micro-insurance in South Africa. Thus, the secondary objectives are thus to:

- Identify the variables of business success for MI from the literature review;
- Determine the criteria that measures each of the variable;
- Integrate the variables and its measuring criteria into a structured questionnaire for use in the micro-insurance industry; and to
- Make recommendations based on the findings of the study.

METHODOLOGY

The methodology employed focuses on the development of a model to measure business success of MI in South Africa. This requires the development of a measuring instrument; in this case a structured questionnaire based on the identification of the variables of business success for MI from research and literature review. The questionnaire becomes a critical instrument for the outcome of the study. The questionnaire for this research study was constructed in the steps as shown in Figure 1.

OBSERVATIONS

Identification of Independent Variables on Business Success (Dependent Variable) Communication

The importance of communication is shown by Van Riel and Fombrun (2007: 1) who state

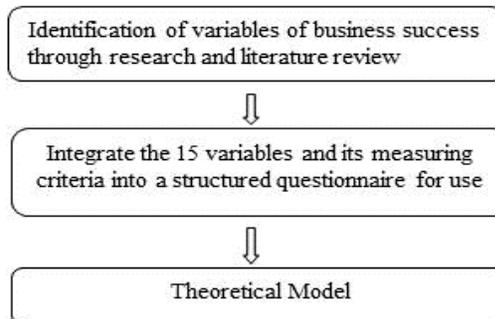


Fig. 1. Questionnaire development

that communication is the lifeblood and success of all firms. Communication is necessary during the interactions and success for a firm-client relationship (Donaldson and O'Toole 2007:150). In the context of the communication process in the micro-insurance industry, the source is the micro-insurance firm; the message is information on micro-insurance products and services; the channel is micro-insurance firms' pamphlets; and the receiver is, for example, the low-income households (clients).

In the micro-insurance industry communication refers to any message sent by a microinsurer to its clients via a communication medium or vice versa, from a client to the microinsurer. In respect of the nature of micro-insurance, sources have revealed that many low-income households show little awareness or no knowledge at all about the low-income cover terms and conditions due to lack of communication (Microinsurance Network 2010).

Therefore, communication is the key to informing the low-income earners about such cover. Communication in the micro-insurance industry is very important as insurance employees have found that their role has shifted to financial counselling, which involves the processes of listening, aligning and matching (Duncan and Moriarty 1998: 2).

Trust

According to Barnes (1994: 563), trust between parties based on the exchange of information (thus communication as mentioned above) is vital for successful firm-client relationships. Therefore, trust and communication go hand in hand to generate business success.

Engaging trust has been central to efforts by the financial services industry especially the in-

insurance sector to win products for their markets (Matul et al. 2013). Cole et al. (2011) highlighted evidence to show that building trust enhances the take up of an insurance product. Further, Dong et al. (2009) identified trust in the management of the community health scheme as an important factor influencing households' probability of enrolling.

Micro-insurance is a sensible approach when it comes to tackle serious risks low-income households face (Microinsurance Network 2010). Unless policies are conceived in a layman language and well administered, they are likely to do harm to the low-income households. Therefore, the trust of the low-income households must not be shattered.

Unlike the case of loans and credit, where the micro-entrepreneur borrows the money and takes up the responsibility of returning it, insurance reverses the responsibility of risk (Microinsurance Hub 2010). In micro lending, the provider puts up the capital and trusts the customer to pay it back; in insurance, the policyholder pays up front and hopes the provider keeps its promise to make a payment in accordance with the contractual terms. Being able to quantify the trustworthiness of a company would be valuable information to both investors and the general public. Trust, according to Six (2007), has been widely studied as one of the key constructs characterizing business relationships. Trust is considered as a critical factor in fostering optimal relationships between a firm and its customers (Six 2007).

Financial Literacy

Once people are aware that micro-insurance products exist through communication, efforts can be made to improve knowledge of micro-insurance terms and concepts and of the specific product, as well as the skills needed to evaluate risk management tools. Knowledge and skills (and subsequently, demand) are influenced by education and the financial literacy of individuals.

Empirical studies have demonstrated that the likelihood of taking out insurance increases with years of schooling and financial education (Akter et al. 2008; Giesbert et al. 2011; Giné and Yang 2009; Jehu-Appiah et al. 2011; Jowett 2003 Schneider and Diop 2004).

