Evaluating business success in the Microinsurance industry of South Africa

by

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"To promote sustained economic growth and development, South Africa needs a stable financial services sector that is accessible to all".

(National Treasury of South Africa, 2011)

'Endemic and widespread poverty continues to disfigure the face of our country. It will always be impossible for us to say that we have fully restored the dignity of all our people as long as this situation persists. For this reason the struggle to eradicate poverty has been and will continue to be a cornerstone of the national effort to build the new South Africa'.

(President Thabo Mbeki, 2004)

'African insurers should use microinsurance to fight poverty.'

(Freda Du Toit, 2008, Director of SDT Financial Software Solutions)

ABSTRACT

Microinsurance is still at an embryonic stage in South Africa. The outcome is seen in the significant number of low-income people who are either financially excluded or know very little about Microinsurance. Insurance firms and the authorities are beginning to recognize the future potential of the low-income market and the longer term benefits of building a customer database in a new market segment. Knowledge and management strategies aimed to improve the business success of the microinsurance industry are also limited. This leads to the primary objective of this study, namely to measure business success of the microinsurance industry in South Africa. Hence, the secondary objectives are to perform a literature study on microinsurance to put the industry in perspective in South Africa, to compile a theoretical model to measure business success in the industry, to validate the model and to apply the model to measure the business success in the microinsurance industry. The study is presented in a series of four articles, each article serving a secondary objective.

The empirical study measured business success variables on a 5-point Likert scale from a conveniently sample consisting of financial advisers operating within the microinsurance market. Some 261 questionnaires were received from the respondents of four insurance firms licensed to offer microinsurance in South Africa, namely Old Mutual, Sanlam, Metropolitan and Safrican Insurance firms. The results showed that fifteen business success independent variables could be identified from the literature, namely: communication, trust, financial literacy, product, price, place, promotion, culture, technology, microfinance-microinsurance link, microinsurance regulatory framework, human resource training and development, physical evidence, process and people. The criteria that measured each of the variables were determined and the variables with its measuring criteria were integrated into a structured questionnaire (each comprising 107 questions) for use in the microinsurance industry.

The data were tested for reliability using the Cronbach Alpha coefficient, and the questionnaire was validated using the Kaiser-Meyer-Olkin test for sample adequacy, the Bartlett's test of Sphericity and exploratory factor analysis. The results obtained indicated that the questionnaire is valid for use to measure business success in the microinsurance industry of South Africa. The results validated the identified variables, while also showing that some of the variables were dualistic in nature. Some variables were discarded due to unsatisfactory reliability coefficients. Descriptive statistics were used to measure the

business success of microinsurance in the South African context. The mean results for business success for the microinsurance industry of South Africa portrayed a general dissatisfaction (results below the parameters of 60%) which means that much still needs to be done in the MI industry to reach business success, hence showing the importance and relevance of the research and the business success model which measured successfully. The findings revealed that trust and physical evidence have had the least bearing on business success with a mean result of 49.8% and 49.6 % respectively. On the other hand, business success in MI fails highest on credit-insurance link and price showing a mean result of 10.1% and 28.2% respectively requiring urgent management intervention. All of the variables identified need managerial address.

Some of the more important recommendations are that investment in the professional appearance, attitude, caring component and good customer service are crucial to the business success of the insurer. Training and development of the agents and staff through passing of the Financial Sector Charter exams for an operating license in offering microinsurance Industry is more likely to increase the confidence of the low-income people, thus the element of trust could be established. A coherent insurance culture should be created among the low-income households through financial education and awareness programmes of microinsurance Industry. Financial literacy and communication work hand in hand to promote business success. A wider array of microinsurance Industry products should be designed instead of only the funeral cover, for instance, crop insurance for the farmers in times of climate instability. An affordable premium rate should be established before lapses and surrenders of policies take place just because during the contract, the customer sees that the premium charged is too expensive. To counteract that, a good financial assessment should be conducted beforehand. Communication through updated technology from head office to branches and vice versa should be faster to enhance customer service. More players should be involved, for instance, call centres, fast food outlets and retailers to promote microinsurance Industry products and services. Furthermore, branches should be located in convenient locations where the low-income households live. Accessibility of offices is found to be a key to business success. The microinsurance Industry should be designed in a way to secure microloans as collateral security. In case of death, the person who takes the loan does not lose his property as collateral security which even impoverished his beneficiaries. One must not forget that microinsurance Industry has been classified as an important tool to alleviate poverty levels which is an important phenomenon in South Africa. Therefore, the purpose should not be defeated.

Finally but not least, there is a need for a microinsurance Act to be published as soon as possible to protect customer abuse especially in view of the fact that there is currently many unlicensed microinsurance providers according to the National Treasury of South Africa. In respect of the findings and results, many recommendations are made and can contribute wisely to the business success of firms, if implemented.

***Key words**: Microinsurance (MI), Zimele-MI product, low-income people, low-income households, Living Standard Measure, financially exclusion, business success, factor analysis, reliability, theoretical model.*

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LIST OF ABBREVIATIONS

ASISA	Association of Savings and Investments of South Africa
CBO	Community based Organisations
CRM	Customer Relationship Management
FAIS	Financial Advisory and Intermediary Services
GDP	Gross Domestic Product
GPS	Global Positioning System
FSB	Financial Services Board
FSC	Financial Sector Charter
ILO	International Labour Organisation
IIR	Institute of International Research
LOA	Life Offices' Association
LOASA	Life Offices' Association South Africa
LSM	Living Standard Measure
KMO	Kaiser-Meyer-Olkin measure of sampling adequacy
MDGs	Millennium Development Goals
MI	Microinsurance
MIF	Microinsurance Innovation Facility
OMSA	Old Mutual South Africa
SAIA	South African Insurance Association
SPSS	Statistical Package for the Social Sciences
UN	United Nations
UNDP	United Nations Development Programme

CHAPTER 1

NATURE AND SCOPE OF STUDY

1.1 INTRODUCTION

In an emerging economy like in South Africa, financial exclusion is a challenge in the financial sector as too many South Africans remain excluded from formal financial services (National Treasury of South Africa, 2011). For this reason, the National Treasury of South Africa has prioritised access to financial services as an important objective in the sector's reform. Indeed this was a key objective in the 2004 Financial Sector Charter (FSC), resulting in the Mzansi banking accounts initiative, which provided access to many previously unbanked people (National Treasury of South Africa, 2011).

The challenge of inclusion is proving to be more difficult in the insurance sector. While informal insurance remains one of the largest single financial services in South Africa, insurance cover obtained by a registered insurer reflects a penetration rate of only 25.6% (National Treasury of South Africa, 2011). The take up of insurance since 2008 (when it stood at an even lower rate of 19.6%), and a seeming improvement in the mind-set of South Africans towards insurance, masks a concerning feature within the South African market: that the importance of insurance for personal risk reduction is understood, but not necessarily translated into behaviour.

The South African insurance industry accounts for 71% of Africa's total premiums and has the third largest insurance penetration of 15.3% in the world (PriceWaterhouseCoopers, 2010). However, with more than 70% of the South African households classified as low income earners (those earning less than R3000 a month), it has been reported that South Africa has a long way to go before its population is adequately insured (IRR), 2010). Just over 35% of the

South African low-income earners have life policies (Centre for Financial Regulation and Inclusion of South Africa, 2010). The Living Standard Measure one to five (LSM 1-5) which consists of about just under 20 million people; 33.2% of the market have a funeral cover; only 2.2% have other life cover and only 0.04% have credit life insurance (IRR, 2010). Referred to as the “Insurance Gap”, approximately 65% of the low-income households which are not insured represent a huge opportunity for the South African insurance industry (LOA, 2007a).

As a result of the abovementioned, the insurance industry in South Africa has launched measures aimed at giving low-income earners access to insurance (Mafu, 2007). Microinsurance refers to the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved (Churchill, 2006:12).

Zimele policies in South Africa are classified as microinsurance products (Association of Savings and Investments of South Africa, 2009). The product standard, branded Zimele, a Zulu word meaning "stand on your own", has been offered by firms, for instance the Hollard Insurance firm, Old Mutual Insurance firm, Absa Life and other insurers which are licensed, have issued these policies. In February 2007, new measures aimed at ensuring that South Africa’s low-income earners were given access to appropriate life products were announced (LOA, 2007b). The new measures have come in the form of life insurance product standards which guarantee fair charges, easy access and decent terms. In 2007, Gerhard Joubert, CEO of the LOA, said the Zimele product, which signalled a new era of protection for South Africans earning less than R3 000 a month, were developed by the LOA following extensive research aimed at establishing the needs of low-income households (Mafu, 2007).

Zimele is the result of extensive consultation with the Financial Sector Charter (FSC) participants and has been approved by all stakeholders involved, as well as the FSC board (Association of Savings and Investments of South Africa, 2009).
The first Zimele stamped product was funeral cover. As mentioned earlier, the microinsurance market is mainly characterised by funeral cover with more than

one in four belonging to a burial society in 2007 making them one of the most commonly held financial products. Zimele products such as funeral cover, life and disability policies are about raising financial awareness among the most vulnerable consumers (LOA, 2007a). The vulnerable consumers are mostly the low-income earners who are more prone to unexpected events and risks.

Workers in the informal economy and their families live and work in risky environments, vulnerable to numerous perils, including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses, and disasters of both the natural and man-made varieties (Churchill, 2006:14). The poor are more vulnerable to many of these risks than the rest of the population, and yet they are the least able to cope when a crisis does occur, as financial support is not available. For instance, the fire which ripped through the Mangologolo in Denver, Johannesburg on the 26 September 2010 burned 230 shacks and 513 of the people were left homeless (Anon., 2010a). Have these low-income households had any form of microinsurance policy they would have claimed back their policy and obtained some financial support. However, it was not the case; their state was even further impoverished.

Insurance is one way for the poor to protect themselves. As one of the main objectives of Millennium Development Goals (MDGs) is to halve poverty by 2015, microinsurance is one of the important financial tools to protect the low-income earners against the uncertainties and unexpected risks (Microinsurance Network, 2010). By helping low-income households manage risk, microinsurance can assist them to maintain a sense of financial confidence even in the face of significant vulnerability. Blue financial services in South Africa identified that two-thirds of human beings suffering from extreme poverty are women who manage to survive on approximately R10 a day. This makes them extremely vulnerable to negative influences such as the financial consequences of common risks (Trade Invest Africa, 2010).

Poverty eradication remains the priority for South Africa as there are still many people living in extreme poverty (NGO News Africa, 2010). Microinsurance has a

vital role to play in reducing poverty in Africa (Du Toit, 2008). If government, Micro Financial Institutions (MFIs), insurers and other relevant organisations have had only one single serious target (poverty) to combat on their agenda, the provision of microinsurance has to be their only focus area. Any firm offering microinsurance products and services will be more likely to be profitable. The chance of growth for the insurance industry will be more probable as employment and welfare are more likely to prevail. By utilising microinsurance opportunities effectively, empowerment, upliftment and creation of sustainability in South Africa will be maintained (Anon., 2010a).

However, in view of the relatively new market and complex nature of microinsurance in South Africa, it is not easy for the insurers to gain exposure to the low-income market which represents more than 70% of the population, due to problems which will be discussed in the next sections. Therefore, the study had identified and investigated critical factors necessary for implementation in organisations which are licensed to offer microinsurance products and services, hence a proposed theoretical model developed so as to assist the insurers to improve their business success.

1.2 CONCEPTUAL DEFINITIONS

The following definitions are frequently used in the study and are defined as follows:

Microinsurance (MI) is defined by the International Association of Insurance Supervisors (IAIS, 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
- Does not operate in isolation, but forms part of the broader insurance market, distinguished by particular market segment focus.

The above definition has been used by the National Treasury of South Africa in 2008 when they were discussing the future of the regulatory landscape of microinsurance in South Africa.

Microinsurance is defined as the protection of low-income people against specific perils in exchange for regular monetary payments (premiums) proportionate to the likelihood and cost of the risk involved (Churchill, 2006:14).

The **Zimele-MI product** brand aims to help South Africa's low income earners, those earning Rand 3 000 a month or less, to easily identify those life insurance products that meet the Financial Sector Charter's minimum product requirements of fair charges, easy access and decent terms (ASISA, 2009).

Low-income people/households/earners may refer to a specific income bracket, in others only to the black low income market, and in other cases it may simply be a generalised grouping (Hartwig, 2000).

Living Standard Measure (LSM) is a system of categorisation in South Africa to provide socio-economic groupings. It is not based on, but highly correlated to, income (South African Savings Institute, 2008).

Living Standard Measure 1-5 (LSM 1-5) is used for Microinsurance (MI) in South Africa - for those earning less than R3 000 per month (ASISA, 2009).

Financial exclusion refers to inadequate access to financial services. Persons who are financially excluded do not have bank accounts and long- and short-term insurance products that are normally held by members of society (De Koker, 2005).

Business success in the context of microinsurance refers to the measure of success of a microinsurance 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 & Tande, 2011, Bromage, 2003, Evans and Bermans, 1994, Forbes, 2011, Kotler, 2003, Lancaster Reynolds, 2004, Reichard & Ravi, 2006 , and Shaun & Merrick, 2005 and Seller & Gurewitsch, 2005).

1.3 PROBLEM STATEMENT AND SUBSTANTIATION

Poverty is the major problem in most developing countries (World Bank Development Report, 2008). It is argued that, inadequate access of cover by the poor is a major cause of poverty in developing countries (Jean-Luc, 2006:17). With an estimated population of 49,991 300 people, 47.1% of the South African population consumed less than the "lower-bound" poverty line (those earning less than R2000 per month), South Africa is categorized by the World Bank as among the poor countries in the world (World Bank Development Report, 2008). The economy has been experiencing slow growth while the disparity between the rich and the poor continue to widen. The result of slow economic growth is characterized by widespread inflation, unemployment and high levels of poverty where over two-thirds of human beings suffering from extreme poverty are women who manage to survive on approximately R10 a day (IRR, 2010).

South Africa's development challenge therefore remains in finding sustainable poverty eradication strategies. As one of the main objectives of Millennium Development Goals (MDGs) is to halve poverty by 2015, microinsurance is one of the important financial tools to bring down poverty (Microinsurance Network, 2010).

Microinsurance deals with many problems which will be discussed in this section that are deep-rooted in the socio-economic structure that South Africa inherited from the apartheid era (Aliber, 2002). For instance, microinsurance mitigates extreme poverty and hunger through the provision of microinsurance products such as agricultural insurance for farmers, life assurance cover and funeral cover. Furthermore, it reduces child mortality, improves maternal health and combating

HIV/AIDS through the provision of microinsurance products such as health insurance for families at a low premium rate.

However, very little research has been done in the field of microinsurance in South Africa while there is a huge opportunity of an “untapped” market (approximately 65% are not uninsured), hence creating the need for scope of research in this area.

Therefore, it is evident that microinsurance is important in South Africa, however the firms providing microinsurance products and services experience some problems in gaining exposure in the low-income market. One of the biggest problems is that there is an ongoing challenge to explain the concept and benefits of microinsurance to the low-income households. Insurance literacy is currently recognised as one of the most important hurdles to overcome. Educating the clients on the benefits of insurance is an indispensible ingredient to the success of any microinsurance provider. The low-income households are generally faced with little awareness and lack of financial education (Microinsurance Network, 2010). The poor often lacks familiarity with insurance and do not understand the mechanism of the cover. Until one has actually received a claim payout, insurance benefits are intangible, therefore it is difficult to persuade someone to part with their limited resources to buy the peace of mind (Microinsurance Network, 2010).

Microinsurers need to find ways of convincing the target market that they are indeed trustworthy. Generally, if the poor do not have to claim, they may believe that they have wasted their premium income (Microinsurance Network, 2010). Policyholders do not generally trust that the insurer will pay out the benefits in the event of a claim. The market often perceives insurers as quick to take their money, but slow to settle the claim. Moreover, the low-income people are often susceptible to fraudulent schemes which in some locations have undermined the credibility of legitimate insurers. Creating awareness through use of pictorial posters, local folk arts and street theatres might be useful to explain the mechanisms of microinsurance. Insurers must include the characteristics of the product design;

lapsed policies, premium payment and claims processing delays. For instance, the contract should be written in an understandable language.

Low margins in microinsurance are often a function of insufficient premium volume to generate surpluses needed to cover product development costs. This can be supported by the fact that high costs incurred by insurers to reach the low-income earners in the most remote places; villages, suburbs and locations while premium rates were low (R40 per month) (LOA, 2007b). This increases the transactional costs of microinsurance products which put pressures on the price of the policies. Scale is needed to achieve a stable pool of risks, and greater efficiency (economies of scale) in operations (Angove & Tande, 2011).

There is always tension between providing benefits demanded by the market and keeping premiums at an affordable level (Angove & Tande, 2011). For instance, Old Mutual South Africa introduced a range of benefit options to allow clients to select an affordable price point for benefits that they valued. This strategy was selected by OMSA in response to a finding that a number of policies sold by burial societies were lapsing as they were forced to select options where premiums were too expensive.

The low-income earners not only want insurance to be affordable, but also to protect against high-frequency risks such as serious illness, accidents, harvest failure and fire. However, insurance firms mostly offer standardised products for the clientele in the Living Standard Measure categories 1-5 (LSM 1-5). Insurance firms should significantly broaden the scope of products and services with a readiness to customise these to the needs of the low-income earners. For instance, health insurance, to counteract the high prevalence of HIV/AIDS in South Africa, livestock insurance for farmers and asset insurance should be included in the portfolio of microinsurance to widen the array of life and funeral products presently being offered.

In addition, (Mafu, 2007) warns that to go 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 network nationally. Zuriel Naiker, the communications manager at Hollard Insurance Company in South Africa, said the traditional methods of insurance distribution were not appropriate for the lower income groups. The comments come a month after the launch of Zimele standards in 2007 by the LOA (LOA, 2007b). The CEO of Channel Life said that the product was sold through a call-centre and its low margins were not sufficient to pay for staff salaries, call-centre systems and software.

Therefore, innovative methods of distribution will have to be launched since premium rates are low and therefore also the profit margins of insurers. Some small and medium insurers were partnering with banks and retail stores to sell the product to the low-income market (Joubert, 2007).

Further, to support the fact that very little has been done in the field of microinsurance in South Africa, research shows that there is no “Microinsurance Act” presently. There are a number of motivations for developing a coherent microinsurance regulatory framework. Firstly, more than two thirds of funeral cover are sold by informal burial societies that are not licensed by a relevant act and therefore is classified as an illegal business (National Treasury of South Africa, 2008). The market conduct regulation of microinsurance is primarily contained in the Financial Advisory and Intermediary Services Act no. 37 of 2002 (FAIS). Secondly, the greater drive towards consumer protection embodied in the FAIS Act increases the per transaction cost of intermediating financial services, creating a disincentive to serve the lower-income and (hence lower revenue per premium) clients. Thirdly, concerns about the potential consumer abuse in the low income market, combined with government’s commitment under the charter to remove regulatory barriers to market development have prompted the National Treasury (the policy-making body for the financial sector) to reconsider the insurance regulatory framework in South Africa (National Treasury of South Africa, 2008).

The Bill and Melinda Gates Foundation has been continuously giving grants to developing countries including South Africa to develop further the microinsurance

industry (ILO, 2008). However, the absence of a coherent regulatory regime of microinsurance in place hinders the further development of the microinsurance market in South Africa while there is a population of approximately 65% of low-income market which are still untapped.

The main aim is to create a microinsurance regulatory space to (i) bring down the regulatory unit costs in order to facilitate outreach into the lower income market by formal insurers and (ii) provide formalisation and graduation options for the microinsurance market.

Despite the above problems, the full potential of business success by microinsurers is only beginning to be grasped. The aim is not just to tackle the abovementioned problems in theory but also to ensure that these challenges facing the microinsurance market have been effectively addressed and implemented by the insurers in an attempt to ultimately reach business success. However, the main question is what must insurers do to enable the growth of an affordable, cost effective and sustainable framework of microinsurance and hence improve their business success.

Following the above question and reasoning, the purpose of the study was to investigate the influence of the critical factors that have contributed towards the business success of microinsurers in South Africa, hence creating a proposed theoretical microinsurance model that is conducive to the South African economy.

1.4 RESEARCH OBJECTIVES

Following the above problem statement, the following objectives of the study can be stated.

1.4.1 Primary objective

The primary objective of this study was to measure the business success of the microinsurance industry in South Africa over the past two years.

1.4.2 Secondary objectives

In order to achieve the primary objective, the following secondary objectives are formulated, namely to:

- Perform a literature study of the microinsurance industry and gain perspective of microinsurance as a business activity in South Africa;
- Construct a theoretical model to measure the business success of microinsurance in South Africa;
- Validate the theoretical model to measure the business success of microinsurance in South Africa;
- Measure the business success of microinsurance in South Africa, and to
- Draw conclusions, offer recommendations and identify areas for future research to South Africa's microinsurance industry.

1.5 BUSINESS SUCCESS

The dependent variable, business success, in this study's context refers to the measure of success of a microinsurance firm, through growth in market share, profitability, satisfied stakeholders (customers, employees, shareholders, the government and other players), increase in revenue and profit growth (Bromage, 2003).

Business success is defined as a business firm's ability to achieve sales growth and effective customer relations management (CRM). Kotler (2003:83) suggests that firms that achieve customer value and satisfaction through effective customer relations management (CRM), achieve "high repeat purchases" (that is, more sales) and "ultimately high company profitability". Sales growth and effective customer relations management are therefore two of the main indicators of business success.

Sales growth is an important indicator of business success (Kotler, 2003:84). According to Shaun and Merrick (2005:39), sales growth is marketing managers' most common criteria for measuring the effectiveness of their marketing function in a business. Sales growth is defined in this study as the perceived extent to which a firm achieves sales targets, increases market share and generates sale of products with long term profitability.

Kotler (2003:84) and Lancaster and Reynolds (2004:9) state that customers are paramount to any business and effective customer relations management (CRM) is a key indicator of business success. Effective CRM is a business strategy that succeeds in integrating a business's people, processes and technology in such a way that it maximises its relationships with its customers, suppliers and distributors (Lancaster & Reynolds, 2004:9).

Kotler (2003:85) suggests that certain process variables should be implemented in business in order for them to achieve sales growth and effective CRM. These process variables, among others, include the development and launching of new products (Evans & Bermans, 1994). When a firm launches, it must consider important decisions on the tangible and intangible attributes of the product, how the product is going to be priced, how it is going to be communicated (promoted to the market) and how it is going to be distributed in the market. In other words, the firm should have a product, pricing, promotion and placing launching strategy in order to introduce a product successfully to the market.

The availability of resources, namely labour and information technology is a key ingredient in the success of businesses. Resource management is defined as the ability to undertake the management (ensuring the availability and efficiency) of the abovementioned resources.

According to Seller and Gurewitsch (2005:14) and Kotler (2003:87), an important success factor in achieving high performance is the nature of the organisation, which includes the firm's policies, structure and organisational culture. A positive

organisational culture improves entrepreneurship, creativity, adaptability, dynamism and service quality (Richard & Ravi, 2006:20).

1.6 RESEARCH DESIGN AND METHODOLOGY

Collis and Hussey (2003) identified a continuum comprising two main research paradigms, namely the positivistic paradigm and the phenomenological paradigm. The positivistic approach attempts to explain social phenomena by establishing a relation between variables which are information converted into numbers. The phenomenological paradigm suggests that social reality lies within the unit of research, and that the act of investigating the reality has an effect on that reality. This paradigm pays considerable regard to the subjective state of the individual.

In order to give direction to the study, the following section provides a brief outline of the research design and methodology.

1.6.1 Research design

The study was an exploratory research investigation following a quantitative (positivistic) approach, because a framework was empirically tested. It has therefore attempted to familiarise and diagnose the nature of the problem currently present in the microinsurance sector in relation to the business success of South African microinsurers, keeping in mind that subsequent research may be required. Questionnaires have been administered to the Metropolitan, Safrican, Old Mutual South Africa, and Sanlam firms' employees in South Africa after which gathered data were analysed and quantitatively and statistically interpreted using computer software such as Microsoft Excel and SPSS (V18).

Questionnaire items were related to the independent variables and business success (the dependent variable). The research attempted to broadly analyse and investigate the inter-relationships among the variables and the effect of the independent variables on the dependent variable being business success. Thus, information regarding the independent variables and the business success of

South African microinsurers has been collected from both primary and secondary sources.

1.6.2 Research method

In order to conduct this study, both secondary and primary sources were used.

- **Secondary sources**

  In order to assess the independent variables and the business success of microinsurers, a literature overview was conducted by consulting various textbooks, journals, industry reports and websites of microinsurers. These secondary sources provided an insight into the current South African microinsurance industry.

- **Primary sources**

  Primary research was conducted by means of an empirical study. A five-point Likert-type scale questionnaire was constructed and administered to a number of employees at the OMSA, Safrican, Metropolitan and Sanlam Insurance firms. It has assisted the researcher in assessing the relationships between the independent variables, and the business success (dependent variable) of insurance firms.

1.7 SCOPE OF THE RESEARCH

The scope of the study was limited to a sample comprising 400 employees at the OMSA, Sanlam Metropolitan and Safrican Insurance firm. The employees were working both full-time and part-time at the firm. The respondents comprised of employees in general positions, managers and directors. The reason behind the selection of the chosen sample is that the Old Mutual firm was the pioneer to launch the Zimele-compliant funeral cover into the market and the employees were more likely to be aware of the concept of microinsurance (Old Mutual Insurance Annual Report, 2007). Furthermore, Old Mutual and Sanlam Insurance firms are classified as the largest insurers in South Africa to offer the

microinsurance products and services (Business Monitor Insurance Second Quarterly Report, 2010). Metropolitan and Safrican Insurance firms' niche market are also the low-income segment (BMI Second Quarterly Report, 2010). Therefore, it is more probable that the employees were more familiar to answer the questions pertaining to the influence of the independent variables, on the dependent variable (business success) of the firm.

Therefore the scope of the research has aimed to investigate the variables influencing the business success of the OMSA, Safrican, Metropolitan and Sanlam Insurance firms.

1.8 DATA COLLECTION AND ANALYSIS

This section concisely discusses the measuring instrument, the chosen sampling method and the data analysis procedure that were followed.

1.8.1 Questionnaire design

A self-administered questionnaire comprising a five-point Likert-type scale was constructed. The degree of the scale ranges from 'strongly disagree (1) to 'strongly agree' (5). Items were developed according to each independent variable possibly influencing business success. Since there has been very little, if not any previous research done in South Africa in respect of the microinsurance concept, it was impossible to get selected items from previous research that could be included and adapted for this study. However, important issues regarding clarity, reliability and validity were given considerable attention when formulating items relating to the independent variables and the dependent variable, namely business success of microinsurers.

The questionnaire consisted of four sections and a covering letter. Section A addressed all the biographical and demographical data of the respondents. Section B has its objective to gather information on the independent variables through the use of a five-point Likert-type scale. It has attempted to obtain data

that has aided in assessing and measuring the respondent's perceptions regarding the variables influencing the business success of the insurance firm. Section C and D addressed questions relating to the measurement of business success of insurance firms. The researcher herself physically collected and administered the questionnaires from the respondents (at the respondents' convenient time) at the OMSA, Safrican, Metropolitan and Sanlam Insurance firms. The questionnaire took on average 20 to 25 minutes per respondent to complete. Each questionnaire consists of 107 questions.

Questionnaire instructions were communicated by the researcher to each respondent. The researcher responded and resolved any questions and queries regarding any misunderstanding or complexities of the questionnaire. The language of communication is English. The data obtained has assisted the researcher in assessing the relationship between the independent variables; and the dependent variable; business success of microinsurance firms.

1.8.2 Sampling/Collection method

A convenience sample was drawn. The researcher aimed at respondents most conveniently available. The researcher was responsible for the selection of the sample. The size of the sample was restricted to 400 employees and 300 responses were expected.

The researcher arranged appointments with the relevant personal assistants of the different departments of the insurance firm regarding the monthly meeting of each department. The researcher herself called at the meeting and explained the objectives of the research and importance of the study. The researcher requested that the employees took some minutes of their time to fill in the questionnaire. Collection of data/questionnaire was done by the researcher at the respondents' call of time and date.

The researcher received a total of 261 questionnaires from an initial 400 questionnaires that were handed to the respondents. This represented a satisfactory response rate of 65.25%.

1.8.3 Data analysis procedure

The questionnaire made use of basic coding procedures to facilitate better analysis and interpretation. Various statistical methods and procedures were thus being employed, such as the mean and grand mean. Cronbach Alpha was used to identify reliability. Validation of the measuring instrument was supported by the exploratory factor analysis, most specifically the Varimax rotation. Two tests were undertaken: KMO test of sample adequacy and the Bartlett's test of sphericity. The answers gave an indication of the relationship between the independent variables and dependent variable. Further, the analysis gave directions and recommendations to the various stakeholders about the most important independent variable influencing the dependent variable.

1.9 STATISTICAL TECHNIQUES

Quantitative analysis was used to analyse the data for all the articles. The statistical analysis for this study was performed by the Statistical Consultation Services of the North-West University using the Statistical Package for the Social Sciences (SPSS V18) (Du Plessis, 2009:27).

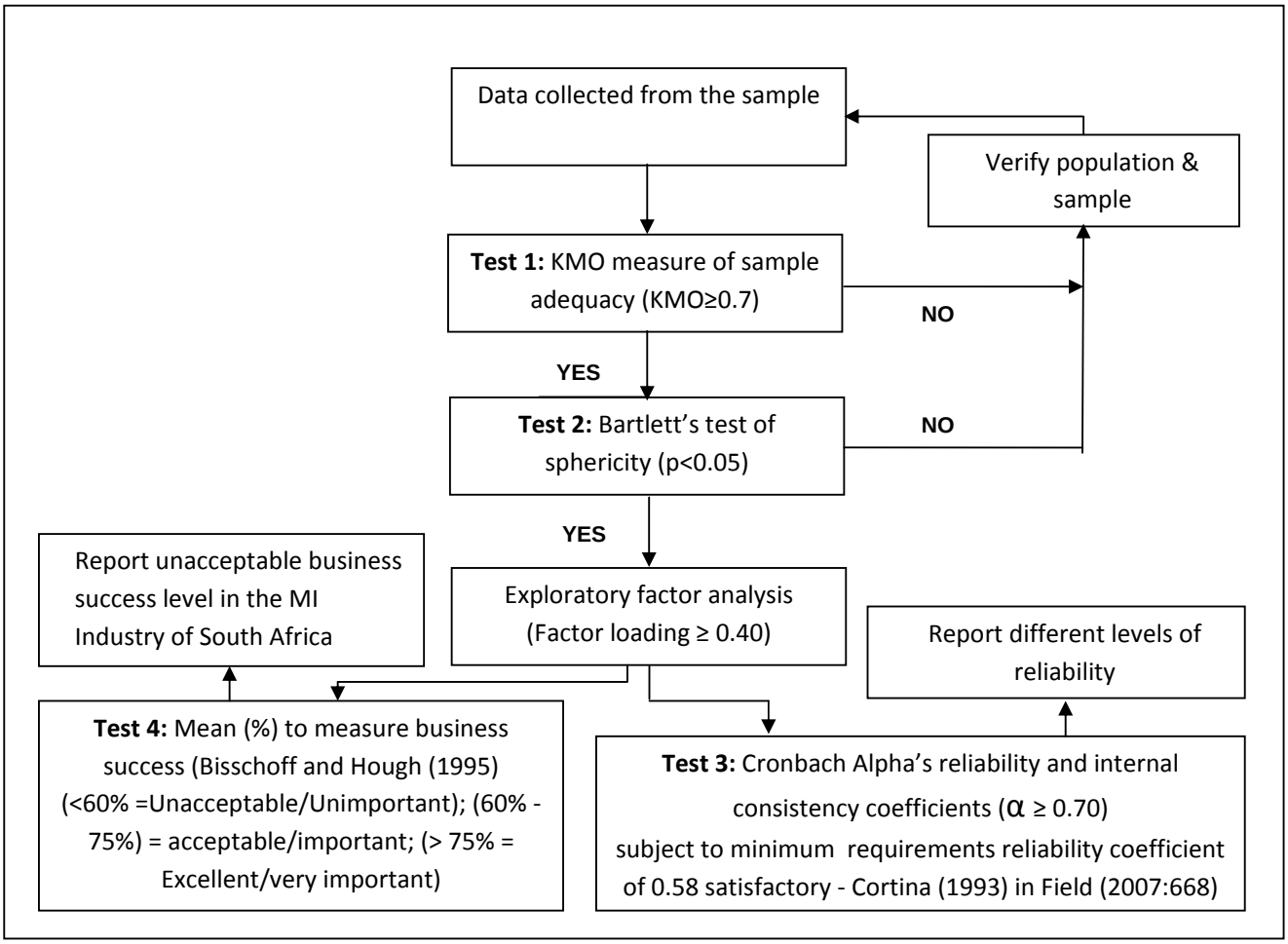
The purification process in article four made use of the mean and grand mean to measure business success. Mean is simply the arithmetic average and is the most commonly used measure of central tendency (Zikmund, 2003). According to Statistica (2006), grand mean refers to the sum of all means divided by the number of questions per topic. For the purpose of this study, grand mean is a summary index to measure business success of microinsurance.

In order to determine the reliability of the collected data, Cronbach Alpha coefficients were calculated for each factor. This is one method of estimating the

reliability and internal consistency among the items. Cronbach Alpha values of 0.70 and higher are deemed to be satisfactory (Field, 2007:666). However, Cortina (1993) (in Field, 2007:668) states that even a reliability coefficient of 0.58 is satisfactory. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy as well as the Bartlett's test of sphericity was examined, in order to determine the appropriateness of principal components analysis for the collected data (Field, 2007:640). The objective of using the KMO measure of sampling adequacy is to examine whether the relationship between variables is strong enough to proceed with a factor analysis. The larger the KMO value, the more reliable the factor analysis for this particular sample size.

