

Measuring the Business Success of Micro-insurance in South Africa

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ABSTRACT This article reports on the business success of the microinsurance (MI) industry in South Africa. This was achieved by applying a theoretical model to measure the MI's business success. More specifically, the theoretical model identified the influencing factors determining business success and their respective measuring criteria. These influencing factors and criteria were empirically validated and subjected to reliability analysis. The invalid criteria were eliminated and the unreliable influencing factors omitted in order to validate the theoretical model. The final validated model and its inherent structured questionnaire were employed as measuring tool to determine the business success of MI in South Africa. The questionnaire comprised a demographical profile and the measuring criteria pertaining to the influencing factors of business success on a 5-point Likert scale. A total of 261 responses were analysed from a random sample of 400 insurance agents. The results showed that none of the influencing factors portrayed general satisfaction on business success and all of the mean values were below 60%. Therefore, the conclusion is drawn that business success is not satisfactory in the MI industry. Catastrophic failure at price, as a core element of the marketing mix, shows that business success in this market is difficult to secure and that astute marketing and business strategies would have to be employed for insurance to become a product of choice for the low-end market. All of the influencing factors need managerial intervention.

INTRODUCTION

The South African population exceeds 50 million people (Mundi Index 2012). Cumbersome is that more than 70% of the households are classified as low-income earners (Centre for Financial Regulation and Inclusion of South Africa 2010). According to the Insurance Gap Study made by the Life Offices Association, 65% of the low-income households do not have any insurance, representing an 'insurance gap' for the country (LOA 2007). The low-income households (those earning less than R3 000 a month) belong to the Living Standard Measure one to five (LSM 1-5), which consists of approximately 20 million households; of which only approximately 35% have life policies (Institute International Research 2010).

MI is defined by the International (Association of Insurance Supervisors 2007) as insurance:

- ♦ that is accessed by or accessible to the low-income population;
- ♦ potentially provided by a variety of different providers;

- ♦ managed in accordance with generally accepted insurance practices; and
- ♦ that does not operate in isolation, but forms part of broader insurance market, distinguished by a particular market segment focus.

This definition was formalised by the National Treasury of South Africa (in 2008) when the future of the regulatory landscape of MI in South Africa was discussed. In light of the huge insurance gap of 65%, the result of the discussion was that the National Treasury and other governmental departments, started to encourage the insurance industry to expand their insurance offerings towards the low end of the market. A number of leading insurance companies started to engage in offering MI products and services to low-income households and the industry shows increasing interest in expanding the low-income market to mitigate the financial exclusion that is present (National Treasury of South Africa 2011). However, the Association for Savings and Investment South Africa (ASISA) warned in their 2009 report that providers to the MI industry face major challenges because

the premiums offered for microinsurance products are too low and transactions costs too high to reach the low-income market on a sustainable basis and to maintain a profitable relationship with the market (ASISA 2009).

Problem Statement

According to the National Treasury South Africa (2011), there is limited research on MI. In addition, the research conducted in South Africa is still at a preliminary stage. The National Treasury also reports that a significant number of low-income people are either financially excluded or simply not informed about MI. Insurance firms and the authorities are only now beginning to recognise the future potential of the low-income market and the longer-term benefits of building a customer database in this new market segment in South Africa. However, in order to maintain the involvement of commercial players in the market, MI needs to:

- ♦ contribute to the overall profitability of the insurer,
- ♦ enhance value for its investors,
- ♦ satisfy clients, and
- ♦ ultimately generate business success by means of:
 - o an increase in the sales;
 - o better earnings per share;
 - o improved return on equity; and
 - o increased shareholder wealth.

However, MI has low premiums and high transaction costs. Role-players experience pressure on profitability and the continued development of the low-end MI market is uncertain. It is evident that role-players in the MI need to know how well they are performing in the industry.

However, uncertainty exists on how to define business success in the MI industry. Resultantly, it is also uncertain how to measure business success in this industry in South Africa.