Knowledge of financial matters is strongly linked to wealth and business success (FinScope

South Africa 2008). This has important implications for those dealing with people for instance, the low-income households, entering the formal financial system and normal financial arrangements. Special care needs to be taken that the low-income people are carefully coached about financial matters. The need for more financial education and training is "in dire" for the low-income households for example, when buying micro-insurance.

The latest data from an annual study of South African financial habits and attitudes, reveals that there are still high levels of misunderstanding or no knowledge at all of key financial terms (FinScope South Africa 2008). This can be supported by the recent article released on 26 July 2011 by President Zuma; "SA must rise to literacy challenge" (Zuma 2011). Although South Africa boasts an 88% basic literacy level, a relatively low growth in financial knowledge is of some concern. For example, the relatively low growth in financial knowledge about the National Credit Act and micro-insurance is of some concern. Therefore, there is a great need for greater financial literacy in the area. Likewise, the more microinsurers create awareness through insurance literacy and financial education, the better will be the chances that the low-income households will be aware of the concept of micro-insurance and its benefits.

Product

The term product includes both physical products as well as services offered to satisfy identified consumer needs. Product decisions are the most important managerial decisions in a firm, seeing the design of need satisfying products has a direct influence on the business success of the firm (Archer et al. 1997:37). The micro-insurance product, for example a Zimele-compliant product should thus be customised to meet the needs of the low-income earners to develop and retain consumers. Therefore, the more successful the Zimele micro-insurance product is, the more achievable is the sales target, the higher is the sales, the Return On Equity, Earnings Per Share, market share, profitability and the lower is the transaction cost for the micro-insurance product.

Price

The purpose of price is to "quantify and express value of the product or service in a market

exchange” according to Archer et al. (1997:53). Research has shown that price has a direct influence on the market share, product positioning, customer loyalty and competitiveness of a firm, hence business success and therefore a very important factor in the marketing mix. According to a research report by (Angove and Tande 2011), Old Mutual South Africa was facing a challenge that a number policies sold by of burial societies were lapsing as premiums were too expensive. A microinsurer must thus charge an affordable price to the low-income earners compared to its competitors based on the protection and benefit that the insurer provides to ensure business success (LOA 2007a).

Place (Distribution)

Place under the marketing mix involves all firm activities that make the product available to the targeted consumer (Kotler and Armstrong 2004). The distribution strategy by insurers in marketing the Zimele micro-insurance funeral cover in South Africa is generally done through insurance brokers and agents (LOA 2007). However, distribution of these products could be a challenge (Joubert 2007), particularly in the remote areas not serviced by the industry (Association of Savings and Investments of South Africa 2009).

Undertaking the traditional distribution channel in selling Zimele products is going to be problematic for the small insurer who does not have a well-established infrastructure and an extensive footprint nationally (Mafu 2007). Therefore, innovative methods of distribution will have to be launched since premium rates are low and so are the profits so that business success can be entailed (Joubert 2007).

Promotion

Promotional strategies include all means through which a firm communicates the benefits and values of its products and services, and persuades targeted consumers to buy them Kotler and Armstrong (2004).

For the purpose of promoting micro-insurance in South Africa, the insurance industry does not have a uniform and coordinated branding or promotion to position the Zimele products for its audience (LOA 2007). The FinMark Trust in 2007, which studies the awareness and usage of

financial products in South Africa, found that the recognition of the brand was negligible. This was the main reason behind the lack of Zimele visibility on the market. Designing appropriate promotion strategies for the low-income earners should be the main focus for insurers to enhance business success (Joubert 2007).

Physical Evidence

Physical evidence of the microinsurer refers to the physical surroundings in which the service is delivered and where the firm and customer interact (Kotler et al. 2010). The problems for insurers are the high costs of covering the needs of the rural poor since there are no systematic methods to reach informal workers, poor people cannot afford the full cost of insurance and there are insufficient government resources to cover recurring expenditure (Joubert 2007). One of the main reasons for the increased costs is that micro-insurance is “difficult” to distribute due to the lack of infrastructure.

Sources reveal that the low-income earners are not easily accessible and always busy during business peak hours (Mafu 2007). Therefore, they are hardly to be found and marketed for micro-insurance products and services. To give effect to that, OMSA uses Soccer clubs, cooperatives and church groups to gather the low income households for the micro-insurance products and services. Therefore, the more convenient and accessible a microinsurer is, the more successful the firm is likely to be (Joubert 2007).