However, the factor analysis is likely to be inappropriate for values smaller than 0.5, thus more data should be collected or different factors selected. The Bartlett's test on the other hand, would only be significant for data reduction by principal components if $p<.00001$ (Field, 2007:640, 642 & 648). These two measures were used to test whether the sample employed was adequate for data analysis (KMO), and to ensure that the data was suitable and that it could be subjected to a factor analysis (Bartlett's test of Sphericity). See Figure 1.1 below on the integration of statistical techniques and their decision-making rationale.

Figure 1.1: Data Analysis Decision Tree



Source: Adapted from Naidoo (2011:19)

Finally, the data were subjected to a factor analysis in order to confirm the independent variables that had been identified from the literature. Factor analysis was also used when these constructs did not confirm as single entity, to identify the underlying entities or sub factors within. The factor analysis also purified the statements from the measuring instrument by identifying the less important statements that could be deleted. The Varimax rotational method was used as it maximises the variance explained by factors if there is a low correlation coefficient between the factors (Du Plessis, 2010; Field, 2007:749). The factor analysis provided the variance explained of each construct as an indicator of relative importance (Field, 2007:667). Finally, mean was used to measure the business success in the MI industry of South Africa.

1.10 LIMITATION OF THE STUDY

The following possible limitations pertain to the study:

- In undertaking the research, the researcher acknowledges that since it is a new topic of interest for the country, there is very limited data (books, journals) on microinsurance in South Africa.

- The 107 questions contained in one questionnaire made it lengthy, cumbersome and hectic to answer by the respondent in view of the profile and nature of the new evolving subject. To encourage the respondent to fill in the questionnaire fully and properly, the researcher physically called at the respective insurance firm during working hours upon the respondent's free time to answer queries and retrieve the maximum amount of data. At times, it was rather difficult to wait for long while the respondent was busy attending meetings or working.

- Another concern is the issue of validity, that is, the extent to which the questionnaire satisfies its intended purpose. Although fifteen independent variables were identified it could be that the study does not identify all independent variables but the majority ones pertaining to business success.

- However, the construct validity and reliability pertaining to the questionnaire were statistically evaluated and reported on in the discussion of the empirical results. These results were satisfactory, and the questionnaire is deemed to be a valid measuring tool to be used in the microinsurance industry of South Africa.

- The relative proportion of non-replies could also have a negative influence on the validity of the results. However, it proved that the sample was adequate and that the data were suitable for quantitative statistical analysis. It is, therefore, not suspected that the findings may have been different had more responded to the questionnaire.

1.11 LAYOUT OF THE STUDY

The study is written in the article format. This means that it consists of six chapters: an introductory chapter, four article-format chapters, and the final chapter that provides a summary of the study as a whole. A brief content of the chapters and article-chapters is provided below.

CHAPTER ONE: **NATURE AND SCOPE OF STUDY**

Chapter one has outlined the Introduction, Problem statement, Objectives, Research Methodology, Statistical Techniques used, Limitation of the study and the Layout of the study.

ARTICLE ONE: A PERSPECTIVE OF MICROINSURANCE IN SOUTH AFRICA

Article one discusses the theoretical part and the contribution of the microinsurance industry to the global economy and to the South African economy, hence creating a microinsurance environment. In this article, it is evident that there are a number of factors that contribute to a lack in the provision of microinsurance in South Africa. Some of the main factors revolve around trust, absence of a "Microinsurance Act", financial literacy, distribution, cost and profitability among others. The article has revealed that these challenges need to be addressed for a well versed microinsurance environment in SA. Some recommendations have been given in this regard.

ARTICLE TWO: A THEORETICAL MODEL TO MEASURE THE BUSINESS SUCCESS

Article two focuses on the identification and measurements of the variables of microinsurance, which aids in creating the questionnaire and the theoretical model. Variables/constructs of microinsurance and business success are identified and measured based on the literature study. To give effect to the measurement of microinsurance, a table is devised in the form of Questions and the Source. The article ends with the compilation of a theoretical model to be tested in article three and the development of the questionnaire from the model.

ARTICLE THREE: VALIDATION OF A THEORETICAL MODEL TO MEASURE BUSINESS SUCCESS OF MICROINSURANCE IN SOUTH AFRICA

In this article, the theoretical model and questionnaire are developed and validated. The empirical results from the empirical investigation are discussed in this article and revealed positive results for most variables. The theories of the statistical techniques used are explained. Various statistical methods and procedures are thus employed, such as the Cronbach Alpha to calculate reliability. Validation of the measuring instrument is supported by the exploratory factor analysis, most specifically the Varimax rotation. Two tests are undertaken; KMO test of sample adequacy and the Bartlett's test of sphericity. The findings have revealed that the questionnaire is valid for use in the MI industry of SA.

ARTICLE FOUR: MEASURING THE BUSINESS SUCCESS OF MICROINSURANCE IN SOUTH AFRICA

Article four focuses on measuring the business success of microinsurance of South Africa. The validated theoretical model is purified. All the unreliable factors, sub-factors and items are deleted to measure business success. The findings have revealed that business success is an area of concern in the MI industry of South Africa. A model of business success is presented for the microinsurance industry of South Africa.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

This chapter summarizes the main findings of the study, draws conclusions and makes recommendations. The chapter also summarises all the findings and provides a model of business success for the microinsurance industry of South Africa, while possible future areas of research are identified.

1.12 SUMMARY

This chapter sets the scene for the study. In this chapter the background and problem statement have been discussed. The significance, the purpose of the study, the objectives, the research methodology, limitations and layout of the study have been provided. The next chapter that is, article one, focuses on placing microinsurance in perspective.

CHAPTER 2

ARTICLE 1:

A PERSPECTIVE OF MICROINSURANCE IN SOUTH AFRICA

ABSTRACT

Previously, the insurance industry only developed financial products and services that were mainly customised for the middle to high income groups. The low-income households have thus been excluded, primarily due to them unable to afford products and services offered by insurance companies. However, of all socioeconomic groups, the low-income households are most vulnerable to financial shocks but the least protected.

This state of affairs has drastically changed during the last few years. The Life Offices' Association of South Africa (LOASA) and the Insurance companies reached consensus with the Financial Sector Charter (FSC) of South Africa to launch tailor-made products and services for the low-income people, for instance, the Zimele products which guarantee fair charges, easy access and decent terms.

With a population of 50 million, South Africa has more than 70% households that are classified as low-income earners (those earning less than R3000 a month; LSM 1-5). Over 35% of the South African low-income earners have life policies. Referred to as the "Insurance Gap", approximately 65% of the low-income households which are not insured represent a huge opportunity for the South African insurance industry. Therefore, the introduction of the Zimele products classified as microinsurance products in 2007 was a good launch to target the "niche" of the uninsured market.

This situation is negatively impacting on the rate of poverty in the country. Therefore, the need for financial services cover in poorer communities is widely acknowledged in South Africa. Microinsurance basically targeted for the low-income households, has been classified as one of the most recent innovative financial tools to curb the poverty level in the country.

As a result of the above, many players have contributed to this endeavour of microinsurance which will be discussed in the process of this study.

Therefore, the primary objective was to investigate microinsurance in perspective to the insurance industry and as a role-player in the South African economy.

The findings of this study indicated that there are various factors that are resulting in serious deprivation in the provision of microinsurance in the country. Some of the factors are financial literacy, poor distribution channels, out of reach of customers, low commission/ fees for brokers. These challenges that will be described in the course of this study cannot be tackled overnight, hence the need for stakeholders to address these challenges to enable an up-and-running microinsurance environment in South Africa.

***Key words**: Zimele - MI product, Microinsurance (MI), LSM 1-5, low-income people.*

2.1 INTRODUCTION

Currently South Africa has approximately 50 million people of which 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 LOA Insurance Gap Study (LOA, 2007a), 65% of the low-income households do not have any insurance representing an "insurance gap" for the country. The low-income households (those earning less than than R3000 a month) belong to the Living Standard Measure one to five (LSM 1-5) which consist of almost 20 million households; of which only approximately 35% have life policies (IRR, 2010).

The following table shows the current population dispersion of South Africa.

Table 2.1: Population by Province

Province	Population	% of Total
Eastern Cape	6 743 800	13.5%
Limpopo	5 439 600	10.9%
Western Cape	5 223 900	10.4%
Mpumalanga	3 617 600	7.2%
North West	3 200 900	6.4%
Free State	2 824 500	5.7%
Gauteng	11 191 700	22.4%
KwaZulu-Natal	10 645 400	21.3%
Northern Cape	1 103 900	2.2%
TOTAL	**49 991 300**	**100%**

Source: Statistics South Africa (2010)

According to FinScope South Africa (2009), in terms of household density, there are on average five people per household in South Africa. Those most likely to live in the poorest of circumstances are also the most likely to have the largest households. KwaZulu-Natal is the province with the largest households, with an average of 6.2 people living together. The majority of population that falls into the LSM 1-5 (4.5 million) lives in the province of KwaZulu-Natal (FinScope South

Africa, 2009). The majority of these households are not insured; hence they represent a huge opportunity for the South African microinsurance industry.

The concept of microinsurance, as accepted by the National Treasury of South Africa (2008) mentioned earlier, can also be defined as:

> "Insurance products that offer coverage to low-income households".
>
> (Oxford English Dictionary, 2002)

Microinsurance, in addition to the definitions mentioned earlier, can be differentiated from insurance, as shown in Table 2.2.

Table 2.2: Differences between Insurance and Microinsurance

Insurance	**Microinsurance**
Relevant to the risks of both low-income market and above.	Relevant to the risks of the low-income market.
Risk of unaffordable premiums.	Affordable premiums in small amounts.
Both small/big benefit amounts.	Small benefit amounts.
Savings, tax relief help people to manage risk.	Different attitude: help people to manage risks.
Payment of benefits can take time.	Fast payment of benefits.
Expect more people to be literate and less strategies applied to overcome the wariness of customers.	Strategies to overcome the wariness of customers (e.g., client education, minimise claim rejections).
Capital is from scratch.	Build on social capital.

Source: ILO (2004a)

From these definitions and the table above, it is unclear when insurance can be considered to be microinsurance. Basically, how poor do people have to be for their insurance protection to be considered micro? According to Churchill (2006:13) the answer varies by country. Generally microinsurance is for persons

ignored by mainstream commercial and social insurance schemes, thus persons who have not had access to appropriate products.

Although microinsurance is mainly targeted towards those which can be offered to low-income people with irregular cash flows, the product also aims at providing cover to those with a predictable income.

As a result of the above, the low-income households that are not presently insured, has been receiving attention by the South African government so that they can ultimately be advised to subscribe to a financial cover (Smith *et al.,* 2010). This is reflected in the endeavour that in 2007, the Life Offices' Association of South Africa (LOASA) and the Insurance companies reached consensus with the Financial Sector Charter (FSC) of South Africa to launch tailor-made products and services for the low-income people for instance, the Zimele products, which guarantee fair charges, easy access and decent terms.

Furthermore, the proliferation of a new legislation of Microinsurance Act is on the way to be published by the National Treasury (National Treasury of South Africa, 2011).

Zimele policies in South Africa are classified as microinsurance products (Association of Savings and Investments of South Africa, 2009). The product standard, branded Zimele, a Zulu word meaning "stand on your own", has been offered by insurance companies such as Sanlam, Hollard, Old Mutual, Metropolitan, Absa Life and a few other licensed insurers who have issued these policies.

In February 2007, new measures aimed at ensuring that South Africa's estimated 88% of the low-income earners were given access to appropriate life products were announced (LOA, 2007b). The new measures have come in the form of life insurance product standards which guarantee fair charges, easy access and decent terms. In 2007, Gerhard Joubert, CEO of the LOA, said the Zimele product standards, which signal a new era of protection for South Africans earning less

than R3 000 a month, were developed by the LOA following extensive research aimed at establishing the needs of low-income households (LOA, 2007b). Zimele is the result of extensive consultation with the Financial Sector Charter (FSC) participants and has been approved by all stakeholders involved, as well as the FSC board (Association of Savings and Investments of South Africa, 2009).

The first Zimele stamped product was funeral cover. However, the funeral cover dominates the low-income market (Smith *et al.,* 2010). Zimele products such as funeral cover, life and disability policies are about raising financial awareness among the most vulnerable consumers (LOA, 2007b). The vulnerable consumers are mostly the low-income earners who are more prone to unexpected events and risks.

The introduction of the Zimele-compliant microinsurance products and services by the Life Offices Association of South Africa (LOASA) in 2007 in collaboration with the Government demonstrates the latter's eagerness to promote a microinsurance culture in the country. One of the Millennium Development Goals (MDGs) is to reduce poverty by 50% by 2015. In this regard, microinsurance has been classified to be one of the most innovative financial tools to mitigate poverty and could one vehicle to pursue the poverty alleviation goals (Microinsurance Network, 2010).

Furthermore, microinsurance deals with problems that are deep-rooted in the socio-economic structure of South Africa. Microinsurance, for example, provides funeral cover to the low-income earners so that whenever there is a death in the family, the cover caters for all the necessary expenses of the funeral and there is no further costs and losses incurred by the family. Furthermore, South Africa has recorded a high infant mortality rate presently estimated at 46.9 per 1 000 live births and a very high prevalence of HIV/AIDS of 10.5% of the population (Stats SA, 2010). The following table 2.3 illustrates the HIV prevalence and the number of people living with HIV from 2001 to 2010.

Table 2.3: HIV prevalence and number of people living with HIV, 2001-2010

Year	Percentage of total population	Total number of people living with HIV (in millions)
2001	18.7	4.10
2002	19.2	4.38
2003	19.4	4.53
2004	19.6	4.64
2005	19.7	4.74
2006	19.7	4.85
2007	19.7	4.93
2008	19.7	5.02
2009	19.6	5.11
2010	19.7	5.24

Source: Stats SA (2010)

The total number of people living with HIV is estimated at 5.24 million (Stats SA, 2010). Therefore, the provision of microinsurance products to the low-income earners, for example, health insurance can reduce child mortality, improves maternal health and combat HIV/AIDS, only if the cover is being subscribed by the low-income earners from a microinsurance provider.

2.2 PROBLEM STATEMENT

The attainment of democracy in 1994 brought the possibility for South Africa to address poverty and inequality and to restore the dignity of its citizens and ensure that South Africa belongs to all who live in it (MDGs South Africa Country Report, 2010). In line with the democratic dispensation and in pursuit of constitutional imperatives guaranteeing a rights-based environment and the rule of law, new policies were put in place to improve people's quality of life. However, poverty remains a multifaceted phenomenon in South Africa and actions geared towards eradicating it imply that the facets that manifest must be progressively and comprehensively attended to in order to improve the material well-being of citizens (MDG's South Africa Country Report, 2010).

Poverty is the major problem in most developing countries (World Bank, 2008). It is argued that, inadequate access of cover by the poor is a major cause of poverty in developing countries (World Bank, 2004). With an estimated population of 49,991 300 people and 47.1% of the population consumed less than the "lower-bound" poverty line (those earning less than R2000 per month), South Africa is categorized by the World Bank as among the poor countries in the world (Stats SA, 2010; World Bank, 2008). The economy has been experiencing slow growth while the disparity between the rich and the poor continue to widen. The result of slow economic growth is characterized by widespread inflation, unemployment and high levels of poverty where over two-thirds of human beings suffering from extreme poverty are women who manage to survive on approximately R10 a day (IRR, 2010). South Africa's development challenge therefore remains in finding sustainable poverty eradication strategies. As one of the main objectives of the Millennium Development Goals (MDGs) is to halve poverty by 2015, microinsurance is one of the important financial tools to bring down poverty (Microinsurance Network, 2010).

Microinsurance deals with many problems which will be discussed in this section that are deep-rooted in the socio-economic structure that South Africa inherited from the apartheid era (Aliber, 2002). For instance, microinsurance mitigates extreme poverty and hunger through the provision of microinsurance products such as agricultural insurance for farmers, life assurance cover and funeral cover. Furthermore, it reduces child mortality, improves maternal health and combating HIV/AIDS through the provision of microinsurance products such as health insurance for families at a low premium rate.

However, very little research has been done in the field of microinsurance in South Africa while there is a huge opportunity of "untapped" market (approximately 65% are not uninsured), hence creating the need for scope of research in this area.

2.3 OBJECTIVES

The primary objective of this article is to investigate microinsurance in perspective to the insurance industry and as a role-player in the South African economy.

The primary objective is achieved by the following secondary objectives, namely to:

- Introduce and explain the concept of microinsurance ;
- Discuss the role and importance of microinsurance in the economy;
- Identify the players in the microinsurance industry;
- Determine and discuss the challenges posed to microinsurance ; and to
- Make recommendations to the microinsurance industry based on the literature study.

2.4 THE ROLE AND IMPORTANCE OF MICROINSURANCE

Risk is ever present in the lives of the poor because most of them live in insecure conditions, for example shacks as their houses which are more prone to fire and other allied perils (Churchill, 2006:23). This can be supported by a real case scenario in 2003, when the Alberton fire broke out in the North Station of Johannesburg (Anon., 2003b). Faced already with shocks (unexpected events), these low-income earners have drawn on their financial, physical, social and human assets to meet the resulting expenses. In the absence of precautionary instruments such as microinsurance, most were forced to borrow money from money lenders, or microfinance institutions. Others asked friends or relatives to help. Few low-income earners have access to formal insurance services.

One of the main Millennium Development Goals (MDGs) set by the United Nations Development Programme is to eradicate extreme poverty and hunger by year 2015 that respond to the world's main development challenges (United Nations Development Programme, 2005). Therefore, the role of microinsurance can contribute to achieving the main Millennium Development Goals (MDGs South Africa Country Report, 2010).

Workers in the informal economy and their families live and work in risky environments, vulnerable to numerous perils, including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses, and disasters of both the natural and man-made varieties (Churchill, 2006: 14). The poor are more vulnerable to many of these risks than the rest of the population, and yet they are the least able to cope when a crisis does occur, due to financial instability.

Insurance is one way for the poor to protect themselves. By helping low-income households manage risk, microinsurance can assist them to maintain a sense of financial confidence even in the face of significant vulnerability. If government, MFIs, insurers and others are serious about combating poverty, their focus area should be the provision of microinsurance.

Microinsurance is important because of the following reasons:

- Microinsurance promotes gender equality;
- Microinsurance provides sustainability;
- The social protection perspective on microinsurance (reducing poverty, inequality and vulnerability);
- Microinsurance contributes to the South African economy; and
- Microinsurance contributes to the global economy.

Each of the above will be explained in further detail in the next sections.

2.4.1 Microinsurance promotes gender equality

Women and children are particularly vulnerable to risks as 70 percent of the world's poor are female and children (Churchill, 2006:129). They face more violence, abuse and exploitation than men, such as forced prostitution, battery and extreme cruelty or exploitative domestic servitude (Churchill, 2006:130). This greater vulnerability contributes to strong risk averse behaviour (Churchill, 2006: 131).

However, some of these risks can be improved through microinsurance, for example, health risk and life cycle risks which can be catered through the provision of health care and life assurance respectively. An analysis of current microinsurance reveals that some progress is being made to reduce the vulnerability of women and children (Churchill, 2006:134). In designing health care schemes, microinsurers need to ensure that they cater for women health concerns especially those related to pregnancy, delivery and maternity, gynaecological diseases and HIV/AIDS (Churchill, 2006:136). For example, Benin Assefs insurance benefits largely focus on women's needs with a special emphasis on reproductive health (gynaecology and obstetrics) (Churchill, 2006:137). Members are estimated to be 25,000 women. Life insurance policies can also take into account the special needs of women and children. The insurance company Almao, in Sri Lanka, has decided to do this by creating "Senehasa"; a children's policy (Churchill, 2006:137). The plan pays benefits to the children if the insured parent dies during the term of the policy.

2.4.2 Microinsurance provides sustainability

Insurance is crucial to sustainable growth (United Nations Environment Programme Finance Inititive, (UNEP FI), 2008). The insurance industry should develop microinsurance products to promote sustainable growth in developing countries, according to a joint report by insurers and the United Nations (UN) in 2008 (UNEP FI, 2008).

Under the UNEP FI, insurers create a set of 'Principles for Sustainable Insurance'. UNEP FI said these principles will help to embed environmental, social and governance issues in the insurance sector and would complement the UN Principles for Responsible Investment.

In its first report, "Insuring for Sustainability", the Insurance Working Group of the UNEP FI ranked nine global sustainability issues identified as vital for insurers to address. Topping the list is climate change, followed by microinsurance, lifelong

income, health, emerging man-made risks, environmental liability, natural resources, recycling and internal resource efficiency (UNEP FI, 2008).

The report states that the insurance industry is a strong lever for implementing sustainability due to its size, the extent of its reach into the community and the significant role it plays in the economy. Additionally, the report also identifies general reasons why the financial sector does not readily engage in sustainability and the technical barriers to developing a sustainable insurance market. Three main reasons brought forward were:

- The sharp increase in natural catastrophes, extreme weather events and environmental disasters were taking a huge toll on populations, economies and the insurance industry.

- Storms, tornadoes, floods and other severe weather conditions in North America resulted in over $15 billion USD of insured losses and over $20 billion USD of economic losses, according to global reinsurer, Swiss Re.

- The lack of liquidity facing the population due to the global economic recession to honour their premium payments.

Microinsurance is a method of insuring the poor, who are traditionally excluded from financial services (International Association of Insurance Supervisors, 2007). While mainly a solution to social and economic vulnerability, microinsurance can also encompass environmental risk. One recent innovation identified is the use of simple weather derivatives to provide micro crop insurance to poor farmers.

Microinsurance could also help poor communities cope with the effects of climate change. A major concern about climate change is that most of the economic losses from disasters are uninsured, leaving the victims to refinance themselves or rely upon donor aid. This is especially acute in developing countries where insurance penetration is very low (UNEP FI, 2008).

2.4.3 The social protection perspective on microinsurance

Access to social security is a fundamental human right. Moreover, social security and social protection are increasingly recognised in the global debate as indispensable components of poverty reduction, sustainable economic development, fair globalisation and decent work (Churchill, 2006:45). Social protection is a key tool for the attainment of the Millennium Development Goals to reduce poverty, inequality and vulnerability (Churchill, 2006:45). It promotes equity and solidarity through redistribution. However, more than half of the world's population does not benefit from any form of social protection (ILO, 2004a).

Facing exclusion from social protection, local communities are taking initiatives to organise microinsurance schemes for instance, health care schemes, for instance in Ghana, funeral societies cater for funeral cover through payment of small premiums from insureds since funerals are important and expensive social events (De Witte, 2003). In Sri Lanka, the government spent 3 percent of its Gross Domestic Product (GDP) on social protection in 2004 through four different approaches (ILO, 2004b) as follows:

- Government agencies, which provide social security schemes and pension for low-income earners;
- Samurdhi Authority, another government agency, which provides income support along with social security benefits;
- Private insurance firms; and
- MFIs and community-based organisations (CBOs), which provide microinsurance.

Strategies and tools against social exclusion and poverty (STEP) have intervened in Benin since 2002; its main activities consist of the support to healthcare microinsurance schemes for the extension of social protection to informal economy population and, in general, for those who do not benefit from any social coverage.

Therefore from the above, it can be noted that microinsurance is an effective tool to promote social protection.

2.4.4 Microinsurance contributes to the South African economy

South Africa has a variety of microinsurance services available to the low-income groups (Aliber, 2002). These services are offered by a variety of formal and informal institutions (MFI's, retailers, agents, insurers, banks and brokers), and cover a spectrum of different insurables. The provision of microinsurance by formal sector institutions in particular sets South Africa apart from most other developing countries. South Africa thus presents a rich opportunity to study the microinsurance sector (Aliber, 2002). However, despite the evident need and role for microinsurance in South Africa, few South African MFIs presently supply microinsurance schemes.

In South Africa, insurance aimed at the low-income market (or largely taken up by the low-income market) is not a brand new concept. Compared to its peers, South Africa has a better-developed commercial microinsurance industry – primarily Zimele funeral insurance (National Treasury of South Africa, 2008). However, this industry is not without its challenges that have been discussed above.

Although still small relative to the rest of the insurance industry, South Africa has a large formal microinsurance industry compared to its peers (National Treasury of South Africa, 2008). The percent of GDP spent on microinsurance was 13.39 percent in 2007 (AXCO Market Report, 2007). This is dominated by funeral insurance, a market which developed without government pressure and on a completely commercial basis. Unlike other insurance products, the demand for funeral insurance is so strong that the product is said to be "bought rather than sold".

Assistance business (as funeral insurance is referred to in regulation), is defined as a line of long-term insurance business with benefits currently limited to R10 000

in value. Such business makes up only 1.3 percent of the total insurance market in terms of premium (National Treasury of South Africa, 2008).

Out of the 8.7 million individuals surveyed to have some form of formal life cover (including funeral), 60 percent (5.2 million people) have funeral insurance policies only (National Treasury of South Africa, 2008). More than two thirdss of the funeral insurance cover are sold by informal burial societies that are not licensed by the relevant act and therefore are classified as an illegal business (National Treasury of South Africa, 2008).

Currently there are just four insurers registered for a standalone assistance business license (of which two are in the process of winding down) out of 28 active assistance business providers including burial societies and banks (National Treasury of South Africa, 2008). Over the last decade, the registration conditions for operating as a funeral insurer have been increased to be the same as that of a full life insurer and there is, therefore, little incentive to register only as a funeral insurer.

Registered as a microinsurer, the Hollard Insurance Group is one of the few that has been selected to receive an innovation grant from the microinsurance Innovation Facility launched by the Gates foundation and the International Labour Organisation in 2008 (ILO, 2008).

The project includes using mobile phones and Global Positioning System (GPS) technology to facilitate sales, creating a cadre of microinsurance claims assessors and developing education and brand awareness strategies. The Hollard Insurance Group's initiative will help to show whether home-owner insurance is viable in the low-income market and how effective new technologies can be in enhancing sales and efficiency. It should also shed light on how to design education strategies, train microinsurance claims assessors and process microinsurance claims (ILO, 2008).

As mentioned in chapter one, the Living Standard Measure one to five (LSM 1-5) which consists of about just under 20 million in South Africa, 33.2% of the market have funeral cover; only 2.2% have other life cover and only 0.04% have credit life. Referred to as the “Insurance Gap”, approximately 65% of the low-income households which are not insured represent a huge opportunity for the South African insurance industry (LOA, 2007a).

All insurance companies that are registered under the Long-Term Insurance Act no. 52 of 1998, are allowed to sell life and funeral cover to the low-income households belonging to the LSM 1-5. The insurance companies offering microinsurance products and services are: Old Mutual of South Africa, Sanlam Insurance Company, Metropolitan Insurance Company, Hollard Insurance, Safrican Insurance and many other licensed providers like ABSA bank (National Treasury of South Africa, 2008).

2.4.5 Microinsurance contributes to the global economy

It is estimated that only 80 million out of the world's 2.5 billion poor people are now covered by some form of microinsurance (ILO, 2008). Most poor people remain without access to this critical financial service of microinsurance. In India and China, where firms are estimated to serve nearly 30 million microinsurance clients each, the percentage of poor lives insured hovers below 3 percent In Africa, this figure is much lower – just 0.3 percent of the continent’s poor are insured. According to recent data, in 23 of the poorest 100 countries in the world, there is currently no identified microinsurance activity, representing an unserved population of 370 million people (World Bank, 2008). Therefore, microinsurance is one of the latest financial initiatives to combat poverty (World Bank, 2008).

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. In the United Nations Millennium Declaration of September 2000, 180 heads of state pledged to halve the number of people living in poverty by the year 2015, classified as one of the main MDGs (Poverty, 2010).

Even though global poverty has decreased in the last 50 years, the struggle to survive is ever present (Munich Re Foundation, 2007). In Southern Africa, where almost half the population are unable to earn a living by their own efforts there are hardly any signs of improvement (Munich Re Foundation, 2007). Famines, armed conflicts and HIV/AIDS threaten the livelihoods of more people.

However, poverty is more complex than an isolated look at income levels might suggest, being closely associated with illiteracy, poor healthcare, high infant mortality and often discrimination against women. Lack of sanitation and increasing environmental pollution further aggravate the situation. Further, the slums (shacks) are frequently also exposed to natural perils (Poverty, 2010).

Growth of the global economy alone will not be enough to combat poverty in the developing countries. What is needed are project-related financial donations and sustained initiatives that will enable people to help themselves. Therefore, microinsurance is one of the latest financial initiatives to combat poverty by protecting the poor against insurable losses (Kalavakonda, 2006).

By 2050, India will be the world's most populated nation, but also home to more poor people than any other country (Munich Re Foundation, 2007). A crucial asset in the fight against poverty could be microinsurance that covers the poor against disease, accidents and natural disasters (World Bank, 2008). Poverty reduction requires not just steadily growing incomes, but also the protection of these incomes (Munich Re Foundation, 2007). Yet, most poverty reduction programmes address risks only marginally, if at all. microinsurance can offer innovative ways to combat poverty by providing the poor options to systematically manage life and livelihood risks. So far, insurers have not fully provided services to the poor because it is not thought profitable (World Bank, 2008). However, there is still a way to address the mismatch between the needs of the insurers and the insured – the provision of microinsurance.

A new United Nations Development Programme (UNDP) study in 2007, 'Building Security for the Poor: Potential and Prospects for microinsurance in India', shows how microinsurance can be a profitable niche. In India alone, the untapped market is estimated to range between $1.4 billion and $1.9 billion, covering life and non-life services (UNDP, 2007). This is only expected to grow as insurance is better understood among potential clients and a wider range of risks are recognised as insurable. Insurance currently covers only 2 percent of the poor in India (UNDP, 2007). Up to 90 percent of the population, or 950 million people, are excluded from services a huge unserved market (UNDP, 2007). The abovementioned study presents several examples of success with useful ideas for insurers, intermediaries and policymakers.

Catalysing microinsurance can result in a 'win-win' situation, combining commercial profit for microinsurance providers with social benefits for the poor. At the macro level, insurance can provide long-term funds that can be used for infrastructure development. At the micro level, insurance facilitates systematic risk management before an unfortunate event occurs, for example, fire and allied perils.

As stated earlier, what is needed are project-related financial donations for the developing countries. In 2011, the Bill and Melinda Gates Foundation have thrown its weight behind microinsurance. The Gates Foundation recently awarded a grant to the ILO to establish a microinsurance innovation facility - in cooperation with the Consultative Group to Assist the Poorest (CGAP) that will award some 40 to 50 innovation grants at a total value of $18 million (ILO, 2008).

CGAP is a consortium of 33 public and private development agencies working together to expand access to financial services for the poor in developing countries (ILO, 2008). The CGAP Working Group on microinsurance includes donors, insurers and other parties interested in coordinating donor activities as they pertain to the development and proliferation of insurance services to low-income households. CGAP is headquartered in Geneva, Switzerland, and operates on an annual budget of $10 million.

Through the innovation grants, the ILO's MIF is encouraging a variety of firms to engage with microinsurance in order to experiment with new products or partnerships.

The above literature has emphasised the importance of microinsurance on both a national and international level front. The next section investigates the various role-players in the microinsurance industry.

2.5 THE PLAYERS IN THE MICROINSURANCE INDUSTRY

Four main types of microinsurers have been identified as follows (McCord *et al.,* 2007):

- **Regulated insurers**: these are specialist insurers which include commercial insurers, cooperative or mutual insurance and microfinance institutions (MFIs) that are regulated by the insurance regulations. Being regulated, they maintain reserves and have access to reinsurance and their consumers are better protected.

- **Non-governmental organisations (NGOs):** these include development organisations, trade unions, federations of groups (church groups) and microfinance institutions (MFIs). They are close to poor people and therefore close to the market for microinsurance. They are unregulated and less professionally skilled than commercial insurers. They are often very effective delivery channels.

- **Mutuals:** They are professionally managed, regulated, member-owned insurers, often owned by credit unions and cooperatives. They have the advantage of operating close to poor people and are experienced in financial activities, disbursements and confirmation of events.

- **Community-based organisations (CBOs):** CBOs are member-owned and member managed (burial societies, stokvels) and very close to poor people, who may often be their members. Their closeness to the market makes them good delivery channels. Their great disadvantage is that they are unregulated and lack the professional insurance management experience to be stable and effective insurers.

2.6 CHALLENGES OF MICROINSURANCE

2.6.1 Financial education

One of the biggest challenges is to explain the concept and benefits of microinsurance to the low-income households. Insurance literacy is currently recognised as one of the most important hurdles to overcome. Educating the clients on the benefits of insurance is an indispensible ingredient to the success of any marketing actions undertaken by a microinsurance provider. In addition, the low-income households are generally faced with little awareness and lack of financial education (Microinsurance Network, 2010).

There are major differences in knowledge between the different race groups of South Africa and this is almost correlated with the LSM or wealth (FinScope South Africa, 2008). The following table 2.4 shows the breakdown of the response to the question, “Have you heard about this financial term and do you know what it means?

Table 2.4: Knowledge of Financial Terms in 2008

Financial term	Total	Black (%)	White (%)	Coloured (%)	Indian (%)
Bad Debt	43	34	83	55	77
Personal credit record	36	27	80	46	66
Pension Fund Act no. 65 of 2001	32	26	65	41	58
National Credit Act no. 34 of 2005	26	19	68	28	61
Debt counselling	25	17	65	34	47
Emolument order	22	16	58	24	48
Debt administration	21	14	58	27	45
Interest rate	17	11	49	18	46
NCR Certificate	17	11	49	18	46
Debt Re-scheduling	16	10	47	17	36
Co-operative Banks Act no. 40 of 2007	13	8	40	14	44

Source: FinScope South Africa (2008)

The poor often lacks familiarity with insurance and do not understand the mechanism of the cover. Knowledge of formal financial matters is strongly linked to wealth (and, hence, exposure to the formal financial system) and race (FinScope South Africa, 2008). This has important implications for those dealing with people entering into the formal financial system and formal financial agreements. Special care needs to be taken that such people are carefully coached about financial matters. The need for more financial education and training is clear. The relatively low growth in knowledge about microinsurance is of some concern. Indeed, there is a great need for greater financial literacy.

Awareness of microinsurance among the illiterate and low income level market should be instilled. One way to do so is to make use of pictorial posters, local folk arts and street theatres that explain the mechanisms of microinsurance. Insurers

include the characteristics of the product design; lapsed policies, premium payment and claims processing delays in these visual marketing actions.