Objectives

The primary objective was to measure the business success of MI in the South African market. To do so, the following secondary objectives were formulated:

- ♦ Measure the perceptions on the influencing factors of business success in the MI industry of South Africa;
- ♦ Determine the reliability of the influencing factors of business success; and
- ♦ Draw conclusions and offer recommendations based on the outcome of the research on how to improve business success in the MI industry.

A Model to Measure Business Success

Following an extensive literature review, a theoretical model was developed that could be used to measure business success (as dependent variable) in the MI industry (Chummun 2012). The model identified a total of 15 influencing factors (as independent variables) from the literature that identify business success. The influencing factors and their origin appear in Table 1.

Each one of the influencing factors has also been individually researched. This research identified the measuring criteria pertaining to each one of the influencing factors. These criteria form the basis of the measuring instrument of the independent variables.

Table 1: Business success and its determining influencing factors

<i>Description</i>	<i>Sources</i>
<i>Business Success</i> (Dependent variable)	Angove and Tande (2011), Forbes (2011)
<i>Influencing Factors</i> (Independent variables)	
Communication	Microinsurance Network (2010), Donaldson and O'Toole (2007), Van Riel and Fombrun (2007)
Trust	Microfinance Network (2010); Six (2007)
Financial literacy	FinScope South Africa (2008), (SAIA, 2007), McCord, (2001), Gine et al. (2007)
Product	Archer et al. (1997), LOA (2007a)
Price	Archer et al. (1997), Angove and Tande (2011)
Place	(LOA, 2007b), ASISA (2009), Joubert (2007)
Promotion	(LOA, 2007c), The FinMark Trust (2007)

This theoretical model was empirically validated and subjected to reliability analysis to determine which of the identified influencing factors of MI are reliable (using the Cronbach alpha coefficient), because only reliable influencing factors could be employed in the measurement of business success (Chummun 2012). Although a Cronbach alpha coefficient of 0.70 is preferable, Field (2007:668) indicates that a lower reliability coefficient of 0.58 should be employed as cut-off coefficient when ratio or interval data (such as a Likert scale) is employed in data collection. Unreliable influencing factors in this research were those which had reliability coefficients below 0.58. They were omitted from the model and their results were not used in the measurement. The model employed to measure business success is shown in Figure 1.

Table 2 summarises the reliability coefficients, as calculated by Cronbach Alpha, of the influencing factors in the model to measure the business success of MI.

The influencing factors of business success are individually discussed below.

People

People play an integral role in service delivery and, in so doing, influence the buyer's perceptions (Kotler et al. 2010). They are the human actors who enter into first contact with the customer until the never-ended process of service delivery. According to Radermacher and Dror (2006), one of the greatest challenges for MI is the actual delivery to the clients. Therefore, the screening and selection of frontline staff in-