People

People consist of all the human actors who play a part in service delivery and in so doing, influence the buyer’s perceptions (Kotler et al. 2010). This can be supported by Radermacher and Dror (2006), who said that the greatest challenges for MI is the actual delivery to the clients by the human actors. Therefore, the screening and selection of frontline staff involved in distributing insurance are important. Selling an intangible service such as insurance requires a higher sales expertise. Therefore, it is advisable to consider their insurance responsibilities when recruiting people (Microinsurance Network 2009). These are the service enterprise’s personnel, the customer and other customers in the service environment. The cues include the way the

actors are dressed, their personal appearance together with their business cards, their attitudes and behaviours. These influence the customer's perceptions of the service, portrays an impressive professional marketing image, hence success of the microinsurer. In the micro-insurance industry, the human actors are the employees, agents, service providers and the clients are the low-income earners. People, playing an integral role as mentioned above will then be analysed and assessed on the dependent variable, business success.

Processes

A process includes the actual procedures, mechanisms and flow of activities by which the service is delivered (Kotler et al. 2010). All provide customers with evidence on which to judge the service. The success in the process of the micro-insurance policy relates to the efficient time of the negotiation between the micro-insurance service provider and the client from start until the policy issue (LOA 2007). For the purpose of this study, since micro-insurance is mainly involved with services, therefore the services marketing mixture (being product, price, place (distribution), promotion, processes, people and physical evidence) are independent variables identified from literature on business success, are investigated.

Technology

There has been some concern among micro-insurers over the cost of moving from manual processes to automated ones (Gerelle and Berende 2008). A manual approach does not establish a sustainable and scalable foundation for expansion as it does not provide the ability to optimize processes and build economies of scale. An insurer unable to reach large numbers of policyholders places itself in a precarious position (Microinsurance Network 2010).

Technology is not just the privilege of the insurers today; customers too want to benefit from its use in the micro-insurance product delivery (Churchill 2006). Even the low-income market has increasing access to technology, such as cell phones and the Internet. An inventory of information technologies that are or could be applicable in the extension of insurance services to low-income households are important for the up-

and-running of the micro-insurance sector. Therefore, technology is an important independent variable that can determine business success of a microinsurer hence, will be investigated.

Culture

One element of an organisation which a manager needs to understand is the organisation culture (Hofstede 2006). Organisational culture can be defined as the combination of knowledge, beliefs, values, behaviours and practices that influence the manner in which members of a group think and act (Hofstede 1991).

Schein's concept of organisation culture provides a process for uncovering characteristics that may be somewhat hidden and complex (Schein 2004). This discovery process is most effective when each and every member of staff is fully committed to it.

In the micro-insurance sector, each and every employee should be dedicated in providing the micro-insurance services to the low-income households (Micro-insurance Network 2009). A micro-insurance culture must be created and nurtured throughout the whole firm (Micro-insurance Network 2010).

Human Resources Training and Development

The need for skill development has never been greater at present especially in this era of globalization (McKinsey Quarterly Report 2010). One of the most important skills challenges facing businesses relates to the ability to meet up to the expectations of clients. However, this is not an easy task since each and every client is different and has diverse needs and wants. Nowadays the buzz word is "Listen to the voice of the customer". However, without proper training and development of the employees serving the customer, it is unlikely that the service is up to the level standard.

Considering the emergence of the micro-insurance market in South Africa, most of the microinsurers do not have enough adequate insurance background in the field (Microinsurance Network 2009). Since the micro-insurance service providers are unlikely to find people with micro-insurance experience, micro-insurers should regularly upgrade staff skills according to recent report (Microinsurance Network 2010).

Staff should be competent to explain, sell the product to the low-income earners, according to the report. Therefore, training and development are needed by the South African microinsurers to entail success. Therefore, for the purpose of this study, human resources training and development is has been identified as an independent variable of business success of a microinsurer, thus will be investigated.

Microcredit-Microinsurance Link

Microfinance is a field that focuses on providing a variety of financial services to the poor. Typically, individuals with very little income experience great difficulty in taking advantage of things like savings opportunities and insurance products. Often, low incomes go hand-in-hand with a lack of collateral and credit, making it difficult for the poor to obtain loans, invest, and enjoy insurance protection. Micro-finance seeks to eliminate this problem by getting recourse to micro-insurance (Njoroge 2008).