In an attempt to raise the awareness about microinsurance in South Africa, the South African Insurance Association (SAIA) in 2007 has initiated three activities (SAIA, 2007), namely:

- Development of a teacher resource kit targeted at secondary schools students;
- A one-day financial literacy workshop in rural areas every month; and
- Radios providing interactive financial education.

2.6.2 Trust

Unlike the case in 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 upfront and hopes the provider keeps its promise to make a payment in accordance with the contractual terms. For a tranche of society that probably has never used insurance products, trust is the element that should be created between the microinsurer and the prospective customer.

Policyholders do not generally trust that the insurer will pay the benefits in the event of a claim. The perceived insurance benefits are intangible to the customer, and would only become tangible after a claim was successfully lodged and paid out (Microinsurance Network, 2010). The typical microinsurance customer believes that premiums paid are wasted if he/she does not lodge a claim and receive payouts (Microinsurance Network, 2010). In addition the market often perceives insurers as quick to take their money, but slow to settle the claim.

A cumbersome aspect is that, due to low literacy levels, low-income market is often susceptible to fraudulent schemes, and resultantly undermining the credibility of legitimate insurers.

Microinsurers need to find ways of convincing the target market that they are indeed trustworthy. Conventional insurers often try to create large, visible headquarters as a way to convey the impression that they are a large and stable firm. Located in the centres of towns and cities, the headquarters are often far from the areas where the poor live and work, which is not so useful for the low-income market.

2.6.3 Cost and profitability challenge - a need for large volume in micro-insurance products

While microfinance model based on micro lending can survive with a few clients, the same cannot be said for microinsurance. Since the premium charged is minimal, it is important that the law of large numbers prevails for the microinsurer to be able to pay up the transaction and administration costs and make profits.

The profitability challenge in the microinsurance industry requires large volumes of very small policies. The transaction costs associated with managing these small policies can be extremely high, especially when seen in proportion to the sum assured. In 2007, the convener of the LOA Access Committee, Andrew Cartwright, said that the costs of insurers to reach the low-income earners in the most remote places (villages, suburbs and locations) were high, while their premiums to recover these costs are low (LOA, 2007b). The small policies increases the transactional costs of microinsurance products, and it put pressure on the price of the policies.

In most developing countries, commercial insurers have not targeted the low-income market, mainly the low-income markets are not considered to be viable sources of insurance business. This is due to high transaction costs, moral hazard, adverse selection, fraud, low retention, lack of quality data, unsustainability of the group (LOA, 2007b). This is also the case in South Africa. However, insurance

companies start to realize that in South Africa there is a market opportunity to provide the low-income earners with affordable insurance products.

The financial challenge is also evident from the fact that low-income earners do not only want insurance to be affordable, but also want to protect against high-frequency risks such as serious illness, accidents, harvest failure and fire. However, insurance firms mostly offer standardised products for their clientele in the Living Standard Measure categories 1-5 (LSM 1-5) and customisation of policies are not possible. As a result, the market for a microinsurance broadened and the scope of products and services for the low-income earners, opened up. For instance, crop insurance products, health insurance, livestock insurance and asset insurance could be included in the portfolio of microinsurance to widen the current limited offerings of life and funeral products. Such an extension of the product line presents a market opportunity to make these products available to the low-income earners.

2.6.4 Value for money

Value in the eye of the beholder in the microinsurance industry is another challenge to overcome. For a policy to have any value to the policyholder, significant innovations are required to minimise the transaction costs, for insurer and policyholder alike. Cost remains an important consideration in microinsurance, and the customers are highly price sensitive. The LOA reports that policyholders of Hollard Insurance complained that the funeral cover is too expensive. Targeting the low-income market is, however, a daunting task as it requires a very good fit between providing the right microinsurance products and services at the right price (Joubert, 2007).

2.6.5 Perception about microinsurance

Insurers often assume that the low-income market cannot afford insurance. Interestingly, when insurance first became widespread in the late 19th century, it was regarded to be a poor man's financial service. Many of today's large

insurance firms began in the 1800s as mutual protection schemes among factory workers (Reinhard & Qureshi, 2007). The wealthy did not need insurance because they could essentially self-insure. As insurance became more sophisticated and the wealthy recognised their vulnerabilities, the perceptions reversed. This similar challenge faces the microinsurance industry, namely to change perceptions about the industry and its market.

2.6.6 Distribution

One of the greatest challenges for microinsurance is the actual delivery of microinsurance to clients. Since the premium rates are low (for example R40 per month for funeral cover), insurers are challenged to come up with new distribution channels to ensure the profitability of the low-income market because these products have small profit margins. In 2007, the CEO of Channel Life, Rene Otto, said that the R40 per month premium coupled with the low margins of the new standard Zimele products do not meet the high costs associated with administering the product. The premium is so low that small insurers would not have enough to offer brokers as commissions. The CEO of Channel Life said their biggest challenge was that 30 percent clientele failed to pay premiums and when follow-ups were made, 85 percent said they did not have money (LOA, 2007b).

Furthermore, to go with the traditional distribution channel in selling Zimele products is problematic for the small insurer who does not have a well established infrastructure and an extensive network nationally (Mafu, 2007). In this regard, Zuriel Naiker, Hollard communications manager, states that the traditional methods of insurance distribution were not appropriate for the lower income groups. The comments come a month after the launch of Zimele standards in 2007 by the LOA (LOA, 2007b). The insurance products that were sold through a call-centre and its low margins were not sufficient to pay for staff salaries and call-centre costs.

Therefore, innovative low-cost methods of distribution are required to service the microinsurance industry with its low premium rates and profit margins. Some small

and medium insurers were partnering with banks and retail stores to sell the product to the low-income market (Joubert, 2007). The Hollard Insurance firm uses cellphone technology to provide the Zimele-compliant cash-based funeral cover via the SharedPhone communications network where agents sell cellphone airtime and prepaid vouchers for Telkom and Eskom. Hollard also uses their existing network of stokvels, funeral parlours, agents and brokers to distribute the Zimele product and has forged relationships with PicknPay, Shoprite, Jet Stores and Spar to have their clients pay their premiums in these stores (Joubert, 2007).

Although some insurers are beginning to notice the vast under-served market of low-income households, numerous obstacles need to be overcome if they are to offer microinsurance. Like social protection schemes, the distribution systems of most insurers are not designed to serve the low-income market (Reinhard & Qureshi, 2006). The system of brokers, agents and direct sales traditionally used by insurers does not reach the poor. Therefore, it is high time to use innovative distribution methods (Mafu, 2007).

2.6.7 South Africa microinsurance regulatory framework – A Microinsurance Act required

It is obvious that from the above challenges, very little has been done in the field of microinsurance in South Africa, Furthermore, research shows that there is no “Microinsurance Act” available in South Africa. There are a number of motivations for developing a coherent microinsurance regulatory framework. These reflect both the needs to address particular problems and gaps in the current system as well as the need to facilitate the further development of the microinsurance market.

Research shows that more than two thirdss of funeral cover are sold by informal burial societies that are not licensed by a relevant act and therefore is classified as an illegal business (National Treasury of South Africa, 2008). The market conduct regulation of microinsurance is primarily contained in the Financial Advisory and Intermediary Services Act no. 37 of 2002 (FAIS). The greater drive towards consumer protection embodied in the FAIS Act increases the per transaction cost

of intermediating financial services, creating a disincentive to serve the lower-income and (hence lower revenue per premium) clients. Concerns about the potential consumer abuse in the low income market, combined with government's commitment under the charter to remove regulatory barriers to market development have prompted the National treasury (the policy-making body for the financial sector) to reconsider the insurance regulatory framework in South Africa (National Treasury of South Africa, 2008).

Furthermore, in 2007 the ILO, together with the Bill and Melinda Gates Foundation have formed the microinsurance Innovation Facility (MIF) for giving grants to developing countries including South Africa to develop further the microinsurance industry. The Old Mutual of South Africa is currently a member of the association (ILO, 2008). However, the absence of a coherent regulatory regime of microinsurance in place hinders the further development of the microinsurance market in South Africa while there is a population of approximately 65% of low-income market which are still untapped.

The main aim is to create a microinsurance regulatory space to (i) bring down the regulatory unit costs in order to facilitate outreach into the lower income market by formal insurers and (ii) provide formalisation and graduation options for the microinsurance market. As a result, a policy document for the South African microinsurance Insurance framework is about to be published (National Treasury of South Africa, 2011).

Despite the above problems and challenges posed to the low-income earners insurance, the full potential of microinsurance is only beginning to be grasped by stakeholders. The aim is not just to tackle the abovementioned problems in theory but also to ensure that these challenges facing the microinsurance market are effectively addressed and implemented by the insurers and other relevant stakeholders. However, the main question is, what must insurers do to enable the growth of an affordable, cost effective and sustainable framework to entail business success of the microinsurance industry in South Africa. Therefore, it is obvious that microinsurance is very important to the welfare of the country.

2.7 RECOMMENDATIONS

The economic importance of microinsurance for both the individual low-income household and the greater economy of the country are obvious from the literature study. In view of its importance, it is imperative that the microinsurance industry chase the undermentioned recommendations:

2.7.1 Reviews of distribution channels of stakeholders

The traditional distribution channel through agents in selling Zimele microinsurance products has proved to be problematic for the small insurer who does not have a well established infrastructure and an extensive network nationally (Mafu, 2007). It is obvious that the traditional methods of insurance distribution were not appropriate for the lower income groups. The comments come a month after the launch of Zimele standards in 2007 by the LOA South Africa (LOA, 2007b).

Innovative methods of distribution will have to be launched since premium rates are low and therefore also the profit margins of insurers. Some small and medium insurers can partner with banks and retail stores to sell the product to the low-income market and cellphone firms to provide the Zimele-compliant cash-based funeral cover. Furthermore, they can use the network of stokvels, funeral parlours and brokers to distribute the Zimele product. They can also forge relationships with PicknPay, Shoprite, Jet Stores and Spar to have their clients pay their premiums in these stores.

2.7.2 Encourage the registration of burial societies and stokvels

More than two thirds of the funeral insurance cover is sold by informal burial societies and stokvels that are not licensed by a relevant act as mentioned above, and is regarded to be an illegal. To encourage more low-income households to trust the informal burial societies and stokvels offering low-income households

insurance products for instance, the funeral cover, it is imperative that they are registered under the Insurance Act of 1973.

2.7.3 Speed up the publication of the proposed Microinsurance Act

Microinsurance as defined in the discussion paper is intended to "catalyse" 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 misselling. A balance therefore needs to be struck between market development and consumer protection.

Accordingly, the goal of the article is to develop a coherent and clear regulatory framework that will encourage and facilitate the provision and distribution of good value and low-cost products that are appropriate to the needs of low-income consumers by a variety of market players, who must treat their policyholders fairly and manage the risks of providing insurance. This is in line with the government's objective to increase access to financial services for the poor and providing a supportive regulatory environment for the implementation of the Financial Services Charter.

2.7.4 Improve financial literacy/financial knowledge of low-income earners

FinScope South Africa (2008) has shown that there are still high levels of financial illiteracy in South Africa. It is a fact that knowledge of formal financial matters, for instance, microinsurance products, is strongly linked to bringing down the level of poverty. Therefore, special care needs to be taken that such people are carefully coached about financial matters. For instance, the relatively low growth in knowledge about the National Credit Act no. 34 of 2005, or planning for retirement or funeral cover is of some concern. Therefore, financial education is dire for low-income people.

2.7.5 Develop a better consortium of low-income households' products by insurers and banks

In South Africa, the microinsurance products are funeral and life cover. With the growing need of customers in the microinsurance market, more customized low-income households' products should be designed.

For instance, in view of the constant climate change facing the country, farmers are more likely to lose their crops. It is difficult to calculate the probability of loss because so many factors can influence crop yields. At the same time, premiums that farmers can afford are not usually sufficient to cover claims and administrative costs. Recent innovations that link insurance to rainfall, for instance, weather-indexed microinsurance products (a type of agricultural insurance) because they may be more measurable, objective and viable.

The high HIV prevalence in the country of approximately 5.24 million people living with HIV representing 10.5% of the population, tailor-made health care insurance is needed to cater for the needs of the low-income people (Stats SA, 2010) .

Health insurance is probably the product in greatest demand among poor and low-income households; however, it is also the most complex risk to cover due to higher information asymmetries between the insurer and insured. These information asymmetries lead to potential higher risks of moral hazard and adverse selection, which have so far proven tricky for commercial insurers. As a result, many often write off health as an area where it is difficult to provide microinsurance on a viable basis, and prefer to focus on the simpler products described above. However, organisations following the mutual model can leverage local information and peer pressure to address moral hazard issues, and by affiliating "en-bloc" can greatly reduce the risk of adverse selection.

Stats SA (2010) has mentioned that the number of people having investing in property is now increasing due to a rise in financial education. Therefore, property insurance linked to a loan may help the low income households to continue

repaying his or her loan, even if some risk realises into as financial loss. For example, by buying cattle with a insurance-covered loan on the livestock, the loan could be repayed if the cattle are stolen, or dies within the coverage of the insutance policy (for example to be struck by lightning). In some cases, replacement of the property is also covered, so the cattle could be replaced at no or little cost to the owner. Endowment policies combine long-term savings and insurance with emergency loans against the savings balance. In this case, the premium payments accumulate value. Therefore, property insurance is imperative now that the trend is towards a “property investment” culture in South Africa.

2.7.6 Training and development of the agents and the intermediaries

The training and development of agents in respect of different microinsurance products and services is pivotal for the business success of a company. For instance, the communication and interpersonal skills of the agent is enhanced.

The microinsurer should accommodate the agent by offering him/her financial planning courses. The employment contract should clearly insert a clause that no agent will be able to conduct business without a financial planning certificate and registration. Therefore the certificate and the registration by the relevant institute create trust and confidence between the agent and the low-income household customer.

2.8 SUMMARY

The study has shown how microinsurance contributes to the development of low-income earners in India which could also apply to the South African economy. It has shown the importance of the provision of microinsurance in the world and on a national level. Although many insurance products and services are not affordable by many low-income people, grants in relation to microinsurance are offered in Geneva, and the CGAP is working hard to assist the poorest as far as the provision of financial services are concerned, including the provision of microinsurance.

However, to reach the low-income people is not easy as there are some microinsurance obstacles that have been discussed in this study. It is clearly evident from this literature study, that South Africa has a big insurance gap to be explored and exploited. Factors such as lack of trust, financial literacy, low brokerage fees, out of reach prospects and commission are amongst other factors that are contributing to this insurance gap. Solutions to overcome these lagging factors need to be found and implemented for the immediate to short term as well as moving towards the medium to long-term. Therefore, recommendations have been given in this context. In this way, it can be assumed that the country would strive towards achieving alleviation of poverty and higher economic growth, thus contributing an essential part to the macro MDGs goals that are contributing towards the alleviation of poverty by 2015.

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CHAPTER 3

ARTICLE 2:

A THEORETICAL MODEL TO MEASURE THE BUSINESS SUCCESS OF MICROINSURANCE IN SOUTH AFRICA

ABSTRACT

Research in microinsurance has proved to be still at the introductory stage of the product life-cycle in South Africa. Furthermore, the nature of microinsurance lies in the low premium and the high transaction costs hampering the business success in the sector. Therefore, the article aims at presenting a theoretical model to measure business success of microinsurance in South Africa. To give effect to that, a systematic approach has been undertaken; independent variables that are likely to affect business success were identified from an intensive literature study. The research reveals that while many factors hinder the growth and development of the microinsurance sector in South Africa such as financial illiteracy, lack of communication and lack of liquidity among the low-income households among others, there are also positive factors that contribute to the business success of the microinsurance firms in South Africa.

The research revealed fifteen independent variables classified as the positive factors. These include: communication, trust, financial literacy, product, affordability (price) distribution, promotion, technology, culture, human resource training and development, microinsurance -microcredit link, microinsurance regulatory framework, processes, physical evidence and people.

A literature study was carried out on both business successes (dependent variable) as well as on the fifteen independent variables and the criteria measuring each of the above factors was determined and integrated into a structured questionnaire. The article ended with the theoretical model being presented and the creation of the questionnaire distributed to respondents of the four insurance firms offering microinsurance products and services namely, Sanlam, Old Mutual South Africa, Safrican and Metropolitan insurance firms. That was done in an attempt to obtain a better understanding of what the

expections of the employees were and what really influenced the insurers to achieve business success in the microinsurance industry of South Africa.

Key words: *Microinsurance (MI), low-income households, business success*

3.1 INTRODUCTION

It has been suggested that the growth of specific industries is a prerequisite for the overall economic growth and success of a country and vice versa. The insurance industry of South Africa, falling under the “umbrella” of the financial services sector has been undergoing slow growth since the onset of the economic turmoil in 2008 and so has been the financial services industry as a whole (Datamonitor, 2011). Against the above background, it is important that research is undertaken to improve the growth and success of the insurance industry as a whole.

The slowdown in economic activities in South Africa since the onset of the crisis in 2008 has had a negative impact on poverty. According to recent estimates by the United Nations Department of Economic and Social Affairs (UN-DESA), the number of people in the region living below the poverty line of R10 a day grew by 4 million between 2008 and 2009 (United Nations Development Programme, 2009). One of the channels through which the crisis has affected poverty in South Africa is from falling government revenues since the crisis began. Recent estimates indicate that in sub-Saharan Africa government revenue (excluding grants) fell from 25 percent of GDP in 2008 to 21 percent in 2009. Revenue declines of this magnitude reduce the ability of governments to finance health, education and infrastructure projects, thus inhibiting poverty alleviation efforts. The crisis has also affected poverty through an increase in unemployment. It is estimated that the unemployment rate in Sub-Saharan Africa increased from 8 percent in 2007 to 8.2 percent in 2009, and in North Africa it increased from 10.1 percent to 10.5 percent (ILO, 2010). There has also been an increase in the share of workers in vulnerable employment as well as in the share of the working poor in total employment. In Sub-Saharan Africa, between 2008 and 2009 the share of workers in vulnerable employment increased from 76 percent to 77 percent, and the share of the working poor in total employment increased from 59 percent to 64 percent (ILO, 2010). The region largest economy, South Africa, returned 1.8% growth rate in 2009, the first negative growth rate since the end of Apartheid (ILO, 2010).

With an estimated population of 49,991 300 people and 47.1% of the population consumed less than the “lower-bound” poverty line (those earning less than R2000 per month), South Africa is one of the most affected countries in the Sub-Saharan area since the onset of the economic turmoil in 2008 (ILO, 2010). The result of slow economic growth is characterized by widespread inflation, unemployment and high levels of poverty where over two thirds of human beings suffering from extreme poverty are women who manage to survive on approximately R10 a day (ILO, 2010).

The financial services sector of South Africa being a pivotal backbone of the economy has been seriously affected including the insurance sector. South Africa is categorized by the World Bank as among the poor countries in the world (World Bank Development Report, 2008). The economy has been experiencing slow growth while the disparity between the rich and the poor continue to widen. According to a SWOTs analysis done by Datamonitor in 2010, South Africa has been vulnerable to economic weaknesses in general and lower household incomes in particular. Life insurance lapses have been soaring due to lack of liquidity. Profitability levels have been falling (Datamonitor, 2010). For example, Old Mutual South Africa operating in the microinsurance field has been breaking-even within two years after they started to service this market (Angove & Tande, 2011).

In view of the fact that approximately 33% of the low-income earners (those earning less than R3 000) has some kind of formal and informal insurance policy in South Africa, the government is continuously emphasizing the need for microinsurance products and services. 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 and ultimately brings business success. As one of the main objectives of Millennium Development Goals (MDGs) is to halve poverty by 2015, microinsurance has been classified as one of the important financial tools

to bring down poverty (World Bank, 2008). Hence, microinsurance can play a pivotal role in mitigating poverty levels in South Africa and to bring success to the insurance companies offering microinsurance products and services (McCann, 2010).

However, critical success factors are hard to define in any field of business as the nature and profile of each and every business is different. Microinsurance is no exception to the rule. Therefore, the main purpose of this study is to identify variables that determine business success in the field of microinsurance based on a literature study. This process will aid in the creation of the measuring instrument, that is, the questionnaire.

3.2 PROBLEM STATEMENT

The literature suggests that microinsurance firms in South Africa are continuously challenged to achieve business success. Before defining business success in this context, it is worth knowing about the mechanism behind a microinsurance policy. Since a microinsurance policy (the Zimele products) targets the low-income niche clientele, it is characterized by a low premium rate; a minimum of R40 as stipulated by law put pressure on the profitability of the microinsurer (Association of Savings and Investments of South Africa, 2009).

The new measures of the Zimele microinsurance policy have come in the form of life insurance product standards which guarantee fair charges, easy access and decent terms (Association of Savings and Investments of South Africa, 2009). In 2007, Gerhard Joubert, CEO of the LOA, said the Zimele product standards, which signalled a new era of protection for South Africans earning less than R3 000 a month, were developed by the LOA following extensive research aimed at establishing the needs of low-income households (LOA, 2007b). Zimele is the result of extensive consultation with the Financial Sector Charter (FSC) participants and has been approved by all stakeholders involved, as well as the FSC board (Association of Savings and Investments of South Africa, 2009).

A microinsurance policy is also characterized by high charges which put pressures on the profitability of the microinsurer. High charges include the transactional costs for instance, the costs to reach the low-income households in their most remote residence areas. In 2007 the CEO of Channel Life, Rene Otto, said that the R40 per month premium coupled with the low margins of the standard Zimele products do not meet the high costs associated with administering the product. The premium is so low that small insurers would not have enough to offer brokers as commissions.

As mentioned above, the nature and profile of a microinsurance policy (the Zimele product); the high costs and the low premium charged, have an impact on the business success of a microinsurer, which remains a challenge. To give effect to that, variables influencing business success can only be identified only after an intensive literature study has been undertaken.

3.3 OBJECTIVES

The primary objective of the study is to construct a theoretical model to measure business success of the microinsurance industry in South Africa.

The secondary objectives are thus to:

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

3.4 LITERATURE STUDY

In general, any business success has been associated with (1) achieving triple bottom line, (2) achieving business goals, such as profitability, return on investment and the maximisation of shareholders' wealth, and (3) increasing market share.

3.4.1 The triple bottom line perspective on business success

According to the King Report II (2002), a successful firm is one that achieves its triple bottom line, namely profitability, sustainable development and social responsibility. Profit is the reward that any business receives for the business risks they take. Emerging economies have been driven by entrepreneurs, who take business risks and initiatives. Without satisfactory levels of profitability in a firm, not only will investors who cannot earn an acceptable return on their investment look to alternative opportunities, but it is unlikely that the other stakeholders will have an enduring interest in the firm (King Report II, 2002:7). According to Harvey (2007:16), profitability is a measure of business success through comparing profit made with the amount sold or invested. However, a range of profitability ratios exist, namely profit margin, asset turnover ratio, earnings per share, return on assets and also dividend yield (to name but a few) (Yahoo, 2010).

The definition of sustainable development has been much discussed since its first appearance in the Brundtland Report (World Commission on Environment and Development) in 1987. This definition, endorsed by many parties, states that sustainable development is: "development that meets the needs of the present generation, without compromising the ability of future generations to meet their own needs" (Carpenter & White, 2004:51). Sustainability is therefore a way of considering economic activities in terms of their impact on future welfare and resources (Ruiz, 2006:3). According to the Ruiz (2006) study, which included ten global corporations, representing metals and mining, high technology, foods, pharmaceuticals, industrial and consumer products, textiles, and motorcars, it was found that the global landscape calls for leaders with mindsets that view sustainability as relevant to business success. For instance, Old Mutual South Africa, a registered microinsurance provider aims to serve all sectors of the South African economy and elements of the African economy by providing products and services that are appropriate, affordable and accessible (OMSA, 2010a).

Social responsibility is about improving the quality of relations with key stakeholders. Ramsby and Stube (2006) state that social responsibility puts values at the centre of perspectives on human resources, human rights, health, safety and the entire relationships within a society at large. A socially responsible company is aware of and responds to social issues and places a high priority on ethical standards. A good corporate citizen is increasingly seen as one that is non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues. Such a company is likely to experience indirect economic benefits such as improved productivity and corporate reputation. For instance, Old Mutual South Africa which is a registered microinsurance provider is currently investing in financial education as a token of the insurer's social responsibility in an attempt to educate the wider South African population on responsible financial behaviour, providing South Africans with knowledge and tools around money management. The aim is to help the nation break the cycle of generational poverty, get out of the debt trap and show people how to use the limited financial resources they have to realise their goals and dreams (OMSA, 2010b).

3.4.2 Business success defined in terms of business goals

In order to increase business success, managers identify and formulate primary and secondary business goals. Primary goals include, among others, profit maximisation, return on investment and shareholders' wealth, while secondary goals include productivity, business growth, sales maximisation, safety and security and socio-economic goals (Bosch *et al.,* 2006).

Profit maximisation is based on managing production costs, prices or sales levels in order to gain the biggest margins of profit possible (Schindler, 2003). Managers have traditionally pursued short-term profit maximisation by seeking quick returns in order to justify their worth to shareholders. Bosch *et al.* (2006) have criticised the short-term pursuit of profit-maximisation at all costs and propose return on investment (ROI) as a better measure of business success.

For many organisations, ROI remains a key component for business success (Kelly, 2008). For instance, the more online marketing an insurance company does, the higher is the ROI (Anon., 2010a).

One of the key drivers of profitability is the maximisation of shareholder wealth. Shareholders' wealth is also known as shareholder's value and this is indexed by "shareholder price". For instance, according to a recent report, Sanlam's share price has risen by about 350% since demutualisation and listing, while peer Old Mutual's share price has increased by just over 8% (Sanlam, 2011).

Besides the primary business goals listed above, there are also secondary business goals that constitute business success, such as productivity, sales growth and socio-economic performance (Anon., 2010b).

By achieving its primary and secondary goals, a business secures its growth and increases its market share, hence the chances for business success to prevail is more likely to be high.

3.4.3 Business success defined in terms of market share

An increase in the market share of any business is a sign of success (Anon., 2010d). According to Shaw and Merrick (2005:39), sales growth and increased market share are marketing managers' most common criteria for measuring the effectiveness of their marketing function in a business. Market share measures the degree of dominance a company has in its industry, as expressed by company revenues for a specific product or service, or as a percentage of the industry's overall revenues for similar products or services. To investors, a growing market share is a sign of confidence in a business and it is the result of effective strategic planning, brand strategies, advertising, public relations, and effective distribution and price strategies (Robb, 2008).

3.5 BUSINESS SUCCESS CONTEXTUALISED IN THE FIELD OF MICROINSURANCE

For the purpose of this study, business success in microinsurance refers to the measure of success of a microinsurance 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 & Tande, 2011; Bromage, 2003; Evans & Bermans, 1994; Forbes, 2011; Kotler, 2003; Lancaster & Reynolds, 2004; Reichard & Ravi, 2006; Seller & Gurewitsch, 2005; and Shaun & Merrick, 2005).

According to Angove and Tande (2011) a report on microinsurance showed that a decrease in costs, an increase in scale/sales, customer satisfaction and profitability have been identified as drivers for profitability, hence business success. Furthermore, a report on microinsurance as a macro innovation, mentioned that microinsurance in emerging economies offers a significant opportunity to increase the company's shareholder value and represent a market of great potential growth and profitability (Forbes, 2011). The growth and profitability of the microinsurance business increase the return on equity and earnings per share, hence justify and support the increase in the number of internal/external stakeholders and satisfied clients ultimately as mentioned above.

Furthermore, business success is defined as a business firm's ability to achieve sales growth and effective customer relations management (CRM) (Kotler, 2003). Kotler (2003:83) further suggests that firms that achieve customer value and satisfaction through effective customer relations management (CRM), achieve "high repeat purchases" (that is, more sales) and "ultimately high company profitability". Sales growth and effective customer relations management are therefore two of the main indicators of business success.

Sales growth is an important indicator of business success (Kotler, 2003). According to Shaun and Merrick (2005:39), sales growth is marketing managers'

most common criteria for measuring the effectiveness of their marketing function in a business. Sales growth is defined in this study as the perceived extent to which a firm achieves sales targets, increases market share and generates sale of products with long-term profitability.

Kotler (2003:85) and Lancaster and Reynolds (2004:9) state that customers are paramount to any business and that effective customer relations management (CRM) is a key indicator of business success. Effective CRM is a business strategy that succeeds in integrating a business's people, processes and technology in such a way that it maximises its relationships with its customers, suppliers and distributors (Lancaster & Reynolds: 2004).

Kotler (2003) suggests that certain process variables should be implemented in business in order for them to achieve sales growth and effective CRM. These process variables, among others, include the development and launching of new products (Evans & Bermans, 1994). When a firm launches a product, it must consider important decisions on the tangible and intangible attributes of the product, how the product is going to be priced, how it is going to be communicated (promoted to the market) and how it is going to be distributed in the market. In other words, the firm should have a product, pricing, promotion and placing launching strategy in order to introduce a product successfully to the market.

The availability of resources, namely labour and information technology is a key ingredient in the success of businesses. Resource management is defined as the ability to undertake the management (ensuring the availability and efficiency) of the abovementioned resources (Forbes, 2011).

According to Seller and Gurewitsch (2005) and Kotler (2003), an important success factor in achieving high performance is the nature of the organisation, which includes the firm's policies, structure and organisational culture. A positive organisational culture improves entrepreneurship, creativity, adaptability, dynamism and service quality (Richard & Ravi, 2006:20).

Therefore, the above components were taken into account when formulating the questions in the measuring instrument with regards to the business success of microinsurance (See Appendix 1).

However, according to a report published by the Financial Sector Charter together with the LOA, the Zimele endorsed products were approved only in 2007 (LOA, 2007b). After getting the go-ahead from the authorities, registered Insurers only started to offer these products recently since two to three years ago. Therefore, offering microinsurance in the market is only at its preliminary stage. To give effect to that, the business success in the field of microinsurance will be measured on an assumption period of two years. Therefore, a section of the questionnaire will formulate and measure questions relating to the above components of business success for a period of two years. Another section of the questionnaire will measure business success of microinsurance in general, with regards to the independent variables that will be identified from the literature study as mentioned above.

While the above components are sine-quan on to the business success that is, the dependent variable of a microinsurer, the question is what a microinsurance firm must do to achieve business success. Following the above question and reasoning, therefore the next section of this study identifies the independent variables of business success in microinsurance firms in South Africa.

A discussion on the different specified independent variables and their possible influences on business success (dependent variable) follow.

3.6 IDENTIFICATION OF INDEPENDENT VARIABLES ON BUSINESS SUCCESS (DEPENDENT VARIABLE)

3.6.1 Communication

The importance of communication is shown by Van Riel and Fombrun (2007:1) who state that communication is the lifeblood and success of all firms.

Communication is necessary during the interactions and success for a firm-client relationship (Donaldson & O'Toole 2007:150). Communication refers to the transfer of information between parties through symbols that ensure the exchanging and sharing of ideas, attitudes, opinions and facts (Bosch et al. 2006:543). Van Riel and Fombrun (2007:2) as well as Cornelissen (2008:5) explain that a firms' communication system consists of the media used to communicate to internal (for instance, the employees) and external stakeholders (the consumers) and includes marketing communications to clients. Through communication information is transferred, and the use of different methods or media creates an understanding between two or more parties.

As mentioned, communication is not only about conveying a message, but there also needs to be an understanding between the parties involved for the communication to be effective (Elliot in Boshoff & Du Plessis, 2009:271). A firm sends a message to a particular client segment of their market and aims to receive feedback or a response from the clients, for example, buying actions. Clients want to be heard and really listened to, rather than being promoted to. Various communication models exist to explain this communication process, for example, the *AIDA* model, the *Hierarchy of Effects model* and the *Information Processing model* (Elliot in Boshoff & Du Plessis, 2009:271-273; Engelbrecht 2007a:44; Engelbrecht 2007b:11; and Gay *et al.,* 2007:390).

In the context of the communication process in the microinsurance industry, the source is the microinsurance firm; the message is information on microinsurance products and services; the channel is microinsurance firms' pamphlets; and the receiver is, for example, the low-income households (clients). It is important to note that various activities, actions and conditions can disturb the communication process and elements and thus hinder the effective transmission and understanding of the message. For example, a microinsurer can select a communication channel not used by the target client group that is, the low-income earners, and therefore it will not be appropriate as the clients will never receive the message.

Promotion or marketing communication refers to the communication of firms with their clients (Cornelissen, 2008). Various marketing communication elements can be used, such as advertising, direct marketing, personal selling, public relations and sales promotion. Within each of these elements different communication channels or tools are available to microinsurance firms, for example, television advertisements, radio advertisements, newspaper articles, competitions, e-mails and pamphlets. Without sufficient communication with clients firms will not be able to transmit important facts regarding products and services to clients and to convince them to continuously purchase the MI products and services for instance the Zimele product. Communication from clients to a firm will ensure that a firm generates new knowledge surrounding the business environment conditions, market opportunities, changed client needs and competition threats.

In the microinsurance 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 microinsurance, 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 microinsurance 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 & Moriarty, 1998:2). These processes require insurance employees to possess communication, listening and persuasion skills.

Microinsurance firms use various communication mediums, including insurance employees, agents, brokers, brochures, pictorial posters, websites on the Internet, and clients' cellular phones, to send messages to their clients. In addition, immediate feedback to a client via the telephone is also communication by an insurer to a client. General advertising of microinsurance firms as well as notices

circulated by the firms, for example, in newspapers and TVs are also regarded as communication by microinsurance firms to their clients.

Microinsurers communicate to clients for different reasons, for example, to inform clients about their products and services, payments of premiums options with clients, to answer client queries or to honour the payment of claims.

Communication is part of any relationship between individuals or groups of people. It can justly be argued that a relationship can only be established if dialogue or communication with another party is started (Jarvis, 2004). The same applies to the relationships of a firm, such as a microinsurance firm with its clients. Communication is a form of interaction between parties in an agreement and/or relationship.