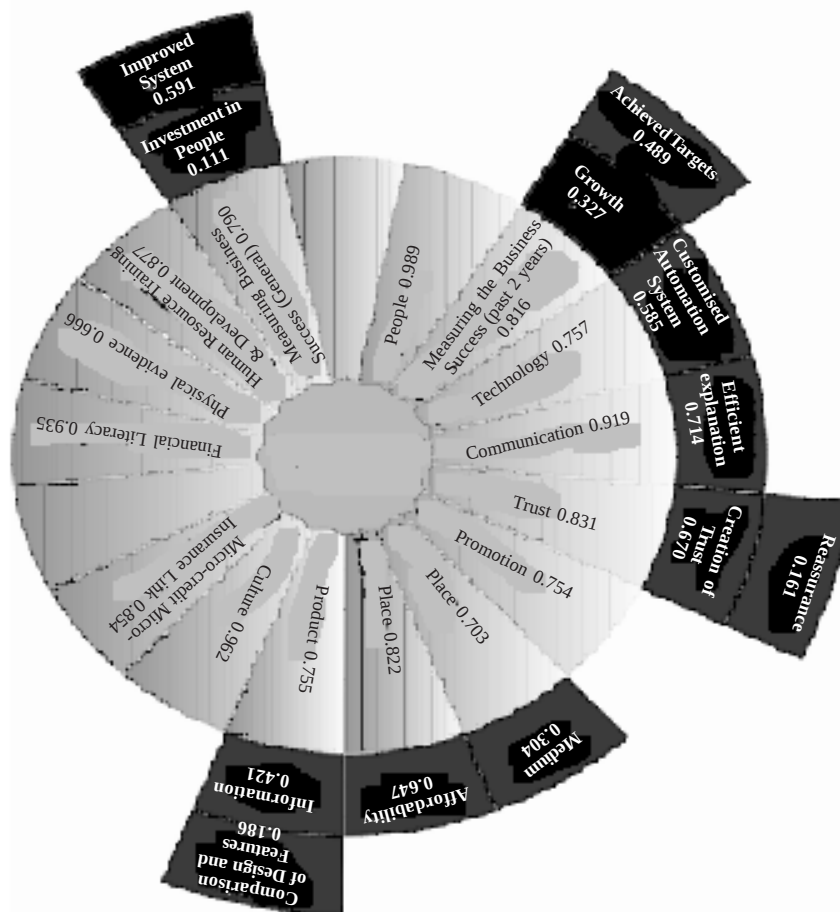


Fig. 1. A model to measure business success

Table 2: Reliability of the influencing factors

<i>S. No.</i>	<i>Factor measuring business success</i>	<i>Cronbach alpha</i>
1	People	0.99
2	Culture	0.96
3	Financial literacy	0.94
4	Communication	0.92
5	Human resource training and development	0.88
6	Micro-credit-MI link	0.85
7	Trust	0.83
8	Measuring business success over past two years	0.82
9	Price	0.82
10	Measuring the business success (General)	0.79
11	Technology	0.76
12	Product	0.76
13	Promotion	0.75
14	Place	0.70
15	Physical evidence	0.67

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).

Culture

The diverse factor culture is a very important one to measure business success in MI, as it has a significant effect on buyer behaviour (Kotler et al. 2010). However, in this regard, the LOA (2007) reveals that there is a lack of insurance culture among the low-income households in South Africa. MI organisational culture has to marry a social concern with an appreciation for a positive bottom line. Culture is further complicated by the diverse ethnic groups and 11 national languages in South Africa, ranging not only from differences between Black, White and Coloured South Africans, but also different cultures and cultural values between the different Black ethnic groups and diverse White cultures.

Financial Literacy

An often identified constraint in selling insurance to the poor households is a lack of understanding of insurance products (McCord 2001). More educated households have been found to be the ones who are more likely to take up insurance (Gine et al. 2007). A study by FinScope South Africa (2008) of South African financial habits and attitudes reveals that there are high levels of misunderstanding or no knowl-

edge at all of key financial terms. This view is supported by Zuma (2011) who stated that although South Africa boasts an 88% basic literacy level, this has not translated into financial literacy. As a result, there is a relatively low growth in financial knowledge, which is a source of grave concern for the government. Knowledge of MI in the low-end market is no exception to the rule.

Communication

In the MI industry, communication refers to any message sent by a micro-insurer to its clients via a communication medium or, vice versa, from a client to the micro-insurer. In respect of the nature of MI, 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 a lack of communication (Microinsurance Network 2010). Communication is key to informing the low-income earners about such cover. Communication in the MI 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).

Human Resource Training and Development

Considering the emergence of the MI market in South Africa, most of the micro-insurers do not have enough adequate insurance background in the field. Since the MI service providers are unlikely to find people with MI experience, micro-insurers should regularly upgrade staff skills, according to a recent report by the ILO (Microinsurance Network 2009). Micro-insurers can also look outward for the necessary expertise, especially when retaining full-time experts is either not possible or not cost-effective. For example, outsourcing is common among conventional insurance companies who often rely on actuarial consultants (Microinsurance Network 2009).