Often, micro-finance services are aimed at helping people start their own businesses, creating the opportunity for increased income and greater financial independence. Offering micro-credit without micro-insurance can be bad financial behaviour as it is the poor who suffer of such bad product design (Njoroge 2008).

Micro life insurance scheme is an insurance which could be served as a collateral security for a microloan. Therefore the linkage between microcredit and micro-insurance can make good business sense and lead to business success. From the above literature, the linkage between microcredit and micro-insurance identified as an independent variable of business success (dependent variable) of a microinsurer and thus, will be investigated.

Micro-insurance Regulatory Framework

According to a report on the “The future of micro-insurance regulation in South Africa”, the existing framework regulating the micro-insurance sector consists of many weaknesses (National Treasury of South Africa 2008). To give effect to that, another policy document issued by the National Treasury on the South African Micro-insurance Regulatory framework bringing along a “Micro-insurance Act” is to be published anytime from now (National Treasury of South Africa 2011).

Micro-insurance as defined in the paper is intended to act as catalyst to the market provision of risk management tools for poor households. However, given the inherent complexity of insurance and the vulnerability of the target market, there are also risks of potential abuse and mis-selling. A balance needs to be struck between market development and consumer protection. As mentioned earlier that the existing framework regulating the micro-insurance sector consists of many weaknesses, improving the rules and regulations pertaining to micro-insurance in South Africa is very important to protect customer abuse and financial exclusion, thus lead to business success. Therefore, the concept micro-insurance regulatory framework identified as an independent variable of business success (dependent variable) of a microinsurer will be investigated.

A Model to Measure Business Success

Following the extensive literature review, a theoretical model was developed that could be used to measure business success (as dependent variable) in the MI industry (See Fig. 2). The model identified a total of 15 factors (as independent variables) from the literature that identify business success. The factors and their origin and questions appear in Table 1.

CONCLUSION

It is concluded that an exploratory perspective was taken to examine the variables of business success in relation to MI. As a result, fifteen independent variables were identified. Each one of these variables has been additionally researched, and resultantly the measuring criteria pertaining to each one of their variables, have also been identified. These criteria form the basis of the measuring instrument of the independent variables. In addition, these independent variables were focused on one dependent variable, namely business success of micro-insurance in the South Africa economy. The literature review also compiled a theoretical model.

RECOMMENDATIONS

- From the research, it is recommended that:
- The model to measure business success be empirically evaluated to determine the validity of the variables.



Fig. 2. Theoretical model to measure business success of MI

Table 1: Business Success and its determining questions and factors

Questions /Factors	Sources
<i>Business Success (Dependent Variable)</i> The firm I work for:Has successfully been achieving sales targets, increasing year after year sales, decreasing its transaction costs, increasing profit margin, market share, number of clients, the growth rate, earnings per share and return of equity for the shareholders for the Zimele MI product.	Angove and Tande (2011) Forbes(2011) Bromage (2003) Evans and Bermans (1994) Forbes (2011) Kotler (2003) Lancaster and Reynolds (2004) Reichard and Ravi (2006) Seller and Gurewitsch (2005) Shaun and Merrick (2005)
<i>Factors (Independent Variables)</i>	
<i>Communication</i> The firm I work for:Communicates/explains efficiently the concept, mechanism, importance, benefits of the MI Zimele products and services, policy contract terms and conditions and also been successfully been achieving business success through effective communication to the low income earners.	Micro-insurance Network (2010) Donaldson and O’Toole (2007) Van Riel and Fombrun (2007) Duncan and Moriarty (1982)
<i>Trust</i> The firm I work for:creates trust among existing and prospective clients to honour claims and make payments during an insurable event, provides brochures, platforms and has been successfully been achieving business success by being trustworthy to low-income earners about the Zimele MI product.	Microfinance Network (2010) Six (2007) Matul et al. (2013) Dong et al. (2009) Cole et al. (2011)
<i>Financial Literacy</i> The firm I work for:Financially educates well the concept, mechanism, contract importance, benefits, terms and conditions, features, allocation of	FinScope South Africa (2008) IAIS (2007)

Table 1: Contd.....