Studies have often shown that communication is important in relationships, for example, several studies emphasised that communication is crucial in business relationships (Cheng, 2001). Naude and Buttle (2000) identified communication as one of the major relationship constructs. Therefore, it can be established that communication is important for a firm, for example, a microinsurance firm, when building and maintaining relationships with clients. The quality of communication affects the quality of relationships (Lages, Lages & Lages, 2005). This shows that communication is a key factor for a firm when considering building and maintaining relationships with stakeholders, including clients. Hence, the better is the quality of communication then the better the relationship between the firm and client, thus, the more likely is the business success of the firm.

Communication has proved to be the gateway to the world of professional and personal success (Van Riel & Fombrun, 2007). The more effective communication is, the better the chance for success in all spheres of life. To improve communication in the microinsurance industry, microinsurers should develop more mechanisms of providing feedback to the low-income households.

Communication can thus be regarded as an important variable ultimately influencing the business success of firms. For the purpose of this study, the influence of communication (independent variable) on business success (dependent variable) of microinsurance firms will be investigated.

3.6.2 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.

Microinsurance is a sensible approach when it comes to tackle serious risks low-income households face (Microinsurance Network, 2010). Unless policies are conceived in lay-man 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.

Trust is a vital element of business and is certainly an inevitable outcome from the application of honesty, fairness, objectivity, and responsibility (Six, 2007; Barnes, 1994:563). Trust underpins the practice of each of those principles, and only with trust can business transactions be entered into with confidence. A company's use of trust as a basic business strategy allows it to demonstrate superior performance on a number of other metrics.

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).

As in the past, effective businesses must earn their customers' trust. They must learn from every interaction and use what they know to develop successful, long-term relationships. According to Six (2007), trust, in general, between individuals and groups within an organisation is extremely imperative in the long-term stability of the organisation and the well-being of its members. "By developing a consistent, seamless, and personal approach to customers, companies can create long-lasting relationships that lead to loyalty and subsequently profit and success".

Sources reveal that if the poor do not have to claim, they may believe that they have wasted their premium income, hence a lack of trust develops (Microinsurance Network, 2010). Therefore, microinsurers need to find ways of convincing the target market that they are indeed trustworthy. For instance, perhaps the most effective way of conveying this message is through branding - associating the insurer with another firm that is trusted by the poor, for example when AIG entered the Indian market, a joint venture was formed with the Tata group of companies, one of the most trusted and respected industrial Indian conglomerates (Microinsurance Network Publications, 2010).

In light above, trust is identified as an important variable that can determine business success. Therefore, the influence of trust as independent variable on business success as dependent variable will be investigated.

3.6.3 Financial literacy

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 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 microinsurance. (See also Table 2.4).

As mentioned, It is still a fact of South African life that knowledge/wealth and race are strongly related (FinScope South Africa, 2008). This does not imply that poorer people are less astute with their money but that their exposure to the formal financial system and its processes is more limited.

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 the literacy challenge” (Zuma, 2011). Although South Africa boasts an 88% basic literacy level, low growth in financial knowledge is of some concern. For example, the relatively low growth in financial knowledge about the National Credit Act no. 34 of 2005 and microinsurance 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 microinsurance and its benefits.

Low levels of literacy amongst the low-income earners make marketing the microinsurance products more difficult. When marketing the microinsurance products, insurers must include the characteristics of the product design, lapsed policies, premium payment and claims processing delays. This is why it is important to create awareness amongst the low-income earners. Although much efforts have been made by the SAIA to increase awareness about microinsurance in South Africa, current sources reveal that there is still a handful number of low-income households that do not have any cover due to a lack of awareness of microinsurance in the country (SAIA, 2007). Therefore, it creates the opportunity

for microinsurers to probe their knowledge about microinsurance to the “no knowledge niche” market.

It can be deduced from the above that financial literacy can be identified as an independent variable on business success, thus the influence of financial literacy on business success will be investigated.

3.6.4 Marketing

Marketing of microinsurance products and services is an important part of business success in this industry. Therefore, this section will commence with an overview of marketing over the last decade and then shift to services marketing in particular (as this study focuses on microinsurance providing services to individual clients).

3.6.4.1 Development in marketing

As the focus is on the marketing of microinsurance services, it is important to first consider the concepts of marketing and services. Bosch et al. (2006:413) define marketing in a firm as the business function that is responsible for the satisfaction of consumer needs by adding value through appropriate products and/or services, reasonable prices and acceptable distribution channels using promotional strategies and marketing communication methods.

Thus, marketing includes all those activities in a firm that ensures that actual exchanges take place between the firm and its consumers (the buying and selling of products and services).

For this reason, the focus areas of a firm’s department of marketing management should be providing the right product and service at the right price (reasonable for the consumer and profitable for the firm), in the right place (convenient for both the consumer and the firm) and through the correct promotional method(s) (suitable to the firm’s needs as well as the most appropriate method(s) to reach the

consumer). These focus areas have become known as the marketing mix or the 4Ps of marketing: product, price, place and promotion (Kotler, et al., 2006:411).

Marketing authors such as Bosch et al. (2006:413-415) and Kotler, Armstrong and Tait (2010:23-26) also indicate that the concept of marketing has developed over time and that five distinguishable orientations toward marketing exist. These orientations are the production-, product-, selling-, true marketing- and societal marketing orientations. Each of these orientations is described below Bosch *et al.* (2006:413-415) and Kotler et al. (2010:23-26):

- The production orientation towards marketing assumes that consumers will buy available and affordable products and services; the emphasis is on the production and distribution capabilities of the firm.
- The product orientation towards marketing assumes that products and services will "sell themselves" because of their inherent built-in quality and performance characteristics.
- The selling orientation towards marketing assumes that consumers will not buy sufficient products and services unless they are persuaded to do so by means of promotional strategies.
- The true marketing orientation involves the determination of consumer needs and values and the design and supply of products and services to satisfy these consumer needs.
- The societal orientation towards marketing also assumes that consumers' needs should be satisfied, but in such a way to also enhance the wellbeing of the society as a whole (thus, "environmentally friendly" products and services should be the focus).

However, when it comes to the marketing of services, the 4Ps need to be extended to 7Ps, as will be seen in the next section.

3.6.4.2 Services marketing

Kotler et al. (2010:234) indicate that a service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the

ownership of anything. According to Bosch et al. (2006:442), services are those separately identifiable but intangible economic activities that provide want-satisfaction and that are not necessarily tied to the sale of a product or another service.

The marketing of services is different to the marketing of actual physical products (Kotler et al., 2010). This is because of the unique nature of services as shown by the definition of the service above. Services are intangible, inseparable, perishable (it cannot be stored because production and consumption occur at the same time), variable (the same service to different consumers at different times may vary considerably) and untransferable (the consumer only use the service and will never own the service) (Boshoff & Du Plessis 2009:5-8; Bosch et al. 2006:447).

The nature for marketing services originally initiated four P's of marketing; product, price, promotion and place. However, with developments in the field of marketing additional marketing mix activities for service firms, for instance, a microinsurance service provider came up, namely processes (a particular method of operations is necessary for service delivery), people (service employees are highly involved in the service delivery processes) and physical evidence (the physical evidence in the service environment contributes to the consumers' service experiences), collectively known as the 7Ps of services marketing. The extension of the traditional 4Ps of marketing to the 7Ps for services marketing is supported by various authors, such as Kotler et al. (2010:66-67), Boshoff and Du Plessis (2009:9-10) and Brink and Berndt (2008:17).

OMSA (2010b) reveals that low-income households do have little or no knowledge at all about the microinsurance cover, therefore the focus is on the microinsurance firms to probe their knowledge as a token of the services marketing effort.

As mentioned above, the marketing mix is a combination of marketing tools that are used to satisfy customers and company objectives (Kotler et al., 2010). Consumers often call the marketing mix "the offering." However, since

microinsurance is a service, the extended marketing mix (or the so-called 7P's of services marketing) is:

- Product;
- Price;
- Place (Distribution);
- Promotion;
- Processes;
- People; and
- Physical evidence.

By using variations of these seven components, organisations have the ability to reach multiple consumers within their target market (Kotler et al., 2010). One of the main keys to the success of any marketing program is the ability to work effectively in shaping marketing mixes that meet the nature and needs of the specified target market.

3.6.5 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 microinsurance 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 microinsurance 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 microinsurance product.

As mentioned from the literature study that product is an important variable of the success of marketing and the microinsurance business, therefore product as an independent variable of business success will be investigated.

3.6.6 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 of policies sold by 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. Price being one of the P’s of marketing and as an independent variable of business success will be investigated in this study.

3.6.7 Place (Distribution)

Place under the marketing mix involves all firm activities that make the product available to the targeted consumer (Kotler & Armstrong, 2004). Distribution creates place utility, time utility and possession utility. Place utility is the creation of value to the consumer by bridging the spatial gap between the place of production and the consumer. Time utility is the bridging of the gap between the time of production, service delivery and the time of consumer consumption. Possession utility is the bridging of the gap between what the consumer wants and what the consumer has (Lamb et al., 2000:21). The distribution strategy by insurers in marketing the Zimele microinsurance funeral cover in South Africa is generally done through insurance brokers and agents (LOA, 2007c). However, distribution of these products could be a challenge, particularly in the remote areas not serviced by the industry (Association of Savings and Investments of South Africa, 2009). The Zimele initiative has been less effective as its message does not seem to be getting through to its intended audience, 19 million low-income South Africans (LOA, 2007c). Some of its intended recipients prefer funeral parlours and burial societies that offer informal funeral products at high premiums.

Many people in South Africa predicted the demise of burial societies when the Zimele initiative was launched by the LOA SA in 2007. However, the affordability and benefit payouts of these societies have seen them become stronger. FinMark Trust released a report soon after showing that the membership of burial societies jumped to 29 percent in 2007 from 19 percent in 2006 among people who had taken out death insurance ASISA, 2009). About 21 percent of the insured are over the age of 16 and have informal funeral cover (Association of Savings and Investments of South Africa, 2009).

Part of the growth in the popularity of informal funeral products can be attributed to Zimele's lack of visibility in the market. Joubert (2007) said that life insurers were bypassing the expensive broker route in their drive to take the Zimele products to the poor. Insurance brokers are reluctant to sell Zimele products because they receive small commissions for their efforts (Joubert, 2007). Instead, the brokers have thrown their weight behind cheap and innovative distribution alternatives. These include using cell phones and partnering with retailers and community groups. For example, large retailers such as Shoprite, the Edcon group, PEP Stores and Ellerines provide microinsurance jointly with insurance firms helping low-income earners to mitigate various types of risks (Kuper, 2008). The Hollard Insurance firm together with the Edcon group in South Africa profitably have been selling accidental death and disabilities for $3.93 (approximately R32.30) to $6.61 (approximately R54.40) a month with a $2 360 (approximately R19 423) pay out (Kuper, 2008). Old Mutual uses Shoprite and Checkers to sell the product “Pay-When-you-Can. Sanlam Sky uses Joshua Doore (JD group) to sell their low-income insurance cover as a medium of distribution (place). Innovative methods of distribution will have to be launched since premium rates are low and so are the profits that business success can be entailed (Joubert, 2007). Some small and medium insurers were partnering with banks and retail stores to sell the product to the low-income market (Joubert, 2007). Hollard Insurance firm uses cell phone technology to provide Zimele-compliant cash-based funeral cover. They have teamed up with SharedPhone which has agents selling cell phone airtime and prepaid vouchers for Telkom and Eskom. Hollard also uses their network of

stokvels, funeral parlours, agents and brokers to distribute the Zimele-compliant microinsurance products. They have also forged relationships with Pick n Pay, Shoprite and Spar to have their clients pay their premiums in these stores (Joubert, 2007).

From the literature study, therefore, place is being classified as an important independent variable of business success that requires investigation.

3.6.8 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 & Armstrong, 2004). The four main components of promotion is advertising, personal selling, sales promotion and publicity, according to Archer et al. (1997:81). The microinsurer should come up with the right medium of promotion to market the microinsurance products to low-income earners.

For the purpose of promoting microinsurance 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, 2007c). 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).

3.6.9 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). It includes all tangible cues that facilitate performance or communication of the service, for instance, logos, letterheads, business cards, brochures, etc. The actual physical facility, where the service is offered, is also relevant in some cases.

In the microinsurance industry, the players currently make use of the agents, brokers, the offices themselves, church groups, stokvels and retail companies such as Jet Mart, Shoprite, Pep Stores and Woolworths. Banks, for instance, AbsaDirect also markets microinsurance products. Financial facilities, such a bank accounts with the option of signing debit orders, are not freely used by the poor, and resultantly other means of payment is required.

In addition, the phe 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. One of the main reasons for the increased costs is that microinsurance is “difficult” to distribute due to the lack of infrastructure.

Further, to go 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 network nationally (Mafu, 2007). 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 microinsurance products and services. To give effect to that, OMSA uses soccer clubs, cooperatives and church groups to gather the low income households for the microinsurance products and services. The more convenient and accessible a microinsurer is, the more successful the firm is likely to be (Joubert, 2007). Therefore, in light of the above, physical evidence will be analysed and assessed on the dependent variable, business success.

3.6.10 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). 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 microinsurance 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.

3.6.11 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 microinsurance policy relates to the efficient time of the negotiation between the microinsurance service provider and the client from start until the policy issue.

For the purpose of this study, since microinsurance 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.

3.6.12 Technology

There has been some concern among microinsurers over the cost of moving from manual processes to automated ones (Microinsurance Network, 2010). 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).

New technology architectures based on Internet and wireless communications can be a good growth catalyst for microinsurance. Technology cannot overcome every obstacle that microinsurance operations face. However, it can help optimize the

return on investment and bridge operational gaps by enabling the communications and cooperation of stakeholders around the world.

Technology is not just the privilege of the insurers today; customers too want to benefit from its use in the microinsurance 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 microinsurance sector. Therefore, technology is an important independent variable that can determine business success of a microinsurer hence, will be investigated.

3.6.13 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 link 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 microinsurance sector, each and every employee should be dedicated in providing the microinsurance services to the low-income households. A microinsurance culture must be created and nurtured throughout the whole firm. According to a recent publication by Microinsurance Network (2009), the following are manifestations of a microinsurance culture:

- Relationship building – microinsurance requires field staff to focus more on building a relationship than making a sale.
- After-sales service – Policyholders need to know what is covered and receive any assistance they require in preparing claims documents. The higher costs of these activities are expected to be offset by enhanced customer retention.
- Claims processing – Providers have to enhance the market's trust of insurance by minimizing exclusions, making it easy to submit valid claims, and even seeking out beneficiaries who may not have realized that they can claim.
- Claims rejections – Microinsurers need to minimize the likelihood of claims rejection. If claims have to be rejected, microinsurers need to find a way of communicating that result in a way that makes the decision acceptable to the claimant.

Since the concept of insurance is relatively far-fetched for the low income market, creating a microinsurance culture in the low income market is important for the microinsurer's success. Therefore, organisational culture is an independent variable identified that can determine business success of a microinsurer and then will be investigated.

3.6.14 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.

Burcley and Caple (2000:1) define training as a systematic effort to modify or develop knowledge, skills, abilities, and attitudes through the learning experience, to achieve effective performance in an activity or range of activities.

Armstrong (2003:527) concurs with other authors in defining training as a planned and systematic modification of behaviour through the learning event, programme and instruction which enable individuals to achieve the levels of knowledge, skill and competencies needed to carry out their work effectively.

Sims (1993:2) summarises the above definitions by defining training as a systematic planned approach to teaching knowledge, skills, abilities, and attitudes, with certain features. Furthermore, training is a process of changing behaviour and motivation to improve the match between employee characteristics and the demands of a job. The process consists of planned programmes designed to improve competence and performance at the individual employee, group, and organisational levels. Improved competence and performance, in turn, imply that there have been measurable changes in knowledge, skill, abilities, attitudes, behaviour.

Managers and supervisors and the organisation at large are faced with the mammoth task of developing employees. Human resource development can be defined as a learning experience organised mainly by an employer, usually within a specified period of time, to bring about the possibility of performance improvement and/or personal growth (Nadler, 1995). However, employee training is job related learning that is provided by employers for their employees (Toffler, 2005). The main aim is the improvement of employees' skills, knowledge and attitudes so that they can perform their duties according to the set standards (Toffler, 2005).

Helping employees develop is the greatest contribution managers and supervisors can make to the wellbeing of their subordinates. Developing employees should be taken seriously as this leads to increased organisational productivity, efficiency, effectiveness and all-round job satisfaction. Armstrong (2003:526) and

Marchington and Wikilson (2000:158) define development as the growth or realisation of a person's ability and potential through the provision of learning and educational experiences. The authors view development as a broader term than learning, in terms of its complexity and elaboration, as well as its continuity, but nevertheless others see it as rooted in the individual. Many organisations are facing the challenge of developing greater confidence, initiative, solution-finding, and problem-solving capabilities among their people. Organisations need staff at all levels to be more self-sufficient, resourceful, creative and autonomous. Employees' efforts produce better results and many organisations are striving to achieve improved performance through employees' contributions. This behaviour enables employees to operate at a higher strategic level, which results in increased organisational productivity and competitiveness.

All managers and supervisors should provide training and development for their people. Training develops people, it improves performance, raises morale; training and developing people increase their health and organisational ability and raises the productivity levels of the organisation. Training is nothing without the motivation to apply it effectively. A strong capability to plan and manage skills training, the acquisition of knowledge, and the development of motivation and right attitudes, largely determines how well people will perform in their jobs.

Considering the emergence of the microinsurance market in South Africa, most of the microinsurers do not have enough adequate insurance background in the field (Microinsurance Network, 2009). Since the microinsurance service providers are unlikely to find people with microinsurance experience, microinsurers should regularly upgrade staff skills according to a recent report. Staff should be competent to explain and sell the product to the low-income earners, according to the report. Therefore, training and development are needed by South African microinsurers to ensure success. Therefore, for the purpose of this study, human resources training and development has been identified as an independent variable of business success of a microinsurer, thus will be investigated.

3.6.15 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. Microfinance seeks to eliminate this problem by getting recourse to microinsurance (Njoroge, 2008).

Often, microfinance services are aimed at helping people start their own businesses, creating the opportunity for increased income and greater financial independence. For example, a microfinance loan could help an individual start a business, creating a new income stream and maybe even providing new job opportunities for others. Such a small loan could benefit the borrower in many ways, setting him up to provide food, shelter, and education for his dependents. That microfinance loan could even help the borrower to afford important medicines.

Microcredit is the extension of very small loans (microloans) to those in poverty designed to spur entrepreneurship. These individuals lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Microcredit is a part of microfinance, which is the provision of a wider range of financial services to the very poor. Offering microcredit without microinsurance can be bad financial behaviour as it is the poor who suffer of such bad product design (Njoroge, 2008).

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

3.6.16 Microinsurance Regulatory Framework

Regulatory framework, also called regulatory regime, according to the finance dictionary (2009), relates to a system of regulations and the means to enforce them, usually established by a government to regulate a specific activity.

According to a report on the "The future of microinsurance regulation in South Africa", the existing framework regulating the microinsurance 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 Microinsurance Regulatory Framework bringing along a "Microinsurance Act" is to be published anytime from now (National Treasury of South Africa, 2011).

Microinsurance, as defined in the article, 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 microinsurance sector consists of many weaknesses, improving the rules and regulations pertaining to microinsurance in South Africa is very important to protect customer abuse and financial exclusion, will thus lead to business success. Therefore, the concept microinsurance Regulatory Framework identified as an independent variable of business success (dependent variable) of a microinsurer will be investigated.

From the above literature, the independent variables of business success (dependent variable) have been identified as follows:

- Communication
- Trust
- Financial literacy
- Services marketing mix (Product, price, promotion, place, people processes and physical evidence)

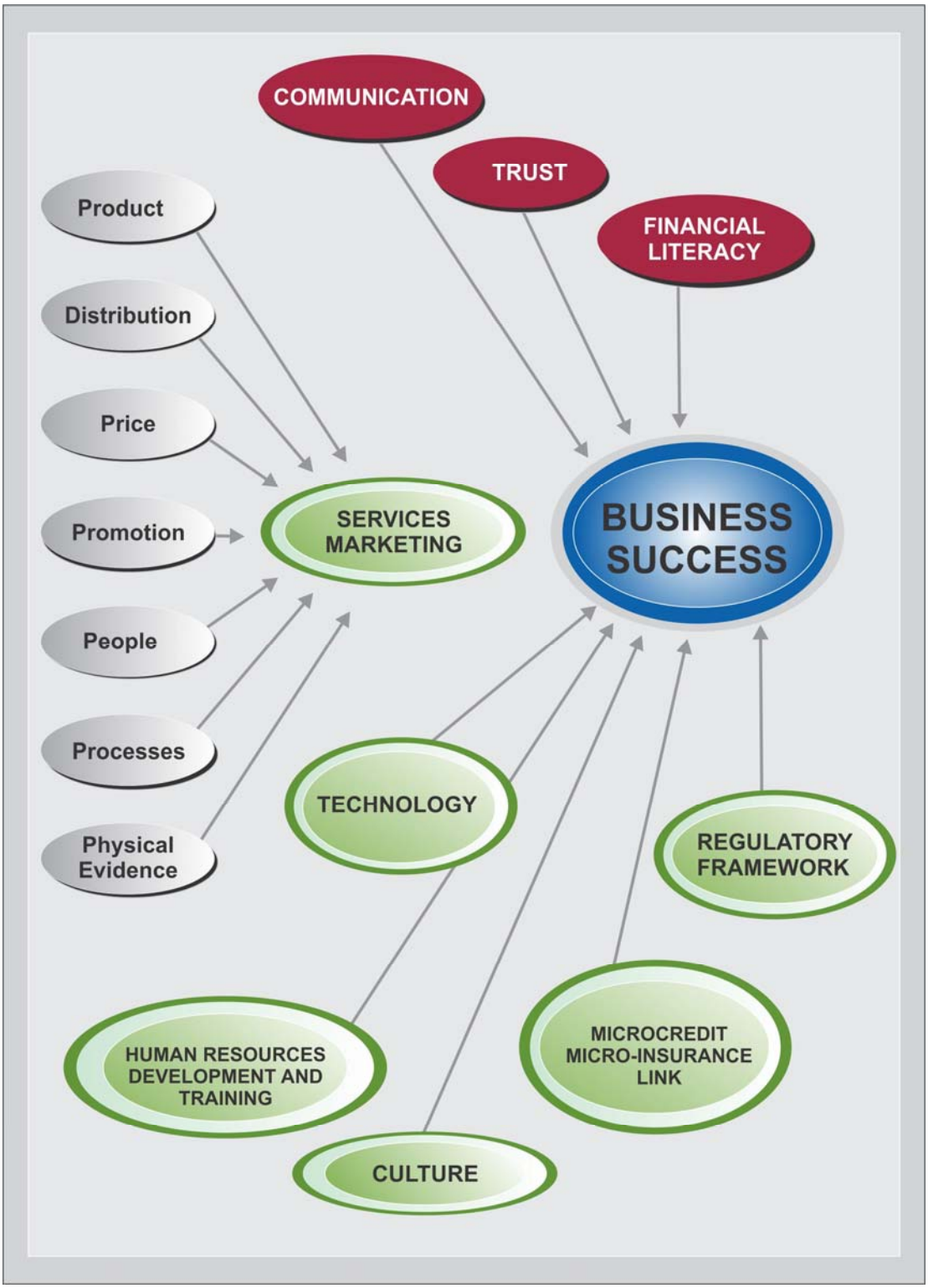
- Technology
- Culture
- Human resources training and development
- Microcredit - Microinsurance link
- Microinsurance Regulatory Framework

After the identification of the above independent variables, the following theoretical model and exploratory tables (see tables 3.2 to 3.17) were constructed to determine whether relationships exist between the independent variables (communication, trust, financial literacy, services marketing component mix (price, place, product, promotion people processes and physical evidence), technology, culture, Human resource training and development, microcredit - microinsurance link and regulatory framework) and the dependent variable (business success).

3.7 THEORETICAL MODEL

The intensive literature study has derived the proposed theoretical model and has identified the variables influencing business success in the microinsurance industry. The theoretical model is displayed in Figure 3.1 below.

Figure 3.1: Theoretical model



In addition to identifying the variables from the literature study, questions have also been formulated to determine the relevance of each of the variables in the business success of the microinsurance industry. These appear in the tables below.

Table 3.2: Communication

Questions	Source
The firm I work for:	
• Communicates/explains (financially educates) well the concept, mechanism and benefits of Zimele microinsurance to the low-income households through formal (letters) and informal means (emails).	In respect of the nature of microinsurance, 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 from the microinsurer (Microinsurance Network, 2010).
• Communicates/efficiently explains the importance of microinsurance to the low-income households.	Microinsurance firms use various communication mediums, including insurance employees, agents, brokers, brochures, pictorial posters, websites on the Internet, and clients' cell phones, to send messages to their clients. In addition, immediate feedback to a client via the telephone is also communication by an insurer to a client. General advertising of microinsurance firms as well as notices circulated by the firms, for example, in newspapers and TVs, are also regarded as communication by microinsurance firms to their clients (Researcher's own concept)
• Communicates efficiently explains the Zimele microinsurance policy contract wordings to the low-income earners.	Communication is necessary during the interactions and success for a firm-client relationship (Donaldson & O' Toole 2007:150).
• Has successfully been achieving business success through effective communication to the low income earners	Communication has been the gateway to the world of professional and personal success (Van Riel & Fombrun, 2007).

Table 3.3: Trust

Questions	Source
The firm I work for:	
• Provides trust so that the low-income households are confident that the insurance company will pay in an event. • Is trustworthy to the low-income earners in South Africa. • Creates trust among the existing clients about the Zimele microinsurance product. • Creates trust among the prospective clients about the Zimele microinsurance product. • Provides trust so that the low-income households see insurance as a necessity.	In insurance, the policyholder pays upfront and hopes the provider keeps its promise to make a payment in accordance with the contractual terms (Microfinance Network, 2010).
• Provides brochures to promote the Zimele product. • Provides platforms (e.g. workshops, get-together, etc) for engagement and interaction with the target audience • Low-income households) so that an element of trust is created and maintained between the parties.	The most effective way of conveying this message is through branding (Microinsurance Network, 2010).
• Has successfully been achieving business success by being trustworthy to the low income earners.	According to Six (2007), trust, in general, between individuals and groups within an organisation is extremely imperative in the long-term stability of the organisation and the well-being of its members. "By developing a consistent, seamless, and

	personal approach to customers, companies can create long-lasting relationships that lead to loyalty - and subsequently profit and success".

Table 3.4: Financial literacy

Questions	Source
The firm I work for:	
• Financially educates the concept, mechanism, importance and benefits of Zimele microinsurance to the low-income households through formal (letters) and informal means (emails).	A handful of low-income households that do not have any cover due to a lack of awareness of microinsurance in the country (SAIA, 2007).
• Financially educates the Zimele microinsurance product terms and conditions, features, and its benefits to the low-income earners.	High levels of misunderstanding or no knowledge at all of key financial terms (FinScope South Africa, 2008).
• Financially educates the allocation/break-down of the Zimele microinsurance price (premium) to the low-income earners.	High levels of misunderstanding or no knowledge at all of key financial terms (FinScope South Africa, 2008).
• Financially educates the Zimele microinsurance policy contract wordings to the low-income earners.	Contract should be written in an understandable language. In an attempt to raise the awareness about microinsurance in South Africa, the South African Insurance Association (SAIA) in 2007 has initiated three activities (South African Insurance Association, 2007).
• Has successfully been achieving business success by being constantly financially educating the low income earners on the concepts, benefits and importance of microinsurance	Knowledge of financial matters is strongly linked to wealth and business success (FinScope South Africa, 2008).

Table 3.5: Product

Questions	Source
The firm I work for:	
• Provides enough information to the existing clients (standards and features) about the Zimele microinsurance product and promptly. • Issues the policy contract of the Zimele microinsurance product in a simple and informal language. • Provides a more attractive Zimele microinsurance cover product design and product features to the clients compared to the banks, insurers, burial societies, retailers and fast food outlets in the marketplace.	The microinsurance 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 (Researcher own concept).
• Provides information to the client about how strict the firm is in complying with relevant standards and regulations of Life Offices Association (LOA) in respect of the Zimele product	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).

Table 3.6: Price

Questions	Source
The firm I work for:	
• Uses a predatory pricing using the Life Offices Association (LOA) budget as subsidies.	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).
• Provides a more affordable premium rate for the Zimele microinsurance cover than the banks, retailers, fast food outlets, burial societies, other insurers in the marketplace • Uses low penetration pricing of R40, which is the minimum price of the Zimele product. • Provides a more affordable premium rate for the Zimele microinsurance cover than the banks in the marketplace. • Thinks that the R40 per month for the Zimele product should be discounted.	According to a research report by Angove and Tande (2011), Old Mutual was facing a challenge that a number policies sold by burial societies were lapsing as premiums were too expensive.
• Has successfully been achieving business success through the competitive pricing policy of microinsurance.	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 (Researcher's own construct)

Table 3.7: Place

Questions	Source
The firm I work for:	
• Uses a call centre and cell phones in selling the Zimele product. • Uses brokers and agents in selling the Zimele product. • Uses banks, retailers, fast food outlets in selling the Zimele product.	The distribution strategy by insurers in South Africa to market the Zimele brand funeral cover is generally done through insurance brokers and agents (LOA, 2007b).
• Will launch new methods of distribution in selling the Zimele product. • Thinks that there is an immediate need to review its distribution methods of the Zimele product. • Has already reviewed its distribution methods and is implementing new distribution methods for the Zimele product.	However, distribution of these products could be a challenge, particularly in the remote areas not serviced by the industry (ASISA, 2009).
• Has successfully been achieving business success through innovative distribution channels of microinsurance	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 ensured (Joubert, 2007).

Table 3.8: Promotion

Questions	Source
The firm I work for:	
• Conducts an intensive promotion campaign through seminars, brochures, direct mailing, grants special discounts, special events and one to one communication to offer the Zimele microinsurance product to new clients.	The insurance industry does not have a uniform and coordinated branding or promotion to position the Zimele products in South Africa for its audience (LOA, 2007c).
• Provides early success stories of the funeral product to the clients (e.g approval of claim within time limits) to promote the product.	The FinMark Trust in 2007 studied the awareness and usage of financial products in South Africa and found that the recognition of the brand was negligible (LOA, 2007c).

Table 3.9: Physical Evidence

Questions	Source
The firm I work for:	
• Is located in the prime area of business and is easily accessible to low-income households. • Has branches in the outskirt areas and are easily accessible to the low-income earners who live in any locations and suburbs.	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 network nationally (Mafu, 2007).
• Consists of many customers who were not easily accessible at the time they were targeted for microinsurance.	The low-income earners are not easily accessible and always busy during business peak hours (Mafu, 2007).
• Has successfully been achieving business success. through the implementation of adequate and strong set-up infrastructure of microinsurance.	The more convenient and accessible physical evidence, the more successful is the microinsurer (Joubert, 2007).

Table 3.10: People

Questions	Source
The firm I work for:	
• Invests in the appearance, attitudes, behaviours of its agents and staff. • Gives business cards to all staff and agents offering microinsurance services. • Has successfully been achieving business success by portraying a professional marketing image of its agents and staff to the low-income people.	The way the employees, agents, service providers are dressed, their personal appearance and their attitudes and behaviours, accompanied by their visit cards influence the customer's perceptions of the service and portrays an impressive professional marketing image, hence success of the microinsurer (Researcher own concept).

Table 3.11: Processes

Questions	Source
The firm I work for:	
• Has successfully been achieving business success by processing efficiently all documentations to the low income earners	The success in the process of the microinsurance industry relates to the efficient time of the negotiation between the microinsurance service provider and the client starts until the issuing of the policy (Researcher own concept).

Table 3.12: Technology

Questions	Source
The firm I work for:	
• Is equipped with an effective automated system for its microinsurance operations.	There has been some concern among microinsurers over the cost of moving from manual processes to automated ones (microinsurance Network, 2010).
• Optimises the processes of its automated system and builds economies of scale in preparing reports and making decisions. • Interlinks well its automated system across branches and Head Office for its microinsurance operations (LAN/WAN).	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).
• Consists of a fast internet and wireless connection systems enabling communications between relevant stakeholders. • Enables an immediate issue of the microinsurance policy contract with the assistance of its automated systems. • Easily traces the identity/payment/profile and claim history of customers in the entire firm with its automated systems.	Technology is not just the privilege of the insurers today; customers too want to benefit from its use in product delivery (Churchill, 2006).
• Has successfully been achieving business success through implementing an efficient and effective technological system of microinsurance.	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 and success of the microinsurance sector (Microinsurance Network, 2010).

Table 3.13: Culture

Questions	Source
The firm I work for:	
• Comprises an insurance culture among the low-income households. • Organises regular meetings with burial societies, stokvels, church groups, fast food outlets, retailers, cell phones companies and banks to support and encourage an insurance culture. • Provides workshops and platforms to maintain an insurance culture.	A microinsurance culture must be created and nurtured throughout the whole firm. Concept of insurance is relatively far-fetched for the low income market, creating a microinsurance culture in the low income market is important for the microinsurer success (Microinsurance Network, 2009).
• Has successfully been achieving business success through the support of an adherent microinsurance culture.	Creating a microinsurance culture in the low income market is important for the microinsurer success (Microinsurance Network, 2009). .

Table 3.14: Human Resource Training and Development

Questions	Source
The firm I work for:	
• Invests a lot in the research and development (training) of its employees who deal with microinsurance. • Requires imperatively a certificate in financial planning or a fit and proper license for its middlemen to offer microinsurance.	Considering the emergence of the microinsurance market in South Africa, most of the microinsurers do not have enough adequate insurance background in the field. Since the microinsurance service providers are unlikely to find people with microinsurance experience, microinsurers should regularly upgrade staff skills according to a recent report (Microinsurance Network, 2009).
• Constantly monitors/reviews the progress of its staff dealing with microinsurance. • Has successfully been achieving business success through a supportive human resources training and development programme in microinsurance to its staff.	Staff should be competent to explain, sell the product to the low-income earners, according to the report (Microinsurance Network, 2009). Training and development are needed by the South African microinsurers to ensure success. Therefore, for the purpose of this study, human resources training and development is an independent variable that has been identified and can determine business success of a microinsurer (Researcher's own concept).