Micro-credit-MI Link

Credit life cover (insurance aimed to cover the outstanding principal and interest of a loan on the death of a borrower) is the logical starting point for organisations that are new in the MI area. This is because it is generally easy to introduce, simple for borrowers to understand

and considered by financial intermediaries as a support to their core business (Microinsurance Network 2009). It also acts as a safeguard for the loan provider. Credit life can help create an understanding of MI and expand demand by building an insurance culture. When borrowers see benefits from such products, it makes them more receptive to other insurance products (Wipf and Garand 2010). Offering micro-credit without MI can be bad financial behaviour, as it is the poor who suffer because of such bad product design (Njoroge 2008). A micro-life insurance scheme is insurance that could be served as a collateral security for a micro-loan. Therefore, the linkage between micro-credit and MI makes good business sense.

Trust

Trust acts as a serious constraint to the uptake of insurance. Just as lenders have to trust borrowers, insurers have to be trusted by clients. Radermacher and Dror (2006) underline the importance of trust along these two dimensions: first, that the insurer is willing to make payments to clients; and second, that the insurer is able to deliver the payments. Trust is also essential for customer retention. Trust of individuals and communities can be built by education, building on existing structures, or through careful marketing and sales strategies.

Measuring Business Success (General and Over Past Two Years)

The activity of the continued measurement of business success is an important factor in the pursuit of business success. This means that the activity itself stimulates success and leads towards it by creating awareness and a basis for comparative analysis and improvement. Exploratory research in this regard shows that by having a measure and results of performance helps to improve business activities and contributes to success (Chummun 2012).

Price

The element of affordability is crucial in realising sales. According to a research report by Angove and Tande (2011), Old Mutual South Africa was facing a challenge because a number of policies sold by burial societies were lapsing, as premiums were too expensive. A micro-insurer

must therefore charge an affordable price to the low-income earners based on the protection and benefit that the insurer provides.

Technology

MI organisations confront a common challenge summarised by the question: "How does one integrate technology into the business operation to both maximise service delivery and minimise cost to clients in MI?" According to Gerelle and Berende (2008), technology plays a major role in the success and response of clients. The selection of an information system to support client, policy and claims administration is an important strategic decision in any MI organisation (Microinsurance Network 2010). The choice of technology is a major determinant of future success and equal in importance to having appropriate reinsurance mechanisms to prevent exposure to outlier risk. However, the question remains as to what the role of technology is in the MI industry, where the clients are poorly educated and cannot comprehend future projections and computer displays associated with sales techniques employed by the insurance industry.

Product

The product or product offering by insurers in the MI is low-cost and usually provides a basic benefit to its customers. Product performance, to contribute to marketing success, has to instil client satisfaction. However, for the poor, a small monthly premium that results in basic benefits is regarded to be unsatisfactory (Chummun 2012). In this regard, Leftley and Mapfumo (2006) highlight the importance of developing a successful MI product. Furthermore, composite (bundled) MI products are recommended by Cohen and Sebstad (in McCord 2008), who mentioned that these products can be useful instruments to manage moral hazard and adverse selection problems and therefore offer affordable and cheaper products for the low-income households. Therefore, the MI product, for example a Zimele-compliant product range, should therefore be broadened outside the array of funeral cover and customised to meet the needs of the low-income earners.

Promotion

A study of the awareness and usage of financial products in South Africa by LOA (2007) found that the recognition of the Zimele-compliant MI brand was negligible. This was the main reason behind the lack of Zimele visibility on the market (Mafu 2007). Designing appropriate promotion strategies for the low-income earners should be the main focus for insurers (LOA 2007).

Place

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). The communications manager of the Hollard Insurance firm said the traditional methods of insurance distribution were not appropriate for the lower-income groups. The comments came a month after the launch of the Zimele standards in 2007 by the LOA (2007), as substantiated by Dercon et al. (2008) that the most effective delivery channels differ for risk categories among countries. South Africa is no exception to this. For instance, the out-of-reach low-income households living in the most remote places have to be imperatively reached in order to explore the present 'Insurance Gap' of almost 35%. Therefore, innovative methods of distribution (place) according to risk categories will have to be launched, taking into account the low premiums and the high transaction costs.