<i>Questions /Factors</i>	<i>Sources</i>
premiums to the low-income earners and has successfully been achieving business success by being constantly financially educating the low-income earners on the above.	McCord (2001) Giné et al. (2007) Akter et al. (2008) Giesbert et al. (2011) Giné and Yang (2009) Jehu-Appiah et al. (2011) Jowett (2003) Schneider and Diop (2004)
<i>Product</i> The firm I work for... Provides information to the clients about the Zimele funeral product promptly, issue policies in a simple language, provides an increased awareness of the Zimele product, provides a more attractive Zimele funeral cover product design and product features to the clients compared to the banks, burial societies, other insurers, retailers, fast food outlets and complies with the standards of the LOA in the market place.	Archer et al. (1997) LOA (2007)
<i>Price</i> The firm I work for...Uses a predatory pricing, Uses low penetration pricing of R40, provides a more affordable premium rate than banks, burial societies, other insurers, retailers, fast food outlets in the market place for Zimele and thinks that the R40 per month for the Zimele product should be discounted.	Angove and Tande (2011) Self formulated
<i>Place</i> The firm I work for...Uses a call centre, cell-phones, brokers and agents, banks, retailers, fast-food outlets, to sell the Zimele product and reviews its distribution as and when needed.	LOA (2007) ASISA (2009) Joubert (2007)
<i>Promotion</i> The firm I work for...Conducts an intensive campaign seminar, uses direct mailing, grants special discounts, sends brochures, uses direct communications, and organizes special events to offer the funeral Zimele product to new clients.	LOA (2007)
<i>Physical Evidence</i> The firm I work for...Is located in the prime area of business, has branches in the outskirt areas and are easily accessible, consists of many customers who were not easily accessible at the time target for MI, has been successfully been achieving business success through the implementation of adequate and appropriate set up infrastructure of MI outlets	Joubert (2007) Perreault and McCarthy (2010) Mafu (2007)
<i>People</i> The firm I work for...Invests in the appearance, attitudes, behaviours of its agents and staff, gives business cards to all staff and agents and has successfully been achieving business success by portraying a professional marketing image of its staff and agents to the low-income people.	Radermacher and Dror (2006) Kotler et al. (2010) Perreault and McCarthy (2010)
<i>Processes</i> The firm I work for...Reviews its processes regularly and has been successfully been achieving business by processing efficiently all documentations to the low-income earners.	Kotler et al. (2010) Perreault and McCarthy (2010)
<i>Technology</i> The firm I work for...Is equipped with an effective automated system for its MI operations, optimizes the processes of its automated systems, builds economies of scale in preparing reports and making decisions, interlinks its system between head office and branches, consists of a fast wireless connection, enables immediate issue of policies, easily traces identity, payment, claim history and has successfully been achieving business success through implementation of an efficient and effective technological system of MI.	Micro-insurance Network (2010) Churchill (2006)
<i>Culture</i> The firm I work for...Comprises of an insurance culture among low-income households, organises regular meetings with burial societies, stokvels, church groups, workshops and others to maintain the culture and has successfully been achieving business success through the support of an adherent MI culture	Micro-insurance Network (2009)
<i>Human Resource Training and Development</i> The firm I work for...Invests a lot in the research and development of its employees dealing with MI, requires imperatively a certificate in financial planning or a fit and proper license for its middlemen to offer MI, constantly monitors/reviews the progress of its staff and has successfully been achieving	Micro-insurance Network (2009) Micro-insurance Network (2010)

Table 1: Contd.....

<i>Questions /Factors</i>	<i>Sources</i>
business success through a supportive human resource training and development programme in MI. <i>Micro-Credit-Micro-Insurance</i> <i>Link</i> The firm I work for...Has a policy of microcredit linked to MI, makes it imperative that any microloan should be secured by a MI policy with the same/other company as a collateral security and has successfully been achieving business success by imperatively linking microcredit loans with MI. <i>MI Regulatory Framework</i>	Njoroge (2008)
The firm I work for...Supports that there are weaknesses in the existing regulatory framework governing MI, supports that an MI Act is urgently needed, favours the existing regulatory system.	National Treasury of South Africa (2011)

- The reliability of each of the data sets be determined to ensure that the model has satisfactory levels of reliability

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