Table 3.15: Microcredit-Microinsurance Link

Questions	Source
The firm I work for:	
• Has a policy of microcredit linked to microinsurance for the low-income households.	Microcredit is the extension of very small loans (microloans) to those in poverty designed to spur entrepreneurship.
• Has a policy of microcredit linked to microinsurance for the low-income households. • Makes it imperative that any microloan should be secured by a microinsurance policy with the same company as a collateral security. • Supports that any microloan should be secured by a microinsurance policy with any other company as a collateral security.	Microfinance seeks to eliminate the problem of collaterally backing the microcredit/microloans, by getting recourse to microinsurance (Njoroge, 2008).
• Has successfully been achieving business success by imperatively linking microcredit loans with microinsurance.	Therefore, the linkage between microcredit and microinsurance can make good business sense and lead to business success (Njoroge, 2008). .

Table 3.16: MI Regulatory Framework

Questions	Source
The firm I work for:	
• Supports that that there are many problems in the existing regulatory framework and a new coherent microinsurance framework is required for the further development of the microinsurance industry • Supports the fact that a microinsurance act or licence is urgently needed. • Favours the existing regulatory system.	Existing framework regulating the microinsurance sector consists of many weaknesses, therefore improving the rules and a regulation pertaining to microinsurance in South Africa is very important to protect customer abuse and financial exclusion, thus lead to business success. (National Treasury of South Africa, 2011).

3.8 BUSINESS SUCCESS

The table below deals with the business success of microinsurance.

Table 3.17: Business Success (Dependent variable)

Questions	Source
***Over the PAST TWO years*, the firm I work for:**	
• Has successfully been achieving sales targets for the Zimele microinsurance product • Has gradually been increasing the year after year sales for the Zimele product. • Has decreased its transaction costs when selling the Zimele product.	According to a recent report on microinsurance, a decrease in costs, an increase in scale/sales, customer satisfaction and profitability have been identified as drivers for profitability, hence business success (Angove & Tande, 2011).

• Has increased its profit margin, due to the Zimele product	
• Has successfully been increasing its market share for the Zimele product • Has increased its number of clients, due to the Zimele product • Has shown an increase in the growth rate of the Zimele product. • Has successfully been increasing its earnings per share (EPS), due to the Zimele product. • Has gradually been increasing its return on equity (ROE) for the shareholders of the firm, due to the Zimele product	A report on microinsurance as a macro innovation, mentioned that microinsurance in emerging economies offers a significant opportunity to increase the company's shareholder value and represents a market of great potential growth and profitability (Forbes, 2011). Hence, the growth and profitability of the microinsurance business increase the return on equity and earnings per share, hence justify and support the increase of internal/external stakeholders and satisfied clients ultimately as mentioned above.

3.9 SUMMARY

From the literature study it is concluded that fifteen independent variables were identified. These variables are communication, trust, financial literacy, product range, affordability (price), distribution channels, promotion, technology, culture, human resource training and development, Microcredit-Microinsurance link,

regulatory framework, physical evidence and people. Each one of these variables has been additionally researched, and resultantly the measuring criteria pertaining to each one of ther variables, have also been identified. These criteria forms the basis of the measuring instrument of the independent variables (refer to Appendix 1).

In addition, these independent variables are focussed on one dependent variable, namely business success of microinsurance in the South Africa economy. The literature study also compiled a theoretical model as per figure 3.1.

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CHAPTER 4

ARTICLE 3:

VALIDATION OF A THEORETICAL MODEL TO MEASURE THE BUSINESS SUCCESS OF MICROINSURANCE IN SOUTH AFRICA

ABSTRACT

Offering Microinsurance is a specialized financial business service. The microinsurer is subjected to a specifically challenging business environment. Firstly, the microinsurer is restricted to offer its services to the low-income households who are located far from reach of the main business offices. Secondly, the monthly premium charged is quite low to cater for the high transaction costs. Thirdly, there is hardly or almost no commissions allocated to agents/brokers, which renders the process less motivating for intermediaries. This leads to an even intense competition among the insurance firms because of the low commissions and high transaction costs, more likely to hamper business success in the MI industry of South Africa.

Offering Microinsurance can also lead to competitive advantage as the low-income households are financially covered and the insurers offering Microinsurance in the market can increase their business portfolio and eventually leads to business success in the Microinsurance industry, hence it needs to be measured and managed properly.

The primary objective of the study was to present a validated theoretical model dealing with the variables that determine business success by developing and validating a tailor-made questionnaire for the Microinsurance firms and industry of South Africa. Quantitative research made use of 261 questionnaires filled (each questionnaire consists of 107 questions).

Statistical techniques used to validate the measuring instrument are: validity, reliability and factor analysis. The two tests used were the Kaiser-Meyer-Olkin test of sample adequacy and the Bartlett's test of sphericity. High levels of reliability (Cronbach Alpha > 0.9) and validity have been achieved in the analysis for most variables. The results

obtained indicated that the questionnaire is valid for use to measure the business success in the Microinsurance industry of South Africa.

The analyses to validate the theoretical model show that the validated theoretical model (see Figure 4.1) contains not only the variables (factors), but also additional sub-variables (sub-factors) that need to be considered. In addition, the validation analyses also identified a number of questions in the questionnaire that should be omitted from the questionnaire. These questions did not load onto a specific factor or they had low factor loadings (below the 0.40 factor loading set in this study).

The data was also analysed to determine reliability of the variables and sub-variables. A number of sub-factors did not yield satisfactory reliability coefficients as measured by Cronbach Alpha. However, to ensure validity and reliability of the theoretical model, the theoretical model was "purified" where the reliability of the factors and sub-factors were scrutinized and the unreliable factors and sub-factors were omitted from the theoretical model. These sub-factors are less likely to present themselves in a repetitive study (shown in red in the validated theoretical model), and should be interpreted with this constraint in mind. However, reliable factors and sub factors are shown in green in the validated theoretical model.

***Key words**: Microinsurance (MI), low-income households, business success, theoretical model; validity; reliability; Alpha*

4.1 INTRODUCTION

In South Africa, microinsurance products are classified as Zimele policies (Association of Savings and Investments of South Africa, 2009). The product standard, branded Zimele, a Zulu word meaning "stand on your own", has been offered by firms, for instance the Hollard Insurance firm, Old Mutual Insurance firm, Absa Life and a few other insurers which are licensed, have issued these policies.

Zimele or Microinsurance products were developed by the LOA following the result of extensive consultation with the Financial Services Charter (FSC) and approved by the Financial Services Board (ASISA, 2009). The rationale behind the Zimele launch was aimed at establishing the needs of low-income households for example, a monthly premium at R40 as stipulated in the product standards (LOA, 2007b). For the purpose of the study, a computation of 261 questionnaires, each comprising 107 questions was filled by the respondents of the four insurance firms namely, OMSA, Sanlam, Safrican and Metropolitan insurance firms.

As a result of the above, the main objective of the study is to present a validated framework of business success for the Microinsurance industry of South Africa. To give effect to that, the questionnaires will be developed and validated through a series of statistical techniques in an attempt to measure the variables of business success in the Microinsurance industry of South Africa. A literature study of the different statistical techniques used also form part of the study. Finally, recommendations are made based on the findings of the study.

4.2 PROBLEM STATEMENT

As mentioned earlier, Microinsurance is a specialized financial business service for the low-income households. The microinsurer is subjected to a specifically challenging business environment. Firstly, the microinsurer is restricted to offer their services to the low-income households who are located far from reach of the

main business offices. Secondly, the monthly premium charged is quite low (R40 as per the 2009 ASISA Zimele requirements) to cater for the high transaction costs. Thirdly, there is hardly or almost no commissions allocated to agents/brokers to reach out, financially educate and offer the products and services to the low-income households, which renders the process less motivating for intermediaries. This leads to even more intense competition among the insurance firms because of the low commissions/brokerages and high transaction costs. It is therefore imperative for the microinsurer to come up with innovative means and ways to render excellent services in order to be competitive and ensure business success in the Microinsurance industry.

A point of departure, however, is to determine the factors that affect business success in the Microinsurance industry by scientific measurement thereof. Currently, there is no applied and validated business success measurement tool for the Microinsurance industry.

In summary, the problem that presents itself, is that there is no validated research tool at present that can be used by the Microinsurance industry to measure the variables affecting business success. This research thus aims to scientifically resolve the issue and provide the Microinsurance firms and industry with a valid research tool to use with confidence to measure their business success.

4.3 OBJECTIVES

The primary objective of this article is to compile a validated model dealing with the variables that determine business success for the Microinsurance firms and industry.

Following that, the secondary objectives are to:

- Develop a questionnaire to measure the variables of business success in the Microinsurance industry of South Africa.
- Perform a literature study on the statistical techniques which were used in an attempt to validate the measuring instrument namely validity, reliability, factor

analysis. The two tests used were the Keyser-Meyer-Olkin test of sample adequacy and the Bartlett's test of sphericity.

- Apply the questionnaire to the sample; the agents and employees of four insurance firms in South Africa.
- Perform reliability using the Cronbach Alpha coefficient and do a validity test using exploratory factor analysis to determine the validity and usefulness of the developed questionnaire.
- Make recommendations based on the findings of the study.

4.4 LITERATURE STUDY

The raw data obtained from the questionnaires have undergone preliminary preparation before they can be analysed using statistical techniques (Sekaran, 2003). The quality of findings obtained from the statistical techniques depends to a great degree on how well the data were prepared and converted into a form suitable for analysis (Sekaran, 2003).

The editing process identified omissions, ambiguities and errors in the responses. The researcher conducted the editing process, just prior to data analysis. Some respondents bypassed questions such as population group (discussed later in article 4) and cooperated fully with the other questions. The measuring instrument included closed-ended questions on a five-point Likert-type scale, consisting of one hundred and seven items under fifteen variables. The statements' response continuum range from 1 to 5, where: 1 = strongly disagree; 2 = disagree; 3 = neutral; 4 = agree and 5 = strongly agree.

The next step was to tabulate the data. The primary use of tabulation was to determine the empirical distribution of the variable in question and calculate the descriptive statistics. A frequency distribution simply reports the number of responses that each question received (Sekaran, 2003).

The focus of this paper is not on the results of the business success analysis in the Microinsurance industry of South Africa, but on the validity of theoretical model that was developed to measure business success in the Microinsurance industry of South Africa. As a result, the theoretical approach focuses on the research methodology employed to validate the questionnaire. Validity itself, therefore, needs to be defined to set the process of validation in motion.

4.4.1 Validity

Bisschoff and Kadé (2010) define validity as "*the extent to which a test measures what it claims to measure*." The term validity also refers to whether a study is able to scientifically answer the questions it is intended to answer, and as such, it is vital for a test to be valid in order for the results to be accurately applied and interpreted.

However, it is important to note that the concept of validity has expanded substantially and validity is no longer limited or influenced solely by reliability. The classical relationship between reliability and validity is also much better and more clearly defined in the modern research (Bisschoff & Kadé, 2010). Although various types of validity exist, the important validity concept for this article is construct validity.

Construct validity refers to the operalisation of a construct in a practical application setting. It involves the validity of test that has been developed from theory. For example: *To what extent is an IQ questionnaire actually measure "intelligence*"? (Bisschoff & Kadé, 2010). Construct validity is an important concept for this research, because the validation of the research questionnaire put forward in this research, requires a high level of construct validity.

To achieve or prove construct validity, empirical evidence is required to support the theoretical basis of the research. This study aims to provide the empirical evidence that supports the identification of the variables affecting the business success of microinsurance industry as theoretical basis for the developed research

questionnaire. As Moolla (2010:166) further points out, such evidence includes statistical analyses of the internal structure of the test including the relationships between responses to different test items. Construct validity also assumes relationships between the test and measures of other constructs. Experiments are required to test for construct validity due to its operational nature. As such, experiments designed to reveal aspects of the causal role of the construct also contribute to construct validity evidence (Bisschoff & Kadé, 2010). A refined classification on construct validity reveals two approaches, namely the:

- Convergent validity: the degree to which a measure correlates with other measures that it are theoretically predicted to correlate with; and the
- Divergent validity: the extent to which a measure does not correlate with measures of a different concept that it theoretically should not be correlated with (Dane, 1990:259; Bisschoff & Kadé, 2010).

Burns and Grove (1997:232-234), however, warn that construct validity are deteriorated by any one of the following threats:

- Inadequate pre-operational explication of constructs;
- Mono-operation or mono-method bias;
- Hypotheses guessing with experimental conditions;
- Evaluation apprehension;
- Interaction between treatment and testing; and
- Experimenter expectancies.

4.4.2 Reliability

Reliability is defined as: "*the consistency of a set of measurements or measuring instrument often used to describe a test*" (Bisschoff & Kadé, 2010). This means that the scale should consistently reflect the construct it is measuring. Reliability has to do with the quality of measurement. In its everyday sense, reliability is the "consistency" or "repeatability" of your measures (Field, 2007:664-665). An instrument, such as a questionnaire, that produces different scores every time it is used under the same conditions, has low reliability (Field, 2007:666). The question, however, is how to determine the reliability of research data.

According to Santos (1999:2), one of the most popular reliability statistics is Cronbach's Alpha as published by the mathematician Cronbach in 1951. Cronbach's Alpha determines the internal consistency or average correlation of items in a survey instrument to gauge its reliability (Wuensch, 2009:9). For this research, the minimum coefficient is set at $\alpha \geq 0.70$ (Boshoff & Hoole, 1998:77; Statistica, 2006). However, Kline (1999) in Field (2007:668) reasons that with attitudinal or behavioural constructs, an Alpha coefficient of 0.58 is sufficient and that such data is suitable to use for subsequent analytical scrutiny. Regarding other data types, Kline as well as Santos (1999) supports Boshoff and Hoole on a minimum coefficient Alpha of 0.70.

4.4.3 Significance

Statistical significance in quantitative analysis is used to determine if the difference between two variables (or sets of variables) are of significance so that specific interpretations could be made (Burns & Grove, 1997:621). In addition, it is important to note that statistical insignificance may have a practical significance to the body of knowledge. In this study, the differences between the expectations and perceptions were determined on this basis, using the practical significance (*d*) as described by Ellis and Steyn (2003:50-53). The range of the *d-value* is between 0 and 1.0. This implies that a large practical significance is found with a *d-value* of 0.8 and higher. Medium practical significance is identified for *d-values* between 0.5 and 0.8, while a *d-value* of at least 0.2 but less than 0.5 signifies a small effect (Ellis & Steyn, 2003:53).

4.4.4 Factor analysis

Factor analysis is used as an analysis tool to determine if the adapted questionnaire still measures the business success variables it was designed to measure. The factor loadings, variance explained and also the possibility of dual factor loadings need to be analysed (Wuensch, 2009:4; Du Plessis, 2010:29). A

factor loading of 0.40 is considered to be satisfactory, while a cumulative variance of 60% or higher is regarded to be a "*good fit of the data*" (Shukia, 2004).

To determine the validity of the questionnaire, it is important that the questionnaire measures what it is supposed to measure (validity). For example, the three questions on the questionnaire measure financial literacy (variable 11). To answer this question the data of the three questions is subjected to the factor analysis to determine if these questions all load onto one factor. If they do, it confirms that the factor identified is still financial literacy, and none of the statements have "fallen off". These three questions thus measure what they were supposed to measure, namely financial literacy, and are thus validated (Du Plessis, 2009).

The rotation method selected was a normalised Varimax rotation. This choice was made because a varimax rotation attempts to maximise the dispersion of factor loadings within factors, therefore it loads a smaller number of variables on each factor (Field, 2007:746).

4.4.5 Bartlett's test of sphericity

The Bartlett's test of sphericity is an indicator of the strength of the relationship among variables and an indicator of the suitability of the data towards a multivariate statistical technique such as factor analysis (UCLA, 2010). It is a test statistic that is used as gatekeeper for further analysis. The Bartlett's test examines the hypothesis that the variables are uncorrelated in the population. Thus, the population correlation matrix is an identity matrix; each variable correlates perfectly with itself (r = 1) but has no correlation with the other variables (r = 0) (Mediaspace, 2007). Bartlett's test of sphericity is used to test the null hypothesis that the variables in the population correlation matrix are uncorrelated (Coakes & Steed, 1997). The observed significance level is .0000. It is small enough to reject the hypothesis. It is concluded that the strength of the relationship among variables is strong. It is a good idea to proceed with a factor analysis because the data should yield a p-value smaller than 0.0001. This indicates that

the inter-relationships between the variables is sufficient for factor analysis (Du Plessis, 2009:58).

In conclusion, although the tests for Bartlett's and Kaiser-Meyer-Olkin are both employed to assist in the decision on the suitability of factor analysis, the Bartlett's test of sphericity tests whether the correlation matrix is an identity matrix. If so, it indicates that a factor model is inappropriate. On the other hand, the Kaiser-Meyer-Olkin measure of sampling adequacy tests whether the partial correlations among variables are small (Matlab, 2010; UCLA, 2010).

In the analysis, the KMO and Bartlett's test of sphericity could not be calculated for all sections because the data pertaining to these sections resulted in negative correlation matrices. A negative correlation matrix results when a number of measuring statements (items) in the questionnaire are inversely interpreted by the respondents. According to the seminal work by Dziuban & Shirkey (1974:358), negative correlation matrices are not suitable to use in the calculation of the KMO or the Bartlett's test of shericity because it yields unreliable values on these two statistical measures, and resultantly, in the case of a negative correlation matrix, these two measures cannot be employed to determine the suitability to proceed with factor analysis. However, this failure does not discard factor analysis as statistical tool (Dziuban & Shirkey, 1974:359-360). According to Bejar (1978), in his further research and comments on the work by Dziuban & Shirkey (1974), the factor analysis should continue and the suitability of the analysis based on the results thereof because:

- Factor analysis applies any correlation matrix (positive or negative) successfully in its analysis while the technique is also able to use raw data as input (IBM, 2011).
- Factor analysis by nature identifies and discards "bad" data (Dziuban & Shirkey; 1974:360; SPSS, 2011).
- Suitability of the technique is determined by the absolute factor loadings, Eigenvalues and variance explained by the analysis (Sato & Ito, 2007:179, 180 & 182; SPSS, 2011).

- The number of strong cross loadings between the factors may also yield a verdict on the suitability of the data for factor analysis (Dziuban & Shirkey; 1974:360; SPSS, 2011).

The sections that do have negative correlation matrices are: promotion, communication, the microcredit-microinsurance link and people. Resultantly, these variables do not have any KMO and Bartlett's test of shericity tables, and judegement on suitability of factor analysis are made on the guidelines discussed above.

4.4.6 Kaiser-Meyer-Olkin measure of sampling adequacy

Mediaspace (2007) states that the KMO measure of sampling adequacy is "an index for comparing the magnitudes of the observed correlation coefficients to the magnitudes of the partial correlation coefficients". This measure of sampling adequacy determines if the relationship between variables is strong enough to proceed with a factor analysis and returns a value between 0 and 1. Large values for the KMO measure indicate that a factor analysis of the variables is a good idea. The inverse is also true as the KMO also supplies vital information when not to use factor analysis. For values smaller than 0.5, the factor analysis is likely to be inappropriate. A KMO value of 0.6 should be present before factor analysis is considered (Du Plessis, 2009:26), although values between 0.5 and 0.7 are mediocre (Du Plessis, 2009:26). Values between 0.7 and 0.8 are good while the values between 0.8 and 0.9 are excellent. Values between 0.9 and 1 are superb (Field, 2007:640). The larger the KMO value, the more reliable the factor analysis for this particular sample size (Du Plessis, 2009:26). Positive outcomes on these tests validate the use of factor analysis as a confirmatory tool (Friel, 2005).

4.4.7 Factor comparison

In order to compare two factor structures that have been extracted by factor analysis, the normal visual comparison (or so-called eyeball test) is employed to determine if the same statements loaded onto each of the factors. Although it may

reveal interesting comparisons on the common statements and their factor loadings, this comparison is neither scientific nor accurate (Wuensch, 2009:11). One method to do such a comparison is the Salient Similarity Index by Catell where the two pattern loadings are classified into either positive or negative salient constructs and then compared. However, the comparison remains difficult and the sampling error alone may cause inversions in the factor order (Wuensch, 2009:12).

4.5 RESULTS

The empirical results of the study are presented per section similar to Appendix 1. As such, the following sections are subjected to exploratory factor analysis (EFA): Product, price, place, promotion, trust, communication, technology, culture, microcredit-Microinsurance link, Microinsurance regulatory framework, financial literacy, physical evidence, human resource training and development, processes, people and business success. In each section, the suitability of factor analysis is tested by means of the Bartlett's test for Sphericity and the KMO measure for sampling adequacy. A KMO value of 0.6 should be present before factor analysis is considered (Matlab, 2010). Generally values between 0.5 and 0.7 are mediocre (Du Plessis, 2009:26) while values between 0.7 and 0.8 are good. Finally, the Cronbach Alpha is also calculated to show the level of reliability. Some of the factors have very good reliability and showed favourable internal consistency since they returned very favourable Cronbach Alpha coefficients in excess of 0.70 (Field, 2007:668). Regarding the cumulative variance of the factors, it is generally accepted that if the varioance explained by the factors cumulatively, equals or exceeds 60%, the analysis is regarded to be a good fit of the data (Field, 2007:640).

4.5.1 Section B (Questionnaire): Components of microinsurance

4.5.1.1 Section B1: Product

The results of the analysis with regard to product as one of the components of Microinsurance appear in the table 4.1 below.

Table 4.1: KMO and Bartlett's Tests: Product

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.697
Bartlett's Test of Sphericity	Approx. Chi-Square	1548.411
	Df	45
	Sig.	.000

The analysis for the term product as a component of Microinsurance is suitable for an exploratory factor analysis, as the KMO measure and the Bartlett's test returned values of 0.697 and smaller than 0.000, respectively. The factor analysis identified three factors that were extracted as shown below.

Table 4.2: Factor loadings: Product

	Component		
	1	2	3
B1.10	0.861		
B1.4	0.829		
B1.3	0.827		
B1.5	0.811		
B1.8		0.849	
B1.6		0.743	
B1.7		0.691	
B1.2			0.781
B1.9			0.771
B1.1			0.699
% of variance explained	42.116	18.573	14.786
Cumulative %	42.116	60.689	75.474

Factor 1: Information

Four items B1.10, B1.4, B1.3 and B1.5 loaded heavily on factor one. These statements are all related to product information and awareness and thus the

factor has been identified “Information”. All factor loadings are above 0.8 which showed very good reliability and consistency. It supports the view that supplying information about the product itself, policy terms and conditions and the compliance element with regard to the regulations of the Microinsurance is important to the low income households. This outcome gives support to the earlier discussion that the low-income households need to be given as much information about the Microinsurance product in a lay-man language since the low-income households are quite unfamiliar with the term Microinsurance products. The more information they obtain, the better it would serve of attracting them to buy the Microinsurance product. The factor explained a variance of 42.116% which makes it the most of the three factors.

Factor 2: Comparison of design and features

Statement B1.8 B1.6 and B1.7 loaded on factor two. These statements are all related to comparison of product features and design of Microinsurance products. All factor loadings are above 0.69 which showed good reliability and consistency. The microinsurance provider who is in the context of the study, the insurance firm, is comparing the attractiveness of their own Microinsurance products to those of the burial societies, other insurers and retailers in the marketplace. The factor explained a variance of 18.573%.

Factor 3: Feedback Timing

Statement B1.2 B1.9 and B1.1 loaded on factor three. These statements are all related to the length of time that the low-income households expect enough amount of feedback or information from the insurance firm with regard to the Microinsurance products. The quicker the low-income households receive the most amount of information about the Microinsurance products, the better it is both for the customer and the insurer. This would serve as a win-win situation in the sense that the insurer would be classified as an efficient service provider and the customer would be more attracted and drawn towards the respective insurance firm for the Microinsurance product.

All factor loadings were above 0.69 which showed good reliability and consistency. The factor explained a variance of 14.786%. The cumulative variance for the three factors is to 75.474%.

The reliability analysis of the above appears in the table 4.3 below.

Table 4.3: Reliability Statistics: Product

Data Sets	Cronbach's Alpha
Factor 1	0.835
Factor 2	0.654
Factor 3	0.392

Cronbach Alpha coefficients are calculated for each of the three factors so as to estimate the reliability and internal consistency among the constructs (Field, 2007:666). The reliability of the first factor is high (in excess of 0.8), while the second factor (0.654) and third factor (0.392) have a less satisfactory value as shown in the table above. However, in defence of the lower Cronbach Alpha value, Cortina (1993) (in Field, 2007:668) states that even a reliability coefficient of 0.58 is satisfactory, while the borderline value of 0.28 can still be regarded as significant, especially if reverse scores (negative scores) are present within the factor (Field, 2007:669). It simply indicates that the factor is less likely to present itself if the study is to be repeated when subjected in a different application setting. The lack of reliability, therefore, does not discard the factor for the current study.

4.5.1.2 Section B2: Price

The section dealing with price as component of Microinsurance is analysed as follows by table 4.4.

Table 4.4: KMO and Bartlett's Tests: Price

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.801
Bartlett's Test of Sphericity	Approx. Chi-Square	2479.760
	df	28
	Sig.	.000

The analysis for the term price as a component of Microinsurance is suitable for an exploratory factor analysis, as the KMO measure and the Bartlett's test returned values of 0.801 and smaller than 0.000, respectively. Values between 0.8 and 0.9 are excellent. Hence, the data for this factor which returned a value of 0.801 signifies that sample adequacy has been achieved easily. Barlettt's test of Sphericity supports continuance towards analysis such as factor analysis (Field, 2007:640-642). The factor analysis identified two factors that were extracted as shown below by table 4.5.

Table 4.5: Factor loadings: Price

	Component	
	1	2
B2.6	0.970	
B2.7	0.944	
B2.5	0.932	
B2.4	0.908	
B2.1	0.890	
B2.3	0.805	
B2.8		0.841
B2.2		0.819
% Variance	64.722	17.510
Cumulative %	64.722	82.232

Factor 1: Affordability

Statement B2.6 B2.7, B2.5, 2.4, B2.1 and B2.3 loaded heavily on factor one. Factor one had a maximum of 0.970 and a minimum of 0.805, signifying exceptionally high factor loadings. The statements are all related to affordability of the Microinsurance Zimele product. The respondents are all in favour of the affordability (premium rate) by the low-income households of their own Microinsurance products in comparison to that of the burial societies, other insurers and retailers in the marketplace. The factor explains a variance of 64.722%

Factor 2: Positive approach to affordable pricing

Statement B2.8 and B2.2 loaded heavily on factor two. Factor two had a maximum of 0.841 and a minimum of 0.819, also signifying exceptionally high factor loadings. The statements are all related to the positive approach to premium rate affordability of the Microinsurance Zimele product. The first statement is related to predatory pricing, the second statement is related to affordability and the third one related to discounts. The high loadings indicate the respondents' positive approach to an affordable premium rate of the Microinsurance product in the marketplace. The factor explained a variance of 17.510%. The cumulative variance for the two factors is 82.232%.

The reliability analysis of the above appears below in table 4.6.

Table 4.6: Reliability Statistics: Price

Data Sets	Cronbach's Alpha
Factor 1	0.949
Factor 2	0.542

Factor 1 returned a very reliable correlation coefficient of 0.949 much above the required 0.7, hence showing very favourable reliability and consistency. Factor 2 has a less satisfactory value of 0.542 as shown in the table above. However, in defence of the lower Cronbach Alpha value, Cortina (1993) (in Field, 2007:668) states that even a reliability coefficient of 0.58 is satisfactory, while the borderline value of 0.28 can still be regarded as significant, especially if reverse scores (negative scores) are present within the factor (Field, 2007:669). It simply indicates that the factor is less likely to present itself if the study is to be repeated when subjected in a different application setting. The lack of reliability does not discard the factor. This means that in cases of low reliability coeffients, the 0.28 margin could still be regarded as significant. However, this study regards the lower limit of 0.58 to be the minimum reliability coefficient.

4.5.1.3 Section B3: Place

The section dealing with place as a variable of Microinsurance is analysed as follows by table 4.7.

Table 4.7: KMO and Bartlett's Tests: Place

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.483
Bartlett's Test of Sphericity	Approx. Chi-Square	2076.305
	df	36
	Sig.	.000

The analysis for the term place as a component of Microinsurance is suitable for an exploratory factor analysis, although the KMO measure returned a value of 0.483.

The factor analysis identified three factors that were extracted as shown below by table 4.8.

Table 4.8: Factor loadings: Place

	Component		
	1	2	3
B3.1	0.966		
B3.5	0.965		
B3.3	0.797		
B3.4		-0.878	
B3.7		0.766	
B3.8		0.750	
B3.2		0.598	
B3.9			0.744
B3.6			0.739
% variance	30.388	26.729	13.222
Cumulative %	30.388	57.117	70.339

Factor 1: Medium

Statement B3.1, B3.3 and B3.5 loaded heavily on factor one. Factor one had a maximum value of 0.966 and a minimum of 0.797. The statements are all related

to the medium used for the selling of the Microinsurance Zimele products The respondents used the three parties; call centres, brokers and agents and retailers to sell their respective Microinsurance products in the marketplace. The factor explained a variance of 30.388%

Factor 2: Distribution methods

Statement B3.2 B3.4, B3.7 and B3.8 loaded on factor two. Factor two had a maximum value of 0.766 and a minimum of -0.878. Statement B3.4 had a negative factor loading of -0.878 showing inverse interporetation thereof. Statement B3.2 and B3.4 are related to using other channels such as cell phones and banks as a means of distribution. Statement B3.7 was related to new methods of distribution to be launched and statement B3.8 was related to the "already reviewed" distribution methods. The factor explained a variance of 26.729%.

Factor 3: Implementation

Statement 3.9 and 3.6 loaded on factor three. Factor three has highfactor loadings in excess of 0.70. The statements are related to the implementation of new distribution methods. The factor explained a variance of 13.222%.

The cumulative variance for the three factors is 70.339%. This exceeds 60% which is regarded to be a good fit data (Field, 2007:640).

The reliability analysis of the above appears in the table 4.9 below.

Table 4.9: Reliability Statistics: Place

Data Sets	Cronbach's Alpha
Factor 1	0.866
Factor 2	**-1.327**
Factor 3	**0.052**

Factor 1 returned a very favourable correlation coefficient of 0.866 which is higher than the required 0.7, hence showing very reliable and internal consistency. The value for factor 2 is negative (-1.327) due to a negative average covariance among

items, showing no reliability. Factor 3 returned a correlation coefficient of 0.052 showing an unfavourable reliability and internal consistency.

4.5.1.4 Section B4: Promotion

Promotion as a component of Microinsurance was not suitable for an exploratory factor analysis, as there were no KMO measure and the Bartlett's test found ultimately. This is because this section has a negative correlation matrix and then KMO and Bartlett's test of Sphericity cannot be calculated. The factor analysis identified only one factor that was extracted as shown by the table 4.10 below.

Table 4.10: Factor loadings: Promotion

	Component
	1
B4.8	0.974
B4.7	0.968
B4.1	0.966
B4.2	0.955
B4.4	0.936
B4.3	0.862
B4.6	0.808
B4.5	Discarded
% Variance	75.394%
Cumulative %	75.394%

Factor 1: Promotion

All the items (B4.8, B4.7, B4.1, B4.2, B4.4, B4.3. and B4.6) except item B4.5 loaded heavily on factor one (exceeding a factor loading of 0.80). Since item B4.5 did not clearly load in excess of the required factor loading of 0.40 on any specific factor, it has been discarded from the analysis. All the items loading on factor one are related to the marketing campaign. The creation of strong marketing campaigns is valued by respondents in the microinsurance industry of South Africa as good promotional strategies. All factor loadings are above 0.8 which shows very good reliability and consistency. This supports the fact that in view that the low-income households are not financially literate, it is therefore important that

many promotional and marketing campaigns are carried out by the insurance firms. The cumulative variance for the three factors is 75.394%.

The reliability analysis of the above appears in the table 4.11 below.

Table 4.11: Reliability Statistics: Promotion

Data Sets	Cronbach's Alpha
Factor 1	0.966

The reliability for factor 1 is very high as it returned a reliability coefficient of 0.966 which is higher than the required 0.7 showing very high reliability and internal consistency.

4.5.1.5 Section B5: Trust

The analysis for the term trust as a component of Microinsurance has a negative correlation matrix and resulktantly, no KMO or Bartlett's test of sphericity were calculated. The factor analysis extracted two factors as shown by table 4.12 below.

Table 4.12: Factor loadings: Trust

	Component	
	1	2
B5.2	0.901	
B5.3	0.837	
B5.4	0.813	
B5.1	0.813	
B5.7	0.736	
B5.6		0.946
B5.5		0.912
% Variance	67.092	16.040
Cumulative %	67.092	83.132

Factor 1: Creation of Trust

Items B5.2, B5.3, B5.4, B5.1 and B5.7 loaded heavily on factor one. All of them are related to the creation of trust between the insurer and the low-income households (the customer) and vice-versa. The creation of a strong element of trust between the insurer and the low income households is highly valued by the prospective and the existing customers. All factor loadings are above 0.7.

In view of the fact that low-income households perceive insurance firms are quick to take out premiums and slow to pay out in an event of claim, the element of trust should be created by the firms in the low-income households. The variance explained by the factor is 67.092%.

Factor 2: Reassurance

Factor 2 is labelled "Reassurance", and two items (B5.6 and B5.5) loads onto the factor. These items point to the fact that customers want to be reassured that if they place their premium income with the insurance firm, they are confident that the firm will meet up to their promises to pay out in the event of a valid claim. Customers want to eliminate all uncertainty. Therefore, aspects such as the element of trust become important. The factor deals specifically with reassuring the customer what will happen to his claim afterwards. This factor explains a variance of 16.040%. The factors explain a cumulative variance of 83.132%.

The reliability analysis of the above appears in the table 4.13 below.

Table 4.13: Reliability Statistics: Trust

Data Sets	Cronbach's Alpha
Factor 1	0.892
Factor 2	0.941

The reliability for both factor 1 and 2 is excellent since they returned a very reliable Alpha coefficients of 0.892 and 0.941, respectively. This shows very good reliability and internal consistency.