Physical Evidence

Physical evidence of the micro-insurer refers to the physical surroundings in which the service is delivered and where the firm and customer interact (Kotler et al. 2010). It includes all tangible cues that facilitate performance or communication of the service, such as logos, letterheads, business cards and brochures. In the MI industry, the players currently make use of the agents, brokers, the offices themselves, church groups, stockvels and retail companies such as Jet Mart, Shoprite, Pep Stores and Woolworths (LOA 2007). For instance, banks such as Absa Direct also market MI products in South Africa. The actual physical facility, where the service is offered, is also highly relevant. This is substan-

tiated by Wiedmaier-Pfister (2010) stating that physical accessibility to MI can lead to success.

RESEARCH METHODOLOGY

The research was undertaken at four insurance firms, namely Old Mutual South Africa (OMSA), Sanlam, Metropolitan and Safrican firms. The scope of the study was limited to a sample comprising 400 employees at these four insurance firms. The employees were employed in either a full-time or part-time basis at these firms. The respondents comprised employees in general positions (such as agents), managers and even directors. In addition, it is noteworthy that Old Mutual was the pioneer to launch the Zimele-compliant funeral cover successfully into the low-income market and as a result their employees were more likely to be aware of the concept of MI (Old Mutual Insurance Annual Report 2007). Furthermore, two of the firms, Old Mutual and Sanlam, are the largest insurers in South Africa, and both already offer micro-products and -services to the low-end markets in South Africa (Business Monitor 2010). Furthermore, the main niche market for Metropolitan and Safrican insurance firms is the low-income segment.

A convenience sample of 400 was drawn and a total of 261 completed questionnaires were collected, signifying a satisfactory 62.3% response rate. Data were personally collected by the researcher who, on appointment and with permission of the companies, requested the employees to complete the questionnaire. The completed questionnaires were gathered after completion to ensure a better response rate.

The data were analysed using descriptive statistics, that is, mean values. The mean values are presented in percentage format after the responses on the 5-point Likert scale were converted to percentages (dividing the mean score per criterion by the maximum score of 5). Interpretation of the results, according to research done by Bisschoff and Hough (1995:11), could then be applied by using the following guidelines, as successfully applied in research by Haasbroek (2007), Moolla (2010) and Bisschoff (2011):

- Under 60% = Unacceptable/Unimportant;
- Between 60% and 75% = Acceptable/Important,

- ♦ 75% and higher = Excellent/Very important

RESULTS AND DISCUSSION

The results of the mean values are shown in the tables below per factor as identified by the conceptual model to measure business success in the MI industry of South Africa. The mean values of each of the influencing factors are shown in Table 3. The mean values are summary mean values of the respective business success influencing factors of MI. This means that the mean value of a factor portrays the calculated mean values of the respective measuring criteria that pertain to that factor.

Table 3: Mean values of success influencing factors

<i>Factor</i>	<i>Mean (%)</i>
Trust	49.8%
Physical evidence	49.6%
Financial literacy	49.3%
People	49.2%
Communication	48.4%
Promotion	47.7%
Human resource training and development	47.7%
Technology	47.3%
Place	47.3%
Culture	47.2%
Measuring business success (General)	46.5%
Product	46.4%
Measuring business success over past two years	41.4%
Price	28.2%
Micro-credit-MI link	10.1%
Mean value of all influencing factors	43.75%

The mean values in the Tables 1, 2 and 3 portrayed a general dissatisfaction with regard to the performance of business success in the MI industry. According to the mean values calculated for the criteria, all of them were well below 60%. The criterion relating to price and the micro-credit-MI link has even deteriorated to below 30%. This signified catastrophic failure in business success. Even more so, as price was regarded to be one of the four core marketing mix elements. Failure at one of these core elements inevitably resulted in a breakdown of sales, and resultantly there can be no business success. The results signified that respondents were aware that reaching business success in the MI industry of South Africa is not easily attainable and that the low-end market is not a

lucrative insurance market. None of the criteria achieved the highest merit of exceeding the 75% margin. Although the MI industry is still at its preliminary stage of business development, respondents working for different insurance firms offering MI products and services believe that business success in the MI industry is neither promising nor good in South Africa.