4.5.1.6 Section B6: Communication

The analysis for the communication as a component of Microinsurance returned a negative correlation matrx and as such the KMO and the Bartlett's test could not be calculated. The factor analysis extracted two factors as shown by table 4.14 below.

Table 4.14: Factor loadings: Communication

	Component	
	1	2
B6.1	0.982	
B6.3	0.982	
B6.5	0.959	
B6.4	0.844	
B6.2		0.997
% Variance	71.358	20.544
Cumulative %	71.358	91.902

Factor 1: Efficient explanation

Items B6.1, B6.3, B6.5 and B6.4 loaded heavily on factor 1. The minimum factor loading was 0.844 and maximum 0.982 which are much higher than the minimum factor loading of 0.40 (Field, 2007). An insurer, who efficiently explains and communicates, is valued by the customer that purchases a Microinsurance Zimele policy. Factor 1 has been identified as "efficient explanation". This factor explained a variance of 71.358% which makes the most out of the construct. Items B6.1, B6.3, B6.5 and B6.4 all relate to the efficient explanation and communication of breakdown of the premium, policy wordings and highlight the importance of Microinsurance both through formal and informal means. The more efficient the explanation and communication are, the more valued the customer feels. It is therefore possible to determine that the customer values good explanation and communication from the insurer when he/she purchases a Microinsurance policy.

Factor 2: Mechanisms

Items B6.2 loaded heavily on factor 2 with a loading of 0.997. Although item B6.2 lis the only item loadiong onto the factor, a loading of 0.997 cannort be ignored. The single item factor is identified as “mechanisms” because B6.2 is related to mechanisms’ explanation of the Microinsurance policy; the terms and conditions, features and benefits. The explanation of the mechanism of the Microinsurance policy increases the customer’s knowledge about Microinsurance. In view of the low-income households’ lack of financial education, it is therefore important that the mechanism of the product is made clear to them. This factor explains a variance of 20.544%. The factors explain a cumulative variance of 91.902%.

The reliability analysis of the above appears in the table 4.15 below.

Table 4.15: Reliability Statistics: Communication

Data Sets	Cronbach's Alpha
Factor 1	0.952

Factor one returned very reliable coefficient of 0.952. This shows very good reliability and internal consistency. The reliability of factor two cannot be calculated because of a single item loading onto the factor.

4.5.1.7 Section B7: Technology

The section dealing with technology as a component of Microinsurance is analysed next. The analysis consists of the testing for suitability of analysis (by means of the KMO and Bartlett’s tests), reliability and possible identification of underlying constructs within the construct itself. The results of the KMO and Bartlett’s tests appear in table 4.16 below.

Table 4.16: KMO and Bartlett's Tests: Technology

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.742
Bartlett's Test of Sphericity	Approx. Chi-Square	1330.675
	Df	15
	Sig.	.000

The analysis regarding the term technology as a component of Microinsurance is suitable for an exploratory factor analysis, as the KMO measure and the Bartlett's test returned values of 0.742 and smaller than 0.000, respectively. Values between 0.7 and 0.8 are excellent. Hence, the data for this factor which returned a value of 0.742 signifies that sample adequacy has been achieved easily. Bartlett's test of sphericity supports continuance towards multivariate analysis such as factor analysis (Field, 2007:640, 642).

The factor analysis identified two factors that were extracted as shown by table 4.17 below.

Table 4.17: Factor loadings: Technology

	Component	
	1	2
B7.4	0.864	
B7.5	0.850	
B7.1	0.839	
B7.6	0.839	
B7.2	0.795	
B7.3		0.886
% Variance	17.232	58.496
Cumulative %	17.232	75.727

Factor 1: Customised automated system

Five items B7.4, B7.5, B7.1, B7.6 and B7.2 loaded heavily on factor one. The minimum loading is 0.795 and maximum 0.864. These statements are all related to an effective automated system that has been customized to accommodate the operations associated with the Microinsurance policy between the branches and head office. The operations included the communication among relevant stakeholders, immediate issue of the policy contract and the easy tracking of the

identity, payment, profile and claim history of customers. The effective customised automated system takes into account all of these operational activities properly. The factor explains a variance of 58.496%.

Factor 2: Optimal Use

Item B7.3 loaded heavily on factor two (with a loading of 0.886) and is the only item to do so. The factor has been identified as “optimal use”. The respondents perceived that the maximum use of the processes of the automated system will build economies of scale that is, the advantages of large scale processes. For instance, reports will be easily prepared and presented in an attempt to make better decisions. This factor explains a variance of 17.232%.

Both factors returned a cumulative variance of 75.727% which obviously exceeds from far, 60% which is regarded to be a good fit of the data (Field, 2007:640).

The reliability analysis of the above appears in the table below.

Table 4.18: Reliability Statistics: Technology

Data Sets	Cronbach's Alpha
Factor 1	0.891

Factor 1 returned a very reliable coefficient of 0.891. This shows very good reliability and internal consistency. Factor 2 consists of a single item, and, therefore, the Cronbach Alpha coefficient cannot be calculated.

4.5.1.8 Section B8: Culture

The section dealing with culture as a component of Microinsurance is analysed next. The analysis consists of the testing for suitability of analysis (by means of the KMO and Bartlett’s tests) and reliability. The results of the KMO and Bartlett’s tests appear in table 4.19 below.

Table 4.19: KMO and Bartlett's tests: Culture

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.828
Bartlett's test of Sphericity	Approx. Chi-Square	2319.159
	df	6
	Sig.	.000

The analysis regarding the term culture as a component of Microinsurance is suitable for an exploratory factor analysis, as the KMO measure and the Bartlett's test returned values of 0.828 and smaller than 0.000, respectively. Values between 0.7 and 0.8 are excellent. Hence the data for this factor which returned a value of 0.828 signifies that sample adequacy has been achieved easily. Bartlett's test of Sphericity supports continuance towards multivariate analysis such as factor analysis (Field, 2007: 640,642).

The factor analysis identified only one factor and has been labeled "culture" as shown by the table 4.20 below.

Table 4.20: Factor loadings: Culture

	Component
	1
B8.2	0.995
B8.1	0.990
B8.4	0.972
B8.3	0.965
% Variance	96.205
Cumulative %	96.205

All the four items B8.4, B8.5, B8.1 and B8.6 loaded heavily on factor one (in excess of 0.96). The minimal loading value was 0.995 and maximum 0.965. These statements were all related to a strong culture; insurance and the organisation. The respondents strongly agree that a strong insurance culture is important among the low-income households. This supports the fact that in view that the low-income people are more unlikely to be financially literate, setting up workshops and meetings with burial societies, stokvels and church groups, for example, will

encourage and comprise a strong insurance culture among the low-income households. The strong insurance culture will have a positive impact on the set-up of the organisational culture. The factor explains a cumulative variance of 96.205%.

The reliability analysis of the above appears in the table 4.21 below.

Table 4.21: Reliability Statistics: Culture

Data Sets	Cronbach's Alpha
Factor 1	0.986

Factor 1 has returned an excellent reliable coefficient of 0.986. This is well above the required 0.7 which shows very good reliability and internal consistency.

4.5.1.9 Section B9: Microcredit-Microinsurance Link

The section dealing with microcredit-Microinsurance link as a component of Microinsurance is analysed next. No KMO measure and the Bartlett's test were calculated because the data pertaining to this section produced a negative correlation matrix. The factor analysis extracted one factor as shown in table 4.22 below.

Table 4.22: Factor loadings: Microcredit - Microinsurance Link

	Component
	1
B9.3	0.971
B9.2	0.971
B9.1	0.824
% Variance	85.412
Cumulative variance %	85.412

Factor 1: Microcredit-Microinsurance Link

The factor analysis identified only one factor and has been labeled "Microcredit - Microinsurance Link". Items B9.3, B9.2, and B9.1 loaded heavily on factor 1. All the items B9.3, B9.2, and B9.1 were related to the linkage of microloan to

Microinsurance. This supports the safety component that if a policyholder subscribes to a microloan dies, the Microinsurance policy pays back the loan. The policyholder does not lose her collateral security which can be any immovable asset like land and property. All factor loadings are above 0.7, maximum loading of 0.971 and a minimum one of 0.824, which shows good reliability and consistency. The factor explains a cumulative variance of 85.412%.

The reliability analysis of the above appears in the table 4.23 below.

Table 4.23: Reliability Statistics: Microcredit-Microinsurance Link

Data Sets	Cronbach's Alpha
Factor 1	0.912

Factor 1 has returned an excellent reliable coefficient of 0.912, showing very good reliability and internal consistency.

4.5.1.10 Section B10: Microinsurance Regulatory Framework

The section dealing with regulatory Microinsurance framework as a component of Microinsurance is analysed below. The analysis consists of the testing for suitability of analysis (by means of the KMO and Bartlett's tests), reliability and possible identification of underlying constructs within the construct itself. The results of the KMO and Bartlett's tests appear in table 4.24 below.

Table 4.24: KMO and Bartlett's Tests: Microinsurance Regulatory Framework

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.592
Bartlett's Test of Sphericity	Approx. Chi-Square	109.416
	df	3
	Sig.	.000

The analysis regarding the term as a component of regulatory Microinsurance framework is suitable for an exploratory factor analysis, as the KMO measure and the Bartlett's test returned values of 0.592 and smaller than 0.000, respectively. Generally values between 0.5 and 0.7 are mediocre (Du Plessis, 2009: 26).

The factor analysis identified one factor as shown in table 4.25 below.

Table 4.25: Factor loadings: Microinsurance Regulatory Framework

	Component
	1
B10.3	0.844
B10.2	-0.735
B10.1	0.699
% Variance	58.012
Cumulative variance%	58.012

Factor 1: Microinsurance Regulatory Framework

Three items B10.3, B10.2 and B10.1 loaded on factor one. Factor 1 has been identified as "Microinsurance Regulatory Framework" and only one item B10.3 loaded significantly to this factor. Customers and insurance firms are expecting that a Microinsurance act or license is urgently needed. The reason behind this is that there are so many unregistered and unlicensed Microinsurance provider. The respondents do not agree that the existing regulatory system for Microinsurance is being favoured, hence a negative loading displayed for item 10.2. Factor 1 explains a cumulative variance of 58.012%.

Cronbach Alpha coefficient cannot be calculated and has been discarded since there is no internal consistency and reliability. As such, it is not possible to determine the reliability of the specific factor, and the factor should thus be interpreted with this in mind (Statistica, 2010).

4.5.1.11 Section B11: Financial literacy

The section dealing with financial literacy as a component of Microinsurance is analysed below. The analysis consists of the testing for suitability of analysis (by means of the KMO and Bartlett's tests), reliability and possible identification of underlying constructs within the construct itself.

The results of the KMO and Bartlett's tests appear in table 4.26 below.

Table 4.26: KMO and Bartlett's Tests: Financial Literacy

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.778
Bartlett's Test of Sphericity	Approx. Chi-Square	942.493
	df	3
	Sig.	.000

The analysis regarding the term financial literacy as a component of Microinsurance is suitable for an exploratory factor analysis, as the KMO measure and the Bartlett's test returned values of 0.778 and smaller than 0.000, respectively. Generally values between 0.7 and 0.8 are regarded to be good (Du Plessis, 2009: 26).

The factor analysis extracted one factor as shown by table 4.27 below.

Table 4.27: Factor loadings: Financial Literacy

	Component
	1
B11.1	0.972
B11.3	0.966
B11.2	0.962
% Variance	93.486
Cumulative variance %	93.486

Factor 1: Financial literacy

The factor analysis identified only one factor and has been labeled "financial literacy". Items B11.1, B11.3 and B11.2 loaded heavily on factor 1; 0.972, 0.966 and 0.962, respectively. All the items B11.1, B11.3 and B11.2 were related to the strong financial education given by the insurers to the low-income households with regard to concept, mechanism, benefits, terms and conditions, features, contract wordings and the break-down of premium of Microinsurance. The respondents strongly agree that financial education is a prerequisite to the low-income households for investing in a microinsurance policy. The factor explains a cumulative variance of 93.486%.

The reliability analysis of the above appears in the table 4.28 below.

Table 4.28: Reliability Statistics: Financial literacy

Data Sets	Cronbach's Alpha
Factor 1	0.964

Factor 1 has returned an excellent reliable coefficient of 0.964. This is well above the required 0.7 which shows very good reliability and internal consistency.

4.5.1.12 Section B12: Physical evidence

The section dealing with "physical evidence" as a component of Microinsurance is analysed below. The results of the KMO and Bartlett's tests appear in table 4.29 below.

Table 4.29: KMO and Bartlett's Tests: Physical Evidence

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.505
Bartlett's Test of Sphericity	Approx. Chi-Square	805.801
	df	3
	Sig.	.000

The analysis regarding the term "physical evidence" as a component of Microinsurance is suitable for an exploratory factor analysis, as the KMO measure and the Bartlett's test returned values of 0.505 and smaller than 0.000, respectively. Generally values between 0.5 and 0.7 are mediocre (Du Plessis, 2009: 26). The factor analysis extracted one factor as shown by table 4.30 below.

Table 4.30: Factor loadings: Physical Evidence

	Component
	1
B12.3	0.989
B12.2	0.989
B12.1	Discarded
% Variance	66.614
Cumulative variance %	66.614

Factor 1: Physical evidence

The factor analysis identified only one factor and has been labeled “Physical evidence”. Items B12.3 and B12.2 loaded heavily on factor 1; 0.989 and 0.989, respectively. Both the items B12.3 and B12.2 were related to the accessible location of areas of business to the low-income households. The firm has branches in the outskirt areas where most of the low income people live and are at their convenience. However, since item B12.1 did not clearly load onto the factor, it has been deleted from the analysis. The factor explains a cumulative variance of 66.614%.

The reliability analysis of the above appears in the table 4.31 below.

Table 4.31: Reliability Statistics: Physical Evidence

Data Sets	Cronbach's Alpha
Factor 1	0.898

Factor 1 has returned an excellent reliable coefficient of 0.898. This is well above the required 0.7 which shows very good reliability and internal consistency.

4.5.1.13 Section B13: Human Resource Training and Development

This section deals with the findings of Human Resource Training and Development as a component of Microinsurance. The results of the KMO and Bartlett’s tests appear in table 4.32 below.

Table 4.32: KMO and Bartlett's Tests: HR Training and Development

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.686
Bartlett's Test of Sphericity	Approx. Chi-Square	835.675
	df	3
	Sig.	.000

The analysis regarding the term “Human resource training and development” as a component of microinsurance is suitable for an exploratory factor analysis, as the KMO measure and the Bartlett’s test returned values of 0.686 and smaller than 0.000, respectively. Generally values between 0.6 and 0.7 are good (Du Plessis, 2009: 26). The factor analysis extracted one factor as shown by table 4.33 below.

Table 4.33: Factor loadings: HR Training and Development

	Component
	1
B13.3	0.970
B13.1	0.957
B13.2	0.879
% Variance	87.647
Cumulative variance %	87.647

Factor 1: Human Resource Training and Development

The factor analysis identified only one factor and has been labeled “Human Resource Training and Development”. All the Items B13.3, B13.1 and B13.2 loaded heavily on factor 1; 0.970, 0.957 and 0.879, respectively. All the items B13.3, B13.1 and B13.2 were related to continuous research and development of its staff through training, examinations and review of progress in the evolving field of Microinsurance. The factor explains a cumulative variance of 87.647%.

The reliability analysis of the above appears in the table 4.34 below.

Table 4.34: Reliability Statistics: HR Training and Development

Data Sets	Cronbach's Alpha
Factor 1	0.924

Factor 1 has returned an excellent reliable coefficient of 0.924. This is well above the required 0.7 which shows very good reliability and internal consistency.

4.5.1.14 Section B14: Processes

The section dealing with "Processes" as a component of Microinsurance is analysed below. The results of the KMO and Bartlett's tests appear in table 4.35 below.

Table 4.35: KMO and Bartlett's tests: Processes

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.632
Bartlett's Test of Sphericity	Approx. Chi-Square	98.087
	df	3
	Sig.	.000

The analysis regarding the term "Processes" as a component of Microinsurance is suitable for an exploratory factor analysis, as the KMO measure and the Bartlett's test returned values of 0.632 and smaller than 0.000, respectively. Generally values between 0.6 and 0.7 are good (Du Plessis, 2009: 26). The factor analysis extracted one factor as shown by table 4.36 below.

Table 4.36: Factor loadings: Processes

	Component
	1
B14.2	-0.805
B14.3	0.770
B14.1	0.701
% Variance	57.732
Cumulative variance %	57.732

Factor 1: Processes

The factor analysis identified only one factor and has been labeled "Processes". All the three items B14.2, B14.3 and B14.1 loaded on factor 1. The respondents expected an immediate review of the processes of the microinsurance product whilst others agreed that new efficient processes have been being implemented for the product. However, some do not perceive this to be true, hence the negative factor loading displayed by item B14.2. Factor 1 explains a cumulative variance of 57.732%.

The reliability analysis of the above appears in the table 4.37 below.

Table 4.37: Reliability Statistics: Processes

Data Sets	Cronbach's Alpha
Factor 1	-1.061

Factor 1 has returned a negative unreliable coefficient of -1.061 showing unreliable internal consistency due to a negative average covariance among items.

4.5.1.15 Section B15: People

The KMO measure of sampling adequacy and the Bartlett's test of sphericity could not be calculated because the data pertaining to this section has a negative correlation matrix. The exploratory factor analysis identified only one factor which iss shown in table 4.38.

Table 4.38: Factor loadings: People

	Component
	1
B15.1	0.998
B15.3	0.998
B15.2	0.990
% Variance	98.999
Cumulative variance %	98.999

Factor 1: People

The factor analysis identified only one factor and has been labeled "People". Items B15.1, B15.3 and B15.2 loaded heavily on factor 1. All the items were related to the investment in people, appearance, attitudes and behaviours by giving them business cards and continuously motivating them to portray a viable commercial image to the low-income people in the marketplace. The factor explains a cumulative variance of 98.999%.

The reliability analysis of the above appears in the table 4.39 below.

Table 4.39: Reliability Statistics: People

Data Sets	Cronbach's Alpha
Factor 1	0.995

Factor 1 has returned an excellent reliable coefficient of 0.995. This is well above the required 0.7 which shows very good reliability and internal consistency.

4.5.2 Section C (Questionnaire): Measuring the business success of microinsurance over the past two years

The analysis of the variable "Business Success of microinsurance over the past two years" did not include the calculation of the KMO measure nor the Bartlett's test because the data pertaining to this section has a negative correlation matrix. The factor analysis identified only two factors that were extracted as shown by table 4.40 below.

Table 4.40: Factor loadings: Business success of microinsurance over the past two years

	Component	
	1	2
C4	0.924	
C3	0.888	
C5	0.886	
C1	0.852	
C2	0.785	
C8		0.858
C7		0.857
C9		0.850
C6		0.828
% Variance	48.924	32.760
Cumulative variance %	48.924	81.684

Factor 1: Achieved targets

Item C4, C3, C5, C1 and C2 loaded well on factor 1. All the items C.4, C3, C5, and C1 generate heavy factor loadings in excess of 0.75. Since all the items were related to successfully achieving year sales, bringing down the costs, increasing

the market share and hence profit margin, the factor has been identified as “Achieved targets”. Factor 1 is the most important factor (explaining a very favourable variance of 48.924%). Both the clear identification as well as the substantial variance explained makes this a clear indicator “that management should pay special attention to the concept of achieved targets over the last two years in relation to business success.

Factor 2: Growth

Item C8, C7, C9 and C6 loaded heavily on factor 2, 0.858, 0.857, 0.850 and 0.828, respectively. Factor 2 has been labeled as” Growth” (explaining a favourable variance of 32.760%). All of the items loading onto Factor 2 point to the growth in the number of clients, the Microinsurance product itself, Earning per Share and the Return of Equity with regard to the Microinsurance Zimele products. The factors explain a cumulative variance of 81.864%.

The reliability analysis of the above appears in the table 4.41 below.

Table 4.41: Reliability Statistics: Business success of microinsurance over the past two years

Data Sets	Cronbach's Alpha
Factor 1	0.880
Factor 2	0.865

Both Factor 1 and 2 have returned an excellent reliable coefficient of 0.880 and 0.865. This is well above the required 0.7 which shows very good reliability and internal consistency.

4.5.3 Section D (Questionnaire): Measuring the business success of microinsurance in general

The business success of Microinsurance in general is analysed below.

Table 4.42: KMO and Bartlett's tests: business success of Microinsurance in general

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.853
Bartlett's Test of Sphericity	Approx. Chi-Square	4659.735
	df	105
	Sig.	.000

The analysis regarding the term "Measuring the business success of microinsurance" was suitable for an exploratory factor analysis, as the KMO measure and the Bartlett's test returned values of 0.853 and smaller than 0.000, respectively. Generally values between 0.6 and 0.7 are good (Du Plessis, 2009: 26). The factor analysis extracted three factors as shown in table 4.43 below.

Table 4.43: Factor loadings: Business Success of Microinsurance in General

	Component		
	1	2	3
D15	0.886		
D5	0.871		
D14	0.853		
D6	0.830		
D7	0.795		
D1	0.788		
D3	0.760		
D9	0.724		
D8	0.723		
D13		0.901	
D10		0.898	
D2		0.782	
D11		0.704	
D4			-0.674
D12			0.512
% Variance	59.123	11.148	8.750
Cumulative variance %	59.123	70.270	79.020

Factor 1: Improved System

Item D15, D5, D14, D6, D7, D1, D3, D9 and D8 loaded well on factor 1 with a a minimum loading value of 0.723. Since all the items were related to successfully

achieving business success through the implementation of technology, competitive pricing, accessibility, set-up infrastructure, accessibility , effective communication, promotional campaigns, Microinsurance culture and forecasting a coherent regulatory framework will lead to business success, the factor has been identified as “Improved System”. Factor 1 is the most important factor (explaining a variance of 59.123%). Both the clear identification as well as the substantial variance explained makes this a clear indicator that management should pay special attention to their respective operations and systems for business success in the Microinsurance field.

Factor 2: Investment in people

Items D13, D10, D2 and D11 loaded on factor 2. Factor 2 has been labeled as “investment in people” (explaining a variance of 11.148%). All of the items loading onto Factor 2 have pointed to the supportive Human Resource training and development programme, portraying a professional image of staff and agents, financially educating the low-income segment and creating trust in the low-income people. This is a clear indicator that management should pay special attention to the concept of “investment in people” for business success in the microinsurance field.

Factor 3: Collateral security

Two items (D4 and D12) loaded on factor 3. D4 negatively loaded with a factor loading of -0.674 whoile D12 has a positive factor loading of 0.512. However, D12 provides informartion regarding a microloan that is secured by the Microinsurance for business success so that the collateral security, which most of the time is an immovable asset is not taken away from the insurer in case of death of the policyholder. In South Africa, unlike other countries like India, the Zimele Microinsurance policy does not allow the policyholder to be granted a loan (ASISA, 2009).

D4 is related to “achieving business success through innovative channels of distribution”. However, the respondents do not perceive this to be true, hence a negative factor loading for item D4 displayed. Factor 3 returned a variance of 8.750%.

The three factors generate a cumulative variance of 79.020%.

The reliability analysis of the above appears in the table 4.44 below.

Table 4.44: Reliability Statistics: Business success of microinsurance in general

Data Sets	Cronbach's Alpha
Factor 1	0.957
Factor 2	0.822
Factor 3	-0.053

Both factor 1 and 2 have returned an excellent reliable coefficient of 0.957 and 0.822 respectively. This is well above the required 0.7 which shows very good reliability and internal consistency. Factor 3 generated a negative correlation coefficient showing unreliable internal consistency due to a negative average covariance among items.

4.6 VALIDATED THEORETICAL MODEL

The analyses to validate the theoretical model show that the original theoretical model (see Figure 3.1) contains not only the variables (factors), but also additional sub-variables (sub-factors) that need to be considered. In addition, the validation analyses also identified a number of questions in the questionnaire that should be omitted from the questionnaire. These questions did not load onto a specific factor or they had low factor loadings (below the 0.40 factor loading set in this study). The non relevant and sub-factors are shown in the table 4.45 below.

Table 4.45: Non relevant factors and sub-factors

DELETED FACTORS AND SUB-FACTORS	
FACTORS	**CRONBACH ALPHA**
Microinsurance Regulatory Framework	Cannot be calculated
Processes	-1.061
SUB FACTORS	**CRONBACH ALPHA**
Feedback Timing	0.148
Positive approach to affordable pricing	0.542
Distribution methods	-1.327
Implementation	0.052
Mechanisms	Cannot be calculated
Optimal Use	Cannot be calculated
Collateral security	-0.053

Similarly, the 22 items of the original questionnaire were also scrutinized and deleted because they loaded onto the deleted and unreliable factors shown in the table above. As a result, all questions that loaded onto these factors were also deleted and a new questionnaire was created (Moolla, 2010). These deleted items (questions) are shown in table 4.46 below.

Table 4.46: Deleted Items (Questions) in Questionnaire

DELETED ITEMS (QUESTIONS) IN QUESTIONNAIRE	
The firm I work for…	
B1.2	Delivers information to the client about the Microinsurance product promptly
B1.9	Provides a more attractive Zimele Microinsurance cover product design and product features compared to the fast-food outlets (e.g. McDonalds) in the marketplace
B1.1	Provides enough information to the existing clients (standards and features) about the Zimele Microinsurance product
B2.8	Thinks that the R40 per month for the Zimele product should be discounted
B2.2	Uses low penetration pricing of R40, which is the minimum price of the Zimele product
B3.4	Uses banks in selling the Zimele product
B3.7	Will launch new methods of distribution in selling the Zimele product
B3.3	Uses brokers and agents in selling the Zimele product
B3.8	Thinks that there is an immediate need to review its distribution methods of the Zimele product
B3.2	Uses cell-phones in selling the Zimele product
B3.9	Has already reviewed its distribution methods and is implementing new distribution methods for the Zimele product
B3.6	Uses licensing third parties such as fast-food outlets (e.g. McDonalds) in selling the Zimele product
B6.2	Communicates /explains (financially educates) well the Zimele Microinsurance product terms and conditions, features, and its benefits to the low-income earners
B7.3	Optimises the processes of its automated system and builds economies of scale in preparing reports and making decisions
B10.1	Supports the fact that a Microinsurance act or license is urgently needed
B10.2	Favours the existing regulatory system
B10.3	Supports that there are many problems in the existing regulatory framework and a new coherent Microinsurance framework is required for the further development of the microinsurance industry
B14.1	Thinks that there is an immediate need to review its processes of the Zimele product
B14.2	Has already reviewed its processes for the Zimele product
B14.3	Is implementing new efficient processes for the Zimele product
D4	Has successfully been achieving business success through innovative distribution channels of microinsurance
D12	Has successfully been achieving business success by imperatively linking microcredit loans with microinsurance

The data was also analysed to determine reliability of the variables and sub-variables. A number of sub-factors did not yield satisfactory reliability coefficients

as measured by Cronbach Alpha. However, to ensure validity and reliability of the theoretical model, the theoretical model was “purified” where the reliability of the factors and sub-factors were scrutinized and the unreliable factors and sub-factors were omitted from the theoretical model (Moolla & Bisschoff, 2011; Du Plessis, 2010; Naidoo, 2011).These sub-factors are less likely to present themselves in a repetitive study (shown in red in the validated theoretical model), and should be interpreted with this constraint in mind.

The validated theoretical model appears in the figure below. Reliable factors and sub-factors are shown in green, while non-reliable factors are shown in red.

Figure 4.1 follows on next page

Figure 4.1: Validated theoretical model to measure business success in the Microinsurance industry of South Africa

4.7 SUMMARY

From the study, the following aspects are noteworthy:

- Most of the factors returned a cumulative variance of 60% or higher, and as such, could be regarded as a good fit of the data" (Shukia, 2004). Only *Processes* and *Microinsurance Regulatory Framework* returned cumulative variances of 57.7% and 58%; very close to the 60% as stated above.

- The reliability of the data employed in this measuring instrument is high for most sub-factors and above the minimum requirements (reliability coefficient of 0.58 is satisfactory (Cortina, 1993 in Field, 2007:668). This sets the scene to continue with the validation of the questionnaire.

- The Bartlett's test of Sphericity and the Kaiser-Meyer-Olkin measure of Sampling Adequacy returned good values for most variables and as such the data was suitable to perform factor analyses.

- The questionnaire that was used was validated (with adaptations) to be a valid research tool which is now suitable for use by the microinsurance industry in South Africa to measure business success within the industry.

- The theoretical model originally developed now evolved into an adapted and validated theoretical model ready for application in the microinsurance industry.

The primary aim of this article was to validate the theoretical model so that it can be used to measure business success in the microinsurance industry of South Africa. This objective was achieved because the analysis revealed that the questionnaire could indeed be validated (with adaptations), and that it is ready to be applied as a business success measurement tool for the Microinsurance industry of South Africa.

The next article presents the results of the applied theoretical model, yielding a verdict on the actual business success of the Microinsurance industry in South Africa.

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CHAPTER 5

ARTICLE 4:

MEASURING THE BUSINESS SUCCESS OF MICROINSURANCE IN SOUTH AFRICA

ABSTRACT

Microinsurance is a specialized financial business service. South Africa has had an estimated population of 49,991 300 people in 2010. However, with more than 70% of the South African households classified as low income earners (those earning less than R3000 a month), South Africa has a long way to go before its population is adequately insured. Sources reveal that approximately over 35% of the South African low-income earners have life policies. The "Insurance Gap" which is approximately 65% of the low-income households are not insured, thus representing a huge opportunity for the South African insurance industry. The microinsurer is therefore subjected to a specifically challenging business environment with an aim of achieving business success; with the low premiums facing high transaction costs of reaching low-income households in remote places.

The primary objective of the study was to measure business success in the microinsurance industry of South Africa. The theoretical model (Figure 3.1) developed from the literature was empirically validated and subjected to reliability analysis. The unreliable factors were omitted from the validated theoretical model (figure 4.1). The purified model is shown in Figure 5.1; only two factors namely processes and Microinsurance Regulatory Framework were deleted from the validated theoretical model (Figure 4.1). These unreliable factors were omitted from the measurement of business success because (as stated by Field, 2007:664) the unreliable factors are less likely to represent themselves in repetitive studies of similar nature. An amended questionnaire (Appendix 2) after deleting the items (refer to Table 4.46) from the original questionnaire (Appendix 1) were used to measure business success. The data collected comprise the demographical profile and the validated variables for business success.

The findings were that none of the independent variables portrayed a general satisfaction on business success since all of their respective mean values were below 60%. Therefore it can be drawn that business success is not an easy task in the microinsurance industry due to its challenges mentioned in article one. Hence, all of the variables need managerial intervention. Therefore, the purified validated theoretical model holds successfully, thus a valid one.

***Key words**: Measuring business success, Microinsurance (MI), low-income earners, Living Standard Measure (LSM) 1-5, business success.*

5.1 INTRODUCTION

Due to a number of challenges facing the microinsurance industry of South Africa (mentioned in article one), the sector is currently undergoing some deprivation in the provision of microinsurance products and services to the low-income households. More than 70% of the South African households are classified as the low-income earners (those earning less than R3000 a month (LOA, 200b). South Africa has a long way to go before its population is adequately insured. Sources reveal that approximately over 35% of the South African low-income earners have life policies. The “Insurance Gap”, approximately 65% of the low-income households which are not insured represents a huge opportunity for the South African insurance industry (LOA, 2007a).

In an attempt to contribute to the social upliftment and curb the level of poverty in the country the government is encouraging the insurance firms to engage in offering microinsurance products and services to the low-income households to cover them in times of hardship. The microinsurance providers in South Africa are increasingly interested to expand the low-income market to mitigate the financial exclusion that is present (National Treasury of South Africa, 2011). However, the providers are faced with major challenges that the premiums offered for microinsurance products are too low and transaction costs too high to reach the low-income market (R40 as set by ASISA in 2008) and ultimately achieve business success.

In view of the research gap facing microinsurance in South Africa and its impact on business success, therefore the main aim of the study is to compile a model to measure business success of microinsurance for the country. To give effect to that, an empirical study is sought to measure the business success of microinsurance in South Africa. Another purpose of the empirical study is to analyse and interprete the demographical profile of the respondents. Finally recommendations are offered by the researcher to enhance business success in the microinsurance industry of South Africa.

5.2 PROBLEM STATEMENT

The National Treasury South Africa (2011) showed that research in microinsurance is still at a preliminary stage in South Africa. A significant number of low-income people are either financially excluded or know very little about Microinsurance. Insurance firms and the authorities are only now beginning to recognize the future potential of the low-income market and the longer term benefits of building a customer database in a new market segment in South Africa. However, to maintain the involvement of commercial players in the market, microinsurance needs to contribute to the overall profitability of the insurer, enhance value for its investors, satisfy clients and ultimately generate business success through an increase in the sales, earnings per share, return on equity and shareholder value. In addition, the nature of microinsurance lies in the low premium and the high transaction costs and players have seen that over the recent years that business success is not easy to achieve. As such, roleplayers in the microinsurance market are uncertain as to how well they are performing in the industry, and are also not sure how to define or measure business success in the microinsurance industry of South Africa.

5.3 OBJECTIVES

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

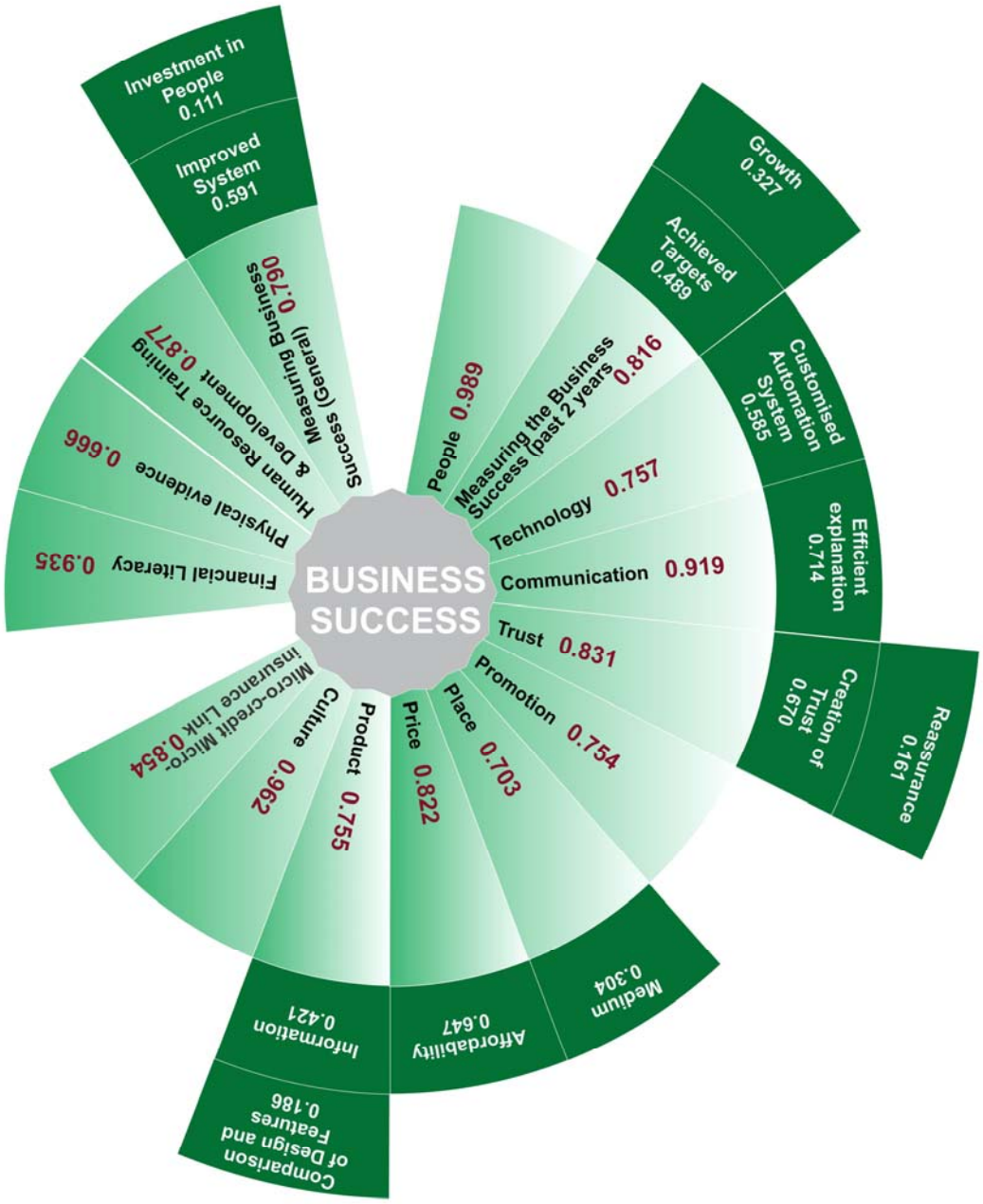
- Apply this newly validated model and measure the perceptions of business success in the microinsurance industry of South Africa;
- Compile demographic profile of the respondents operating in the microinsurance industry in South Africa; and to
- Draw conclusions and offer recommendations based on the outcome of the research on how to improve business success in the microinsurance industry.

5.4 PURIFIED AND VALIDATED THEORETICAL MODEL

The theoretical model developed from the literature (see Figure 3.1), was empirically validated and subjected to reliability analysis (see Figure 4.1). The unreliable factors were omitted from the theoretical model, and as such, a purified and validated theoretical model results. This purified model is shown in Figure 5.1 below.

FIGURE 5.1 FOLLOWS ON NEXT PAGE

Figure 5.1: Purified and validated theoretical model to measure business success in the microinsurance industry of South Africa



As seen from the purified and validated theoretical model, only two factors (Microinsurance Regulatory framework and Processes) were deleted because of unreliability. These factors have Cronbach's Alpha (α) coefficients of less than the required 0.58 set as the minimum reliability coefficient in this research (Cortina (1993) in Field, 2007:668; Moolla & Bisschoff, 2011).

Table 5.1 below summarises the purified and validated theoretical model to measure business success according to the order of importance of the factors as measured by their respective cumulative variances.

Table 5.1: Cumulative variance of the factors

Order of Importance	Factor	Cumulative Variance
1	People	98.9%
2	Culture	96.2%
3	Financial Literacy	93.5%
4	Communication	91.9%
5	Human Resource Training and Development	87.7%
6	Microcredit-Microinsurance Link	85.4%
7	Trust	83.1%
8	Measuring the business success over past two years	81.6%
9	Price	70.3%
10	Technology	75.7%
11	Product	75.5%
12	Promotion	75.4%
13	Place	70.3%
14	Physical evidence	66.6%
15	Measuring the business success (General)	57.7%

5.4.1 Independent variables (factors) of the theoretical model

The independent variables of business success (or factors) are discussed below (as per their order of importance).

5.4.1.1 People

The independent variable “people” is the most important component of microinsurance bearing a cumulative variance of 98.9%. People, the most important resource of an organisation, plays an integral role in service delivery and in so doing, influence the buyers’ 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 microinsurance is the actual delivery to the clients. Therefore, the screening and selection of frontline staff involved in distributing insurance is important. Selling an intangible service like insurance requires a higher sales expertise. Therefore, it is advisable to consider their insurance responsibilities when recruiting people (Microinsurance Network, 2009).

In filling management and back office positions, insurers can act in one of two ways: either they can recruit intelligent people with development experience and teach them about insurance or they can employ insurance specialists to help them understand the low-income market – some combination of the two might work best (Microinsurance Network, 2009).

Microinsurers 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).

5.4.1.2 Culture

The independent variable “culture” shows the second highest cumulative variance of 96.2%, hence is a very important independent variable in Microinsurance.

However, sources reveal that there is a lack of insurance culture among the low-income households in South Africa (LOA, 2007b).

Microinsurance organisational culture has to marry a social concern with an appreciation for the bottom line. Any organisation that strives to serve both the poor and mainstream markets will need to take affirmative action to ensure that their field staffs are actively serving the poor (Microinsurance Network, 2009). One way to achieve this is to separate the sales forces, or house the microinsurance activities in a different organisation, with different hiring requirements, standards and reward systems. According to a recent publication by Microinsurance Network (2009), other manifestations of a microinsurance culture include:

- Relationship building – microinsurance requires field staff to focus more on building a relationship than making a sale.

- After-sales service – Policyholders need to know what is covered and receive any assistance they require in preparing claims documents. The higher costs of these activities are expected to be offset by enhanced customer retention.

- Claims processing – Providers have to enhance the market's trust of insurance by minimizing exclusions, making it easy to submit valid claims, and even seeking out beneficiaries who may not have realized that they can claim.

- Claims rejections – Microinsurers need to minimize the likelihood of claims rejection. If claims have to be rejected, microinsurers need to find a way of communicating that result in a way that makes the decision acceptable to the claimant.

Since the concept of insurance is relatively far-fetched for the low income market, a microinsurance culture in the low-income market has highlighted its importance showing cumulative variance of 96.2%.

5.4.1.3 Financial Literacy

The independent variable “financial literacy” shows the third highest cumulative variance of 93.5%. 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). This was further substantiated by Chankova and Diop (2008) in their article “Impact on Health Organisation: evidence from West Africa”.

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. Knowledge of microinsurance is no exception to the rule. Therefore, there is a great need of financial literacy in the area. This can be substantiated by the recent article published by Gaurav et al., (2011) stressing the point that the financial globalization in emerging economies is leading to the introduction of new financial products due to an increase in financial literacy.

5.4.1.4 Communication

The independent variable “communication” shows the fourth highest cumulative variance of 91.9%. In the microinsurance 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 Microinsurance, 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).

An often identified constraint in selling insurance to poor households is a lack of understanding of insurance products due to lack of communication (McCord, 2001). Overcoming this constraint requires a dual effort to improve communication and financial education on riskpooling, insurance and rights of policy-holders tailored to low-educated and illiterate individuals on the one hand, and simplified policies on the other hand. Clients' understanding of insurance products is key not only to take up of insurance, but also to use and appreciation of the policy as well as satisfaction with the insurance. The impact of microinsurance on the welfare of the poorest households strongly depends on whether households are aware of the benefits of the insurance, can therefore make full use of it, and continue to stay members of their insurance policy firm. However, keeping products affordable implies keeping costs low. Therefore, more research is needed on innovative, cost-effective ways and channels of communication and financial education tailored to cater to low-educated people.

Communication is key to informing the low-income earners about such cover. Communication in the microinsurance 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 & Moriarty 1998:2).

5.4.1.5 Human resource training and development

The independent variable "Human Resource Training and Development" shows the fifth highest cumulative variance of 87.7%. Considering the emergence of the microinsurance market in South Africa, most of the microinsurers do not have enough adequate insurance background in the field. Since the microinsurance service providers are unlikely to find people with microinsurance experience, microinsurers should regularly upgrade staff skills according to a recent report by the ILO (Microinsurance Network, 2009). Microinsurers 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).

Staff should be competent to explain, sell the product to the low-income earners, according to the report and this is confirmed by the high cumulative variance of 87.7% (Microinsurance Network, 2009)..

5.4.1.6 Microcredit-Microinsurance Link

Credit life cover – insurance that covers the outstanding principal and interest of a loan on the death of a borrower is the logical starting point for organisations which are new in the microinsurance area, because it is generally easy to introduce, simple for borrowers to understand, and seen by financial intermediaries as a support to their core business (Microinsurance Network, 2009). Credit life can help create an understanding of microinsurance 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 & Garand, 2010). Offering micro-credit without microinsurance can be bad financial behaviour as it is the poor who suffer of such bad product design (Njoroge, 2008). A micro life insurance scheme is an insurance which could be served as a collateral security for a microloan. Therefore the linkage between microcredit and microinsurance can make good business sense. This can be supported by the high cumulative variance of 85.4% which far exceeds the 60% and above regarded to be a "*good fit of the data*" (Shukia, 2004).

5.4.1.7 Trust

A serious constraint to the uptake of insurance has to be trust. The contrast of microinsurance with microcredit helps to see the difference between these two microinsurance activities. In the latter, money is offered first, and then lenders have to find ways of ensuring that clients repay the loan – lenders have to find ways to ensure they can trust that repayment by clients will take place. In insurance, clients first part with their money, and then they have to trust the insurer

that they will indeed get money (or a service, such as health care) when problems arise. Lenders have to trust borrowers; while 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.

McCord (2008) highlighted that a fine balance is required between acquisition of new technologies (which decrease costs by making the insurance product less labour intense) and human contact to educate policy holders and build trust. Despite its importance, there is little systematic knowledge about instruments and mechanisms to build trust (Schneider, 2005).

Microinsurance is a sensible approach when it comes to tackle serious risks low-income households face (Microinsurance Network, 2010). Unless policies are conceived in a lay-man language, communicated 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 and this is justified by the high cumulative variance of 83.1%.

5.4.1.8 Measuring the business success over past two years/ Measuring the business success (General)

Measuring the business success over the past two years and measuring the business success in general have revealed a cumulative variance of 81.6% and 57.7% respectively. The fisrt factor is regarded to be a "*good fit to the data"* (Shukia, 2004).

5.4.1.9 Price

The element of affordability is an important element when purchasing a microinsurance product. This can be supported by the the high cumulative variance of 70.3%. According to a research report by Angove and Tande (2011), Old Mutual South Africa was facing a challenge that a number of policies sold by burial societies were lapsing as premiums were too expensive. A microinsurer must thus charge an affordable price to the low-income earners based on the protection and benefit that the insurer provides.

5.4.1.10 Technology

Microinsurance organisations confront a common challenge summarized by the question: “How does one integrate technology into the business operation to both maximize service delivery and minimize cost to clients in microinsurance?” Technology provides a major part of the response as mentioned by Gerelle and Berende (2008).

The selection of an information system to support client, policy and claims administration is among the most strategic decisions that a microinsurance organisation normally makes (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.

Even though technology for microinsurance is in its infancy, business managers choosing technologies face a bewildering selection. No simple questionnaire or checklist will yield the unique and right solution. As with all modern technologies, the selection process must to be informed by a careful analysis of business needs and a specification of system requirements.

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 in microinsurance (Microinsurance Network, 2010). An insurer unable to reach large numbers of policyholders places itself in a precarious position (Microinsurance Network, 2010). An efficient and effective automated

system of a microinsurer links the operations from head office to branches and vice versa, assists in the tracking of premium payments, identity profile and informed decision-making. This is supported by the high cumulative variance of 75.7%.

5.4.1.11 Product

The high cumulative variance of 75.5% underlines the importance of product decisions with regard to microinsurance products in South Africa.

Product decisions are important managerial decisions in a firm, seeing the design of need satisfying products (Archer et al., 1997:37). Leftley and Mapfumo (2006) highlight the importance of a focus for developing a successful microinsurance product. Further, composite (bundled) microinsurance 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 thus offer affordable and cheaper products for the low-income households.

Therefore, the microinsurance product, for example, a Zimele-compliant product range should thus be broadened outside the array of funeral cover and customized to meet the needs of the low-income earners. For instance, a microinsurance health care -related product should be specifically designed to cover the high prevalencve of HIV/Aids pandemics in South Africa. Sources reveal that the majority of HIV/AIDS recorded are among the low-income households (Stats SA, 2010).

The estimated overall HIV prevalence rate is approximately 10.5% (Stats SA, 2010). The total number of people living with HIV is estimated at approximately 5.24 million. For adults aged 15-49 years, an estimated 17% of the population is HIV positive. The total number of new HIV infections for 2010 has been approximately 410 000. Of these, an estimated 40 000 were children (Stats SA, 2010). Therefore, the introduction of an HIV-related microinsurance product is important in South Africa.

5.4.1.12 Promotion

The high cumulative variance of 75.4% explains the high relevance of promotional campaigns. A study of the awareness and usage of financial products in South Africa by LOA (2007b), found that the recognition of the Zimele-compliant microinsurance 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, 2007b). An article written on “Marketing: Promoting insurance for the poor” by microinsurance Network 2009 mentioned a three-step process to turn promotion into sales and these include: raising awareness, helping clients understand the product and activitaing the customer by getting clients to use the information they have about products to make a decision to purchase insurance (Microinsurance Network, 2009).

5.4.1.13 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 are not appropriate for the lower income groups. The comments came a month after the launch of Zimele standards in 2007 by the LOA (LOA, 2007b). This can be substantiated by Dercon, Kirchberger and Gunning (2008) from Oxford University in their article on “Literature on Microinsurance” 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. This is justified by the high cumulative variance of 70.3%.

5.4.1.14 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). It includes all tangible cues that facilitate performance or communication of the service, for instance logos, letterheads, business cards, brochures, and more. In the microinsurance industry, the players currently make use of the agents, brokers, the offices themselves, church groups, stokvels and retail companies such as Jet Mart, Shoprite, Pep Stores and Woolworths (LOA, 2007b). For instance, banks such as Absa Direct also markets microinsurance products in South Africa. The actual physical facility, where the service is offered, is also highly relevant. This can be substantiated by Wiedmaier-Pfister (2010) that physical accessibility to microinsurance can lead to success. The high cumulative variance of 66.6% underlines the importance of physical evidence in the MI industry of South Africa.

5.5 RESEARCH METHODOLOGY

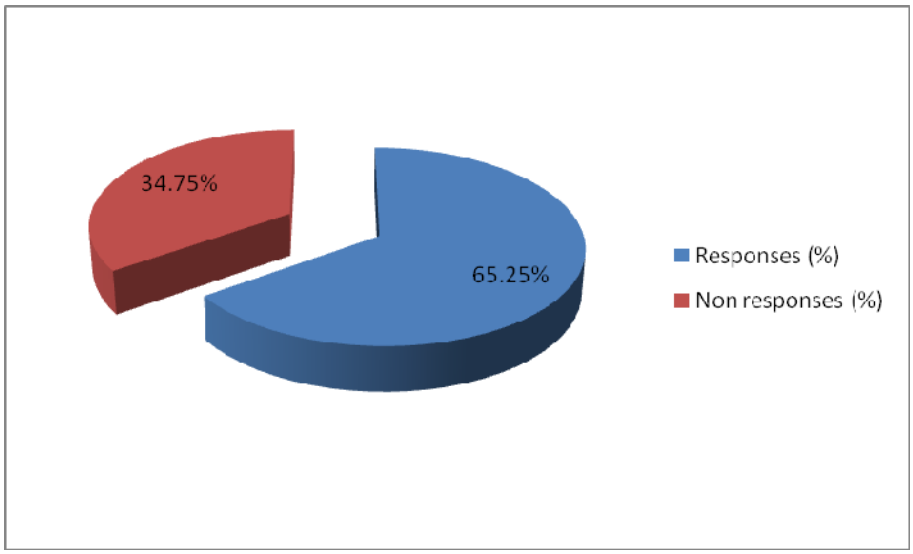
The study was undertaken at four insurance firms namely, Old Mutual South Africa (OMSA), Sanlam, Metropolitan and Safrican firms**.** The scope of the study was limited to a sample comprising 400 employees at the OMSA, Sanlam, Metropolitan and Safrican insurance firm. The employees were working both full-time and part-time at the firm. The respondents comprised employees in general positions, managers and directors. The reason behind the selection of the chosen sample is that the Old Mutual firm was the pioneer to launch the Zimele-compliant funeral cover into the market and the employees were more likely to be aware of the concept of microinsurance (Old Mutual Insurance Annual Report, 2007). Further, Old Mutual and Sanlam Insurance firms are classified as the largest insurers in South Africa to offer the micro products and services (Business Monitor Insurance Second Quarterly Report, 2010). Furthermore, the main niche market for Metropolitan and Safrican insurance firms are also the low-income segment.

A convenience sample of 400 was drawn and a total of 261 completed questionnaires were received, signifying a satisfactory 62.25% response rate.

Data were collected by the researcher who, on appointment and with permission of the companies, requested that the employees complete the questionnaire.

The article measures business success in the microinsurance industry of South Africa. The original theoretical model to measure business success (see Figure 3.1) was validated and amended to form a validated theoretical model (see Figure 4.1). This validated theoretical model contained a number of unreliable factors (see the red factors in Figure 4.1). These unreliable factors were omitted from the measurement of business success because (as stated by Field, 2007:664) the unreliable factors are less likely to represent themselves in repetitive studies of similar nature. An amended questionnaire (Appendix 2) after deleting the items (refer to Table 4.46) from the original questionnaire (Appendix 1) were used to measure business success. The data collected comprise the demographic profile and the validated variables for business success. (Refer to Chapter 1 for the detailed discussion on research methodology).

Figure 5.2: Questionnaire responses



5.6 RESULTS

The results of this study consist of the demographic profile of the respondents, followed by their perceptions with regard to the business success of the microinsurance industry in South Africa.

5.6.1 Demographical profile

The demographic profile contains information with regard to the gender, age, population group number of years working experience in the microinsurance industry and their respective employer in the insurance industry. The results can be illustrated by the table 5.2 below.

Table 5.2: Bibliographical data/Demographical Profile of respondents

Items		Frequency (Count)	Percentage (%)
Gender	Male	214	82
	Female	47	18
	Total	**261**	**100**
Age Category	<20	4	1.5
	20-29	33	12.6
	30-39	74	28.4
	40-49	95	36.4
	50-59	55	21.1
	60+	0	0
	Total	**261**	**100**
Population Group	Asian	11	4.2
	Black	227	87.3
	Coloured	10	3.8
	White	12	4.6
	Not willing to say	1	0.4
	Total	**261**	**100**
Insurance Firms	Metropolitan	88	33.7
	Old Mutual	107	41
	Safrican	20	7.7
	Sanlam	46	17.6
	Total	**261**	**100**
Length of Working time (number of years)	Less than 2 years	6	2.3
	Between 2 and 5 years	49	18.8
	Between 5 and 10 years	124	47.6
	More than 10 years	82	31.3
		261	**100**

It can be deduced from table 5.2, 82% comprises males and 18% are females. During the research, females were seldom to be found working in the

microinsurance field and industry. Reaching out for the low-income households is a very hectic and time consuming task as they are likely to be found in far and remote places. These are the reasons there are more males than females in the study that were more dedicated to reach out to the low-income households.

As it can be seen from the table 5.2 above, only 1.5% belong to the age category of less than 20 years, 12.6% fall in the age category of 20-29, 28.4% are between 30-39 of age, 36.4% belong to the age category of 40-49, 21.1% belong to the age category of 50-59 and 0% to the age category of 60 years and above.

It can be concluded from table 5.2 above, that 4.2% of the respondents belong to the Asian group, 87.3% of the respondents were black people, 3.8% of the respondents fall into the coloured category and 4.6% of the respondents were white. 0.4% of the respondents' data in terms of the population group were missing. The majority of the population group working in the microinsurance field was black.

As shown from table 5.2 above, 33.7% of the respondents work for Metropolitan insurance firm, 41% work for Old Mutual of South Africa (OMSA), 7.7% work for Safrican insurance firm and 17.6% work for Sanlam Insurance firm. OMSA has received the most number of respondents for this research because they were proportially better represented because they had the most representatives in the field partaking in this research.

The least number of respondents (2.3%) has been working the shortest number of years that is less than 2 years. A percentage of 18.8 of the respondents have worked between 2 and 5 years. 47.5% of the respondents seem to have worked between 5 and 10 years, showing more retention in this range of working years. Some 31.2% of the respondents seem to have worked for more than 10 years, showing a drop in the staff retention. Therefore, in the microinsurance industry, it can be concluded that endurance is a big factor of importance as it is a complex financial market growing. Over the years people tend to lose interest and exit the

microinsurance industry. The first two years of work in the microinsurance industry seem to be the hardest to stay as per the percentage mentioned above.

The next section shows the results of the respondents with regard to their perceptions on the success of the microinsurance industry in South Africa.

5.7 MEAN VALUES

The mean values are presented in percentage format after the responses on the 5-point Likert scale have been 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, Naidoo, 2011 and Bisschoff and Kadé, 2010):

- Under 60% = Unacceptable/Unimportant;
- Between 60% and 75% = Acceptable/Important,
- 75% and higher = Excellent/Very important

The results of the mean values are shown in the tables below per factor as identified by the purified theoretical model to measure business success in the microinsurance industry of South Africa. Because the purified and validated theoretical model eliminated some questions (see table 4.46), the question numbers do not follow chronologically in the tables (see also Appendix 2).

Table 5.3: Product

NUMBER	VALUED ITEMS	MEAN %
	The firm I work for…	
B1.3	Issues the policy contract of the Zimele microinsurance product in a simple and informal language	47.7%
B1.4	Provides an increased awareness of the Zimele product to the market niche and segment targeted (the low-income earners)	45%
B1.5	Provides a more attractive Zimele microinsurance cover product design and product features to the clients compared to the banks in the marketplace	47.9%
B1.6	Provides a more attractive Zimele microinsurance cover product design and product features compared to the burial societies in the marketplace	42.6%
B1.7	Provides a more attractive Zimele microinsurance cover product design and product features compared to the other insurers in the marketplace	47.2%
B1.8	Provides a more attractive Zimele microinsurance cover product design and product features compared to the retailers (e.g. Shoprite) in the marketplace	46.7%
B1.10	Provides information to the client about how strict the firm is in complying with relevant standards and regulations of Life Offices Association (LOA) in respect of the Zimele product	47.9%
	MEAN	46.43%

The average mean with regard to product is unacceptable. This implies that more focus should be placed on products for insurers to achieve business success in Microinsurance. For instance, more tailor-made products to the needs of the low-income households should be designed by actuaries. For example there are no Zimele-compliant weather-indexed agricultural products/crop products. These products may be suitable for the low-income farmers especially in this era of climate change.

Table 5.4: Price

B2.1	Uses a predatory pricing (a price that drives competitors out of the market) using the Life Offices Association (LOA) budget as subsidies	28.3%
B2.3	Provides a more affordable premium rate for the Zimele microisurrance cover than the banks in the marketplace	32.3%
B2.4	Provides a more affordable premium rate for the Zimele cover than the burial societies in the marketplace	23.9%
B2.5	Provides a more affordable premium rate for the Zimele cover than the other insurers in the marketplace	37.7%
B2.6	Provides a more affordable premium rate for the Zimele cover than the retailers (e.g. Shoprite) in the marketplace	23.6%
B2.7	Provides a more affordable premium rate for the Zimele cover than the fast-food outlets (e.g. McDonalds) in the marketplace	23.2%
	MEAN	28.2%

The respondents are not happy about the price charged for Zimele-microinsurance products as indicated by the average mean. It is not acceptable that the price charged for a microinsurance product will lead to business success of insurance firms. Therefore, all stakeholders involved in pricing decisions; the Life Offices Association, the Financial Services board and insurance firms have to review the pricing of microinsurance products.

Table 5.5: Place

B3.1	Uses a call centre in selling the Zimele product	47.7%
B3.5	Uses retailers (e.g. Shoprite) in selling the Zimele product	46.9%
	MEAN	47.3%

In the statements asked to be answered by the respondents of the four insurance firms, the average mean reflects an unacceptable rating on the above two statements. The players on the market should involve more call centres and retailers to sell the microinsurance products and services, which will more likely lead to business success. The more call centres and retailers and other

intermediaries (other parties) that sell the product, the better is the chance of business success for the microinsurance firms in the market.

Table 5.6: Promotion

B4.1	Conducts an intensive promotion campaign to offer the Zimele microinsurance product to new clients	48.5%
B4.2	Provides early success stories of the funeral product to the clients (e.g approval of claim within time limits) to promote the product	48.6%
B4.3	Organises seminars to promote the Zimele product to the low-income earners	47.9%
B4.4	Uses direct mailing as a promotion method for the Zimele product	48.4%
B4.5	Grants special discounts to clients paying the premiums on the due dates to promote the Zimele product	42.9%
B4.6	Organises special entertainment events to promote the Zimele product to the clients	48.1%
B4.7	Increases individual (one-on-one) communications to prospective clients to promote the Zimele product	48.5%
B4.8	Provides brochures to promote the Zimele product	48.6%
	MEAN	47.7%

The respondents did not seem to agree that much effort is being ploughed in the promotional campaigns of microinsurance firms, hence an unacceptable average mean noted. Therefore, in an attempt to make the low-income households become more aware about the microinsurance product terms, conditions features and benefits, the insurers should invest more in promotions.

Table 5.7: Trust

B5.1	Is trustworthy to the low-income earners in South Africa	50.0%
B5.2	Creates trust among the existing clients about the Zimele microinsurance product	49.8%
B5.3	Creates trust among the prospective clients about the Zimele microinsurance product	49.8%
B5.4	Provides platforms (e.g. workshops, get- together, brochures etc) for engagement and interaction with the target audience (the low-income households) so that an element of trust is created and maintained between the parties	49.9%
B5.5	Provides trust so that the low-income households see insurance as a necessity	49.7%
B5.6	Provides trust so that the low-income households place their premium income with the insurer	49.8%
B5.7	Provides trust so that the low-income households are confident that the insurance company will pay in an event of a valid claim	49.8%
	MEAN	49.83%

The element of trust still needs to be worked upon between the prospective low-income household and the insurance firm as indicated by the low average mean with regard to trust. There is a general concern among the low-income households that insurers are quick to take money but slow in an event of a claim. The insurance firm must convince the customers that they are indeed trustworthy. The insurers can use valid documents, annual reports, brochures, to explain the terms and conditions of the products. They have to demonstrate to the low-income client that they are ready to travel even in the most remote place in an attempt to show that they care about their financial welfare.

Table 5.8: Communication

B6.1	Communicates/explains (financially educates) well the concept, mechanism and benefits of Zimele microinsurance to the low-income households through formal (letters) and informal means (emails).	48.6%
B6.3	Communicates efficiently/explains (financially educates) the allocation/break-down of the Zimele microinsurance price (premium) to the low-income earners.	48.6%
B6.4	Communicates efficiently/explains (financially educates) the Zimele microinsurance policy contract wordings to the low-income earners	47.7%
B6.5	Communicates efficiently/explains (financially educates) the importance of microinsurance to the low-income households	48.6%
	MEAN	48.4%

Communication returned an unacceptable average mean value as indicated above in table 5.8. That implied that communication should be improved if insurance firms want to achieve business success. The four statements answered by the respondents returned a very low mean value, implying that much needs to be done to improve communication between the low-income earners and the insurance firm.

Table 5.9: Technology

B7.1	Is equipped with an effective automated system for its microinsurance operations.	48.2%
B7.2	Interlinks well its automated system across branches and Head Office for microinsurance operations (LAN/WAN)	47.1%
B7.4	Consists of a fast internet and wireless connection systems enabling communications between relevant stakeholders	46.0%
B7.5	Enables an immediate issue of the microinsurance policy contract with the assistance of its automated systems	48.2%
B7.6	Easily traces the identity/payment/profile and claim history of customers in the entire firm with its automated systems	47.2%
	MEAN	47.34%

The average mean for technology is unacceptable for insurance firms to achieve business success. The technology area of microinsurance is problematic and needs improvements. All the five statements are unacceptable on the ratings, with much room for improvements, such as faster and efficient connection systems between head office and branches for better customer services.

Table 5.10: Culture

B8.1	Comprises an insurance culture among the low-income households.	47.2%
B8.2	Has a set-up organisational culture in place	47.2%
B8.3	Provides workshops and platforms to maintain an insurance culture	47.0%
B8.4	Organises regular meetings with burial societies, stokvels, church groups, fast food outlets, retailers, cell phones companies, church groups and banks to support and encourage an insurance culture	47.4%
	MEAN	47.2%

Working on a more coherent insurance culture among the low-income households is very important as the rating for all statements about culture are unacceptable to achieve business success. Organising regular meetings with burial societies, stokvels, church groups, fast food outlets, retailers, cell phones companies, church groups and banks can be wiser ideas to support and encourage an insurance culture.

Table 5.11: Microcredit–Microinsurance Link

B9.1	Has a policy of microcredit linked to microinsurance for the low-income households.	10.1%
B9.2	Makes it imperative that any microloan should be secured by a microinsurance policy with the same company as a collateral security	10.1%
B9.3	Supports that any microloan should be secured by a microinsurance policy with any other company as a collateral security	10.1%
	MEAN	10.1%

The rating for the link between microcredit and microinsurance is unacceptable. Therefore it is important for the relevant stakeholders to review how a microinsurance policy securing a microloan can be a feasible option like in other developing countries.

Table 5.12: Financial literacy

B11.1	Financially educates well the concept, mechanism, importance and benefits of Zimele microinsurance to the low-income households through formal (letters) and informal means (sms).	49.3%
B11.2	Financially educates well the Zimele microinsurance product terms and conditions, features and policy contract wordings to the low-income earners	49.4%
B11.3	Financially educates the allocation/break-down of the Zimele microinsurance price (premium) to the low-income earners.	49.2%
	MEAN	49.3%

The rating for all the statements about financial literacy is unacceptable. Therefore there is an urgent need to financially educate the low-income clients so that they can be aware of the importance and benefits of securing a financial cover. Educating the masses of low-income households is a good idea; the better advice they get, the more sales is likely to happen and hence business success.

Table 5.13: Physical evidence

B12.1	Is located in the prime area of business and is easily accessible to low-income households	51.1%
B12.2	Has branches in the outskirt areas and are easily accessible to the low-income earners who live in any locations and suburbs	49.2%
B12.3	Consists of many customers who were not easily accessible at the time they were targeted for microinsurance	48.5%
	MEAN	49.6%

Accessibility to branches and convenient locations and offices is important to the business success of a microinsurance provider. Obviously, the rating reveals that the physical evidence of accessible offices is unacceptable to ensurel business success. Opening small offices in the most remote places where the low-income households live can be a good option.

Table 5.14: Human resource training and development

B13.1	Invests a lot in the research and development (training) of its employees who deals with microinsurance	47.7%
B13.2	Requires imperatively a certificate in financial planning or a fit and proper license for its middlemen to offer microinsurance	47.5%
B13.3	Constantly monitors/reviews the progress of its staff dealing with microinsurance	47.9%
	MEAN	47.7%

The rating of the three statements about Human Resource Training and Development is unacceptable for the welfare and success of the provider. It is therefore important to work on the research and development part of the staff and agents. More training should be provided in the field of Microinsurance.

Table 5.15: People

B15.1	Invests in the appearance, attitudes, behaviours of its agents and staff	49.2%
B15.2	Gives business cards to all staff and agents offering microinsurance services	49.2%
B15.3	Continuously motivates its agents and staff to portray a good commercial image of the firm through different means and ways	49.2%
	MEAN	49.2%

The average mean for people is unacceptable since it returns a mean value of 49.2%, much below the 60% minimum requirement. In order for the low-income people to trust the provider, it is important that the representatives, agents and staff are well equipped with the necessary documentations such as a license to

operate on behalf of the firm. Therefore, investing in the image of the firm through the appearance of agents and staff is a wise option.

Table 5.16: Measuring Business Success of Microinsurance over the Past Two Years

	Over the past two years, the firm I work for…	
C1	Has successfully been achieving sales targets for the Zimele microinsurance product	28.4%
C2	Has gradually been increasing the year after year sales for the Zimele product	42.0%
C3	Has decreased its transaction costs when selling the Zimele product	35.9%
C4	Has successfully been increasing its market share for the Zimele product	44.5%
C5	Has increased its profit margin, due to the Zimele product	36.7%
C6	Has increased its number of clients, due to the Zimele product	47.3%
C7	Has shown an increase in the growth rate of the Zimele product	46.8%
C8	Has successfully been increasing its earnings per share (EPS), due to the Zimele product	45.8%
C9	Has gradually been increasing its return on equity (ROE) for the shareholders of the firm, due to the Zimele product	44.9%
	MEAN	41.4%

Over the past two years, the business success of microinsurance has not been remarkable, hence an unacceptable average mean value of 41.4%. All the nine statements' ratings are unacceptable for the business success of the service provider. Over the past two years, the microinsurance business has shown an unacceptable sales, targets, growth, number of clients, market share, profit margin, return on equity and earning per share to be able to achieve business success. This can be substantiated by the unacceptable mean rating of the relevant statement.