CONCLUSION

This article focused on applying a validated model to measure business success in the MI industry of South Africa. The influencing factors that are important in the business success of MI were explored; and the results correlate with the current market for MI. The industry is struggling because all of the success influencing factors showed poor promise to business success. The customer base is low-income households that are not well financially educated; and the market is not well versed with the MI concept, importance and benefits.

Furthermore, there is a trend of having a low saving culture among the low-income segment of the population. Insurance culture has proven to be an important factor that needs to be addressed in the agenda of MI providers. An insurance culture undoubtedly has to be embedded among the low-income niche so that they understand the importance of having financial cover in times of hardship to alleviate financial distress. Many other influencing factors explained above also need to be addressed in conjunction with insurance culture. It is therefore important for the insurers in the MI industry to focus on the influencing factors that will contribute to their business success. This article positively addressed the issue of business success. Not only were the influencing

factors that signify business success identified, but also their relative reliability, consistency and importance. Furthermore, the article also measured the current state of affairs in the MI industry and provided a quantitative snapshot of the performance of each of the influencing factors of business success. This information empowers academics, researchers, managers and role-players in the MI industry to identify where managerial energy should be focused to improve the performance of the industry.

RECOMMENDATIONS

From the results, a number of recommendations could be formulated for micro-insurers to enhance business success in the current unsatisfactory market. These recommendations are that:

- ♦ Companies wishing to operate inside the MI industry should realise that this market is a low-margin harsh market. The overall dissatisfaction of the agents of all four big insurance companies suggests that there is basically not one factor that satisfactorily addresses business success in MI (all mean scores are below 60%). Insurance companies would have to address all influencing factors to achieve business success. Currently, without any alterations to the market approach, the future in this market is bleak.
- ♦ Failure of a core marketing mix factor, namely price, signifies clearly that sales and growth are not possible. The market is not ready for current insurance prices and innovative pricing strategies should be formulated to penetrate the market. Although R40 was imposed by the Financial Services Board to the micro-insurer for the Zimele-compliant MI product, the price charged has proved to be still unaffordable for some customers. The result is that there can be many lapses and surrenders before the maturity date. It is, therefore, important that the agent spends enough time in the assessment process of the financial questionnaire to ensure that the customer will be able to pay the premium charged. In the low-end market, price constitutes a significant influence on buying behaviour; and this factor requires immediate attention to obtain success in the MI market.
- ♦ Micro-loans should be linked to MI policies. However, this poses a legal problem, because this is currently against regulations governing MI in South Africa (ASI-SA 2009). Currently, MI has been identified as an innovative tool to counteract poverty; a micro-loan should not be secured by a property and a saving policy. If a low-income policyholder dies, the property can easily be taken away by the loan provider. However, if the micro-loan is secured by the MI policy as a means of collateral security, the latter can pay back the outstanding micro-loan amount. Therefore, the beneficiaries of the policyholder do not lose the property, which could deprive them of even more necessities.
- ♦ The influencing factors identified as important to MI service providers in the financial services sector correspond well with existing literature on the subject. Trust was shown to be a great concern for the customers. The low-income households should be able to trust the insurer. The customers want to get the reassurance and confidence that they will be paid in case there is a valid claim. The more trustworthy the insurer is, the higher the chances of business success. Insurers should make specific efforts to increase their trustworthiness in the MI market.
- ♦ The low-income households are not very versed in financial cover. Accordingly, specifically the low-end market in South Africa needs more financial education to better understand financial functions, such as insurance. Furthermore, there is a low saving culture among the poor people in South Africa, which comprises most of the low-income segment. Therefore, a coherent insurance culture has to be created, embedded and maintained among the low-income household niche.
- ♦ Communication between the customer and the insurer has proved to be an important factor for business success. The more communication between the service provider of MI and the customer exists, the better the chances of business success are. Ease of communication and accessibility should be actively enhanced by insurance companies.
- ♦ Product choice has proven to be one of the most important managerial decisions with regard to business success. The terms and conditions and benefits of the MI product are of concern to respondents. The customer is of the opinion that he/she spends a significant amount of money on a policy; and the payment in times of claim should come standard with the product. Insurers should therefore pay attention to the product they put on offer and ensure complete understanding of the terms of the contract.

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