Table 5.17: Measuring business success of microinsurance in general

In General, the firm I work for…		
D1	Has successfully been achieving business success through implementing an efficient and effective technological system of microinsurance	45.8%
D2	Has successfully been achieving business success through a supportive Human resources training and development programme in microinsurance to its staff	47.0%
D3	Has successfully been achieving business success through the competitive pricing policy of microinsurance	45.8%
D5	Has successfully been achieving business success through engagement in the promotional campaigns of microinsurance	46.5%
D6	Has successfully been achieving business success through the support of an adherent microinsurance culture	46.3%
D7	Strongly thinks that a more coherent regulatory microinsurance framework will lead to business success of the firm	46.2%
D8	Has successfully been achieving business success through the implementation of adequate and strong set-up infrastructure of microinsurance	44.8%
D9	Has successfully been achieving business success by being constantly accessible to the low income earners	45.5%
D10	Has successfully been achieving business success by portraying a professional image of its agents and staff to the low-income earners	47.5%
D11	Has successfully been achieving business success by being trustworthy to the low income earners	48.0%
D13	Has successfully been achieving business success by being constantly financially educating the low income earners on the concepts, benefits and importance of microinsurance	47.7%
D14	Has successfully been achieving business success through effective communication to the low income earners	46.4%
D15	Has successfully been achieving business success by processing efficiently all documentations to the low income earners	46.9%
	MEAN	46.5%

Business success measures unexceptably low over two years in general, with an unacceptable mean value of 46.5%. Therefore, from table 5.17 it is clear that

business success cannot be easily achieved in the field of microinsurance. This result correspeonds with the challenges postulated in the literature study earlier.

5.8 GRAND MEAN

Grand mean, for the purpose of this study is a summary index to measure business success of Microinsurance. Table 5.18 illustrates the Grand Mean.

Table 5.18: Grand Mean

FACTOR	MEAN
Product	46.43%
Price	28.2%
Place	47.3%
Promotion	47.7%
Trust	49.8%
Communication	48.4%
Technology	47.34%
Culture	47.2%
Microcredit-Microinsurance link	10.1%
Financial literacy	49.3%
Physical evidence	49.6%
Human resource training and development	47.7%
People	49.2%
Measuring business success over past two years	41.4%
Measuring business success (General)	46.5%
GRAND MEAN	**43.75%**

The mean values in the tables above portray a general dissatisfaction in the performance of the microinsurance industry. According to the mean values calculated for the criteria, all of them are below 60%. The criterion relating to business success even slopes below 20% signifying that respondents are aware

that reaching business success in the microinsurance industry of South Africa is not easy at all. None of the criteria achieved the highest merit of exceeding the 75% margin. The respondents working for different insurance firms offering microinsurance products and services do not believe that business success in the microinsurance industry is good in South Africa.

The above findings underline the importance/need of a theoretical model for business success in the microinsurance industry of South Africa.

5.9 CONCLUSIONS AND RECOMMENDATIONS

This study has extracted several recommendations to microinsurers to enhance business success concerning their microinsurance operations. Improvement is possible if they focus more on the identified factors of importance, as laid out in this study. The following recommendations are relevant; the numbering corresponds with the conclusions:

CONCLUSION 1

None of the categories as per table 5.18 are satisfactory with regard to the performance of the business success in the microinsurance industry of South Africa. All of the categories require managerial attention and intervention for business success. The mean values in the tables above portray a general dissatisfaction in the performance with regard to business success of the microinsurance industry.

RECOMMENDATION 1

The insurer should focus on the areas of dissatisfaction of criteria as identified in this research. All of the categories require managerial attention and intervention to achieve business success. Some variables influencing business success can be more or less important than others, however all of them show a mean value of less than 60%. All of them require managerial address.

CONCLUSION 2

The microinsurance industry in general, is perceived to be unsuccessful (mean results below 60% as per table 5.18). The theoretical model shows the weaknesses in the microinsurance industry with regard to business success.

RECOMMENDATION 2

Some variables influencing business success can be more or less important than others; however, all of them show a mean value of less than 60%. This means that the respondents regard the independent variables to be unsatisfactory and that business success is perceived not to be successfull. In order to achieve business success, management should address the independent variables by actively managing for success so that the mean results inprove to be closer (or preferably exceed) the 60% minimum level.

CONCLUSION 3

More specifically, business success in microinsurance industry fails highest on the variables Credit-insurance link and Price, showing a mean result of 10.1% and 28.2% respectively. These variables require urgent management intervention.

RECOMMENDATION 3

In respect of conclusion 3 above, the following are recommended:

- The microloan should be linked to the microinsurance policy since currently the regulations governing microinsurance in the country forbids it (ASISA, 2008). Microloans are only given out on a savings policy. Since microinsurance has been identified as one of the innovative tools to counteract poverty, microloans 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 microloan is secured by the microinsurance policy as a means of collateral security, the latter can pay back the outstanding microloan amounts. Therefore the beneficiaries of the policyholder do not lose the property which can deprive them more of necessities.

- This study proves that the target group is of the opinion that affordability of the premium rate (price) is one the most important elements to be considered when a microinsurance policy is offered. This factor plays an important role in the choice the customer makes when purchasing a microinsurance product. Although the R40 imposed by the Financial Services Board to the microinsurer for the Zimele-compliant microinsurance product, the price charged has proved to be still unaffordable by 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 whether the customer will be able to pay the premium charged.

  However, it is clear that some more financially educated customers will definitely weigh the price against the value they will obtain for the product about to be purchased. Therefore management should pay special attention to the concept of value for money of their products offered to the customers.

CONCLUSION 4

More specifically, business success in MI fails lowest on trust and physical evidence showing a mean result of 49.8% and 49.6% respectively requiring management intervention as the respective mean results also portray a value of less than 60% (unacceptable for business success) .

RECOMMENDATION 4

In respect of conclusion 4 above, the following are recommended:

- The factors identified as important to microinsurance service providers in the financial services sector, correspond well to existing literature on the subject. Customers lack trust in the microinsurance industry. Unlike the case of loans and credit, where the entrepreneur borrows money and takes up the responsibility of returning it. Insurance reverses the responsibility of risk partially. 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. 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.

- It is a fact that most of the low-income earners live in the "out of reach" - far away from large cities. Therefore, it is important that the physical evidence of branches is portrayed by locating them nearby the suburbs, townships and villages; places where the low-income earners are more likely to visit or reside. Convenience of these offices is important for the customers. If the offices are far away from the places where they live, they might lose interest in reaching them. Accessibility is crucial for the low-income niche in the remote places. The more accessible the offices are, the higher the chances of business success.

CONCLUSION 5

The mean of people in business success is proven to be of the highest mean percentage to the providers; 49.2%. However, the mean results still portray an unsuccessfull category with the mean falling below 60%. Once again, with regard to business success managerial intervention is required.

RECOMMENDATION 5

It is a general consensus that human resources is the biggest asset of an organisation. In the microinsurance field, "people" is no exception to the rule. Investing wisely in the training, appearance of the representatives for the microinsurance products and services could portray a viable commercial image of the microinsurance provider.

CONCLUSION 6

The mean of culture in business success is proven to be one of the highest (closest to success) at 47.2%. However, this is still significantlky below the

required minimum success mean of 60%. Even this variable requires urgent managerial intervention.

RECOMMENDATION 6

The low-income households are not very versed with the financial cover; which corresponds well with the literature that South Africa needs more financial education according to a report issued by FinScope in 2008. Furthermore, there is a low savings culture among the black 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 households niche. It is very important that the low-income segment understands the concept and importance of having financial cover in times of hardship.

CONCLUSION 7

The influence of financial literacy and communication on business success has shown a mean result of 49.3% and 48.4% respectively, to the providers. However, the mean results still portray a dissatisfaction (falling below 60%) with regard to business success which requires managerial intervention.

RECOMMENDATION 7

- The low-income households are not very well financially educated. Therefore, providing financial education to the customers plays a vital role. The more financially literate the customer is about Microinsurance, the more likely he/she will be aware of the importance and benefits of the product, hence the more probable will be business success for the provider. Therefore, the low-income households must be given financial education before they subscribe to a microinsurance policy. The low-income segment is more likely to be financially illiterate. Therefore, it is important to make them aware of the importance and benefits and explain to them the terms and conditions in layman language. The mechanism of the microinsurance policy, for instance the break-down of the premiums and the formalities need to be communicated well to them. Financial literacy and communication go hand in

hand in the microinsurance field so that an element of trust can be created between the provider and the customer and vice versa.

- Communication between the customer and the insurer has proved to be an important factor for business success. The more communication clarity existing between the service provider of microinsurance and the customer, the better the chances of business success. The customer feels more important and entrusting towards the service provider.

CONCLUSION 8

The correlation between Human Resource Training and Development and business success is proven to be one of the highest (47.7%) to the providers. However, the mean results still portray a dissatisfaction (falling below 60%) with regard to business success which requires managerial intervention.

RECOMMENDATION 8

The study also interestingly showed that customers are concerned with the Human Resource Training and Development aspect of the agent and staff marketing the microinsurance product. A supportive and formalised research and development centre could invest in the training and engaging of both the agents and staff operating in the microinsurance field, and encourage them to take relevant, accredited financial examinations recognised by the Financial Services Board. A certificate in financial management is a major requirement in the selling of microinsurance products. Furthermore, investing wisely in training and appearance of the representatives for the microinsurance products and services could portray a viable commercial image of the microinsurance provider.

CONCLUSION 9

Measuring business success over the past two years and also in general, showed that neighter dependent variable yielded a positive outcome. The mean results have shown unacceptable ratings on the statements and independent variables of in both the business success over the past two years and in general to be 41.4% and 46.5%, respectively. Although the measurement and methodology to do so

proved successfull by the theoretical model, the business success results are disappointing. A continuance of this unsatisfactory trend points towards disinvestment by insurance companies in the microinsurance market if it cannot be turned around.

RECOMMENDATION 9

Measuring business success in general has proved that microinsurers have still a long way to go before business success is to be achieved and this corresponds well to existing literature on the subject. Factors like culture, trust, financial literacy communication, human resources training and development, pricing decisions, technology, product, promotions, place, accessibility and promotional campaigns have to reviewed thoroughly as mentioned above.

The service provider should be able to devise efficient strategies to boost up sales, increase market share, profit margin, return on equity, and earnings per share and also diminish transaction costs. Bringing up scale, reducing claims and administration costs could be a wise option, hence bringing along business success.

CONCLUSION 10

The correlation between technology and business success is proven to be one of the highest (47.3%) to the providers. However, the mean results still portray a dissatisfaction (falling below 60%) with regard to business success which requires managerial intervention.

RECOMMENDATION 10

With the masses of information pertaining to the low-income households, it is important that faster and more efficient technology be linked from head office to branches and vice versa. An efficient and effective technological system linking the operations from branches to head office and vice versa, can identify easily premium payments, process efficiently all documentation, tracks profile identity, claim history and ultimately effect decision-making by drawing updated reports.

CONCLUSION 11

The correlation between product and business success is proven to be one of the highest (46.43%) to the providers. However, the mean results still portray a dissatisfaction (falling below 60%) with regard to business success which requires managerial intervention.

RECOMMENDATION 11

Product has proven to be one of the most important managerial decisions with regard to business success (Archer et al., 1997:37). The terms and conditions and benefits of the microinsurance product are of concern to respondents. The customer is of the opinion that he 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.

CONCLUSION 12

The correlation between promotion and business success is proven to be of importance. The mean value of 47.7% portrays a dissatisfaction (falling below 60%) with regard to business success which requires managerial intervention.

RECOMMENDATION 12

The more promotional campaigns that are set, the more aware the customer becomes about the concept of microinsurance and hence, business success. Promoting microinsurance through posters, television, radios, brochures, gathering church groups or engaging burial societies, stokvels and funeral parlours can be good promotional campaigns.

CONCLUSION 13

The correlation between place and business success is proven to be of importance. The mean value of 47.3% portrays a dissatisfaction (falling below 60%) with regard to business success which requires managerial intervention.

RECOMMENDATION 13

Place has proved an important determinant of business success. It is a general understanding that the low-income households live in remote places, far away from head offices normally located in cities. Therefore, it is important that a good consortium of mediums is used to reach the low-income segment. Using call centres, fast food outlets, banks, retailers and cell phone companies could be a good idea for achieving business success.

As mentioned earlier microinsurance is a highly specialized field, thus, should be distributed systematically. Low-income households live in remote places, far from where the prime areas of business are located. In order to reach them, innovative channels of distribution forming part of an intensive marketing campaign should be designed and implemented for the running of the microinsurance business. For instance, gathering them at church or using stokvels and burial societies to get hold of them can be a wise idea.

5.10 SUMMARY

This article focused on applying the purified and validated theoretical model of a business success in the microinsurance industry of South Africa. The factors that are important to achieve in the business success of microinsurance were measured and discussed. The industry is struggling because of the many challenges that still need to be addressed. For example: the customer base is the low-income households, they are not well financially educated, and the market is not well versed with the microinsurance concept, importance and benefits.

Furthermore, there is a trend of having a low savings culture among the low-income segment of the population. An insurance culture has proven to be an important factor that needed to be tackled on the agenda of microinsurance providers. An insurance culture has to undoubtedly be embedded among the low-income niche market so that they understand the importance of having a financial cover in times of hardship and to alleviate financial worries. Many other factors explained above also need to be tackled in conjunction with creating an insurance

culture. It is therefore important for the insurers in the microinsurance industry to focus on the identified factors that will contribute to their business success.

This article positively addressed the issue of business success in the microinsurance industry. Not only were the factors that signify business success identified, but also their relative importance. Furthermore, the article also measured the current state of affairs in the microinsurance industry, and provided a quantitative snapshot of the performance of each of the factors of business success. This information empowers managers and roleplayers in the microinsurance industry to identify where managerial energy should be focused to improve the performance in the microinsurance industry.

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CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

This is the final chapter in the study. The conclusions drawn from the research are presented, and recommendations based upon it are offered. The chapter also presents the limitations of the research and offers some recommendations regarding future research. The study concludes with a final summary.

6.2 CONCLUSIONS AND RECOMMENDATIONS

The fact that this study is presented in article format, necessitates that conclusions and recommendations are already dealt with per article of origin, wherever relevant and applicable. They are thus not repeated here.

The research methods and statistical analysis used in the four articles were appropriate as the results yielded were valid for use. The discussion to follow substantiates why the research methodology was effective.
The conclusions and recommendations are formulated in numerical order.

CONCLUSION 1

Using a solid literature study sets the scene as used in article one, provides a good foundation for the development of the rest of the study (article two, three and four). It provided an in-depth understanding of the research problem; for instance challenges facing microinsurance industry in the country. Furthermore, article one provided a theoretical framework for the empirical study to measure business success in the MI industry of South Africa.

RECOMMENDATION 1

The sound theoretical base that results from an intensive literature study is invaluable. As such it is recommended that since no academic research or very little research has been done on MI in South Africa, that this methodology be adopted by future researchers. This recommendation is worth taking in the case of an article-format research document.

CONCLUSION 2

The intensive literature study and measuring criteria used were inserted in a matrix table to determine the structure of the measuring instrument that is the questionnaire, has proved to be a valid tool for use in the microinsurance industry. It is concluded that a systematic use of theory is important in constructing a questionnaire for the empirical research.

RECOMMENDATION 2

The validity and reliability of the questionnaire that was compiled by means of a literature study and measurement criteria are evident from the statistical validation thereof. As such, the use of theory to provide a research questionnaire is highly recommended. This is true where no existing research instruments are available for use.

CONCLUSION 3

The statistical analysis revealed that the identified constructs, trust, financial literacy, microcredit-Microinsurance link, culture and many others could be validated. The factor analysis either confirmed the construct and its measuring items or identified sub factors within the construct. Relative importance (variance explained and factor loadings) while reliability (Cronbach Alpha), suitability for multivariate analysis (Bartlett) and sample adequacy (KMO) added to conclude that the research instrument compiled from the literature provided a valid questionnaire. The empirical validation of the data consisted of: Cronbach Alpha coefficients were calculated for each factor. The results indicated that there was a high degree of reliability and internal consistency among the items. This implies

the results do not only show validity but are appropriate to use in similar studies undertaken.

The KMO measure of sampling adequacy proved that the variables in this study were strong enough to proceed with a factor analysis. The large KMO values indicated that the sample size was appropriate as the factor analysis for this particular sample size was reliable. Hence, the KMO test confirmed the adequacy of the sample, hence the validity of the results.

The Bartlett's test of sphericity was also appropriate for this study as it yielded p-values smaller than 0.0001. This indicated that the correlation between the variables was sufficient for factor analysis.

It is therefore concluded that the questionnaire and the data are reliable and valid.

RECOMMENDATION 3

In view of the validity of the questionnaire, it is therefore recommended that:

- Questionnaires should be strongly based on theory as it provides both structure and content.
- The Likert-scale once again proved to a valuable scale.
- The statistical techniques employed are a scientific method to validate a questionnaire.

CONCLUSION 4

The population, the sample selected and the eventual gathering of the data for this study from four insurers, OMSA, Sanlam, Safrican and Metropolitan insurance firms in the form of survey research was also effective (see Chapter 1: Research Methodology).

The sample was also statistically proven to be adequate by the KMO analysis. It is thus concluded that the data gathering methodology (the researcher called at the insurance firm physically to make sure that the questionnaire has been fully and properly filled in) is successful.

RECOMMENDATION 4

The data collection methodology employed in this research can be used as an example to collect data within the financial and time constraints researchers are subjected to and that the sample adequacy be statistically confirmed.

CONCLUSION 5

The use of a statistical expert from the Statistical Consultation Services at the North-West University and a specialised statistical analysis programme (SPSS V18) ensured that no statistical flaws exist in the empirical results. Furthermore, the professional services enhance the value of the research and provide peace of mind for both researcher and promoter.

RECOMMENDATION 5

It is highly recommended that future researchers make use of an expert in both statistical analysis and also a specialised statistical software package. This recommendation will also provide a built-in safeguard against flaws that may slip into the empirical research.

CONCLUSION 6

It is confirmed from the results that business success of Microinsurance in South Africa consists of fifteen constructs. All of these constructs are important since they all have proportional values which indicate their influence on business success. It is thus concluded that all these constructs are important in understanding and addressing Microinsurance and their influence on business success in South Africa.

RECOMMENDATION 6

All of these constructs are important, some are just more important than others. As such, the recommendation extends to care being taken that none of the constructs should be neglected in managerial intervention.

CONCLUSION 7

Within these fifteen constructs of the purified validated model, eight have sub-factors to deal with. In total there are 12 sub-factors. The values relative to these sub-factors as contributors to the factors (or constructs) are also important as it also indicates their relative importance to Microinsurance and their influence on business success (albeit through the construct it resides within). It is thus concluded that these sub-factors are also important indicators of business success in the microinsurance industry of South Africa.

RECOMMENDATION 7

All constructs and sub-factors have high reliability coefficients. It is recommended that they should be addressed on a managerial front.

CONCLUSION 8

The original validated model consisted of seventeen constructs and the sub-factors (where present). However, after going through the purification process, two constructs were deleted as they have shown unreliability and inconsistency namely the *Microinsurance Regulatory Framework* and *Processes*.

RECOMMENDATION 8

The two factors, though deleted after the purificated process, still need to be taken care of by managerial intervention in reviewing business success in the Microinsurance industry of South Africa. For instance, an dedicated and applied "Microinsurance Act" or license is needed for the country. Currently, there are many unregistered and illegal Microinsurance service providers who are mostly brought to the attention of the authority only when there is a valid claim (National Treasury of South Africa, 2008). A "Microinsurance Act" would definitely prevent consumer abuse and promote transparency. Furthermore, processes should be reviewed regularly to track whether the insurer compared to the other competitors and meeting the requirements of other stakeholders, such as the Association of Savings and Investment of South Africa and the Financial Sector Charter under the umbrella of the Financial Services Board.

CONCLUSION 9:

It is clear from the study that the mean and grand mean values are below standard and that the criteria are not met to satisfy business success in the Microinsurance industry of South Africa. Therefore, it is concluded that business success in the microinsurance industry of South Africa is very difficult to achieve. It confirms therefore, the research gap, the importance of doing the research, hence the business success model of Microinsurance in South Africa.

RECOMMENDATION 9

It is therefore important that the constructs are very important for managerial review on business success. Some are more or less important than others subject to their respective loadings. However, none of them should be neglected from a managerial intervention perspective.

CONCLUSION 10

The core of the research, as summarised by figure 5.1, provides a perceptual map by means of the newly purified created theoretical model on business success of microinsurance in South Africa. It is thus finally concluded that the theoretical model is a valuable tool in understanding and conceptualising the business success of microinsurance in South Africa.

RECOMMENDATION 10

The final recommendation is that the theoretical model be:

- employed as a tool to understand the concept of the business success of microinsurance industry in South Africa;
- put to practical use in addressing the problematic situation that exists in the attainment of business success of microinsurance industry in South Africa;
- applied to allocate valuable resources scientifically in addressing the issues that would improve the business success of microinsurance industry in South Africa; and the
- focus of further research.

6.3 GENERAL OBSERVATIONS AND RECOMMENDATIONS

Research has revealed that there is no legislation regulating the microinsurance industry in South Africa. In an attempt to promote insurance to the low-income people which represent a significant number of earners who do not have insurance cover, the Microinsurance regulatory framework that is, a Microinsurance Industry Act is a “must” in South Africa.

According to the National Treasury, the proposed Microinsurance Industry Act has been a priority on the agenda since 2003. It is very important that the Microinsurance Industry Act be passed as soon as possible for the following reasons:

- To protect consumer abuse.
- To bring the formal sector to the font as players in the microinsurance industry field, since the funeral cover is offered mainly by informal players who are not registered.

Therefore, the microinsurance industry Act will create trust in the mind of various stakeholders, ensure transparency and bring clarity in the system.

- The government and relevant stakeholders should be more lenient by lowering the financial requirements to be eligible for operation in the microinsurance industry sector. In this sense, it can create a level playing field for every provider to cater provide insurance to the low-income insurance market in South Africa. It will also enable the small and medium insurance firms to promote microinsurance industry in South Africa.

- More conferences on microinsurance should be held in South Africa so that it creates an alert in the mind of stakeholders to promote microinsurance industry in South Africa.

- The microinsurance industry should make use of more church groups, local governments for instance, Ethekwini municipality and fast food outlets to promote microinsurance industry in South Africa.

- Actuaries should design Microinsurance products in a way that it can be linked to microloans or microcredit. In this way, in any case of hardship that the policyholder cannot pay the amount due on his loan, the Microinsurance policy can repay his loan as a collateral security.

- There should be more banks to offer Microinsurance products in the South African market. Banks offering insurance to clients known as "Bancassurance", can also offer Microinsurance to low-income people, for example. Capitec whose target market is the low-income people banking needs. The new concept can be called "Bancmicroassurance".

- The channels of distribution should be an innovative one instead of the traditional way. Due to the nature and profile of Microinsurance, the insurer cannot expect a client to take the initiative to come and look for microinsurance products. It is up to the insurer to devise new ways and means to reach out for the low-income people in the most remote places where they live. The South African insurers and other providers should have a Microinsurance product development process that is continuously designed to ensure that appropriate products get offered in the market as per the potential risks involved among the low income households who are more prone to risks. There should be a wider array of Microinsurance products made available, for example, currently the Zimele funeral product rules the Microinsurance market in South Africa. Low-income people are in dire need for other Microinsurance products in South Africa. These include:

- Crop insurance can be purchased by agricultural producers, including farmers, ranchers and others to protect themselves against either the loss of their crops due to natural disasters, such as hail, drought and floods or the loss of revenue due to a decline in the prices of agricultural commodities.

This could definitely assist the low-income farmers in South Africa in the era of climate change. Climate change is common in South Africa and crop insurance definitely helps the low-income farmers in this kind of hardship.

- Health Insurance is insurance against the risk of incurring medical expenses among individuals. By estimating the overall risk of health care expenses among a targeted group, an insurer can develop a routine finance structure, such as a monthly premium to ensure that money is available to pay for the health care benefits specified in the insurance agreement. As such this could help prevent the high infant mortality rate present among the low-income households in South Africa. (The newly envisaged state health plan could already provide alleviation in this regard.)

- Life insurance provides coverage at a fixed rate of payments for a limited period of time. If the insured dies during the term, the death benefit will be paid to their beneficiary. Term insurance is less expensive than funeral cover in general. In this way it will prevent the beneficiaries of the insured from being further impoverished if the insured dies. This cover can contribute to alleviating poverty, an important phenomenon in South Africa.

- Disability insurance covers the beneficiary's earned income against the risk that a disability will make working uncomfortable. The many self-employed low-income earners in South Africa who are mostly involved in manual jobs are more vulnerable to any kind of disability as most of them are miners, machine operators and others. Therefore, the microinsurer should devise disability cover and offer them to the more disaster-prone and vulnerable low-income earners.

- Last but not least, the high prevalence of HIV/AIDS among the low-income people in South Africa creates a market of opportunity for the Microinsurance providers. One of the priorities of the microinsurers in South Africa should be to customize the health care products to the AIDS pandemic.

6.4 AREAS OF FUTURE RESEARCH

The following areas have been identified for future research:

- An in-depth analysis of any one of the constructs in the theoretical model (see figure 5.1) to further analyse and study the construct.

- A study with specific international comparative focus that aims to compare South Africa specifically to countries with similar problematic conditions in the field of Microinsurance and its relation to business success (Although this study did focus briefly on international comparisons, this was not the core of the research).

- The hope is that an acceleration in passing the proposed Microinsurance Industry Act can increase confidence in the different stakeholders involved to tackle the shortcomings in the sector namely insurers, brokers, banks, state, researchers, low-income households and the public at large, among others.

- Microinsurance has proved to be a new concept in South Africa. Although not a lot of research has been done in South Africa in the area of Microinsurance and its relation to business success, the hope is expressed that this study serves as a point of departure in the businesss success of Microinsurance and that it whets the appetite of future researchers.

6.5 SUMMARY

6.5.1 Chapter 2: Article 1

The primary objective of this article was to investigate Microinsurance in perspective to the insurance industry and as a role-player in the South African economy. Microinsurance has proved to be a new concept in South Africa, therefore not a lot of studies have been undertaken.The conclusion drawn from this study is that the Microinsurance sector in South Africa is confronted by a

number of factors that are resulting in serious deprivation in the provision of Microinsurance in the country. The findings relate to these challenges which include amongst others: lack of trust, lack of awareness, financial illiteracy, absence of a Microinsurance act, poor communication, unavailability of credit link to Microinsurance, unaffordability, a narrow Microinsurance product range, poor accessibility and few promotional campaigns on Microinsurance. These challenges that were described in the course of this study cannot be tackled overnight, hence the need for stakeholders to address these challenges systematically to enable an up-and-running Microinsurance environment in South Africa.

6.5.2 Chapter 3: Article 2

The primary objective of the study was to construct a theoretical model to measure business success of Microinsurance in South Africa. As mentioned earlier, our country is experiencing a number of challenges facing the Microinsurance industry, a situation that cannot be resolved in the short term and impacting on the business success in the Microinsurance industry. The findings reveal fifteen independent variables identified that determine the dependent variable *business success*. These include: communication, trust, financial literacy, product, affordability (price) distribution, promotion, technology, culture, human resource training and development, Microinsurance -microcredit link, Microinsurance regulatory framework, processes, physical evidence and people.

An intensive literature review has been carried out both business success (dependent variable) as well as on the fifteen independent variables and the criteria measuring each of the above factors was determined and integrated into a structured questionnaire. The article ends with the theoretical model being presented and the creation of the questionnaire (since no tailor-made questionnaire exists in the microinsurance industry industry to measure business success in the microinsurance industry industry of South Africa) to be distributed to respondents of the four insurance firms offering products and services namely, Sanlam, OMSA, Safrican and Metropolitan insurance firms.

6.5.3 Chapter 4: Article 3

The primary objective of the study was to present a validated theoretical model dealing with the variables that determine business success by developing and validating a tailor-made questionnaire for the Microinsurance firms and industry of South Africa. Quantitative research made use of 261 questionnaires filled (each questionnaire consists of 107 questions).

Statistical techniques used to validate the measuring instrument are: factor analysis, Cronbach Alpha's reliability coefficient, the KMO test of sampling adequacy and the Bartlett's test of sphericity. High levels of reliability (Cronbach Alpha > 0.9) and validity have been achieved in the analysis for most variables. The results obtained indicated that the questionnaire is valid for use to measure the business success in the Microinsurance industry of South Africa.

The analyses to validate the theoretical model show that the validated theoretical model (see Figure 4.1) contains not only the variables (factors), but also additional sub-variables (sub-factors) that need to be considered. In addition, the validation analyses also identified a number of questions in the questionnaire that should be omitted from the questionnaire. These questions did not load onto a specific factor or they had low factor loadings (below the 0.40 factor loading set in this study).

The data was also analysed to determine reliability of the variables and sub-variables. A number of sub-factors did not yield satisfactory reliability coefficients as measured by Cronbach Alpha. However, to ensure validity and reliability of the theoretical model, the theoretical model was "purified" where the reliability of the factors and sub-factors were scrutinized and the unreliable factors and sub-factors were omitted from the theoretical model. These sub-factors are less likely to present themselves in a repetitive study (shown in red in the validated theoretical model), and should be interpreted with this constraint in mind.

The validated theoretical model appears in the figure 4.1. Reliable factors and sub-factors are shown in green, while non-reliable factors are shown in red.

6.5.4 Chapter 5: Article 4

The primary objective was to measure the business success of Microinsurance in the South African market. The theoretical model developed from the literature (see Figure 3.1), is empirically validated and subjected to reliability analysis (see Figure 4.1). The unreliable factors are omitted from the validated theoretical model, and as such, a purified and validated theoretical model results. This purified model is shown in Figure 5.1. Only two factors namely, processes and Microinsurance Regulatory Framework are deleted from the validated theoretical model, hence Figure 5.1 (the purified and validated theoretical model) do not consist of the two mentioned factors.

The article measures business success in the Microinsurance industry of South Africa. The original theoretical model to measure business success (see Figure 3.1) was validated and amended to form a validated theoretical model (see Figure 4.1). This validated theoretical model contained a number of unreliable factors (see the red factors in Figure 4.1). These unreliable factors were omitted from the measurement of business success because (as stated by Field, 2007:664) the unreliable factors are less likely to represent themselves in repetitive studies of similar nature. An amended questionnaire (Appendix 2) after deleting the items (refer to Table 4.2) from the original questionnaire (Appendix 1) were used to measure business success. The data collected comprise the demographic profile and the validated variables for business success.

None of the categories as per table 5.18 are satisfactory with regard to the performance of business success in the Microinsurance industry of South Africa. All of the categories require managerial attention and intervention for business success. The mean values portray a general dissatisfaction to the performance with regard to business success of the Microinsurance industry.

According to the mean values calculated for the criteria, all of them are below 60%. The criterion relating to business success in this study even slopes below

20% signifying that respondents are aware that reaching business success in the Microinsurance industry of South Africa is not easy at all. None of the criteria achieved the highest merit of exceeding the 75% margin. The respondents working for different insurance firms offering Microinsurance products and services do not believe that business success in the Microinsurance industry is good in South Africa. Since the Microinsurance industry is still at its preliminary stage, the study confirms that the theoretical business success model measures successfully, hence a valid one.

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APPENDIX 1: PURIFIED QUESTIONNAIRE

A GENERAL INFORMATION

Please mark your selection with an (X)

1 Please indicate your gender

Male		1
Female		2

2 Please indicate to which age category you belong (for statistical purposes only)

Less than 20 years		1
20 – 29 years		2
30 – 39 years		3
40 – 49 years		4
50 – 59 years		5
60 years or more		6

3 Please indicate to which population group you belong (for statistical purposes only)

Asian		1
Black		2
Coloured		3
White		4
Not willing to say		5

4 How long have you been working at the firm? _____ years

5 What is the name of the firm you are working for? _____

B COMPONENTS OF ZIMELE/ MICROINSURANCE

1 PRODUCT

	The firm I work for…	**Disagree Agree**				
1.1	Provides enough information to the existing clients (standards and features) about the Zimele Microinsurance product	1	2	3	4	5
1.2	Delivers information to the client about the Microinsurance product promptly	1	2	3	4	5
1.3	Issues the policy contract of the Zimele Microinsurance product in a simple and informal language	1	2	3	4	5
1.4	Provides an increased awareness of the Zimele product to the market niche and segment targeted (the low-income earners)	1	2	3	4	5
1.5	Provides a more attractive Zimele Microinsurance cover product design and product features to the clients compared to the banks in the marketplace	1	2	3	4	5
1.6	Provides a more attractive Zimele Microinsurance cover product design and product features compared to the burial societies in the marketplace	1	2	3	4	5
1.7	Provides a more attractive Zimele Microinsurance cover product design and product features compared to the other insurers in the marketplace	1	2	3	4	5
1.8	Provides a more attractive Zimele Microinsurance cover product design and product features compared to the retailers (e.g. Shoprite) in the marketplace	1	2	3	4	5

1.9	Provides a more attractive Zimele Microinsurance cover product design and product features compared to the fast-food outlets (e.g. McDonalds) in the market	1	2	3	4	5
1.10	Provides information to the client about how strict the firm is in complying with relevant standards and regulations of Life Offices Association (LOA) in respect of the Zimele product	1	2	3	4	5

2 PRICE

	The firm I work for…	**Disagree Agree**				
2.1	Uses a predatory pricing (a price that drives competitors out of the market) using the Life Offices Association (LOA) budget as subsidies	1	2	3	4	5
2.2	Uses low penetration pricing of R40, which is the minimum price of the Zimele product	1	2	3	4	5
2.3	Provides a more affordable premium rate for the Zimele microisurrance cover than the banks in the marketplace	1	2	3	4	5
2.4	Provides a more affordable premium rate for the Zimele cover than the burial societies in the marketplace	1	2	3	4	5
2.5	Provides a more affordable premium rate for the Zimele cover than the other insurers in the marketplace	1	2	3	4	5
2.6	Provides a more affordable premium rate for the Zimele cover than the retailers (e.g. Shoprite) in the marketplace	1	2	3	4	5
2.7	Provides a more affordable premium rate for the Zimele cover than the fast-food outlets (e.g. McDonalds) in the marketplace	1	2	3	4	5
2.8	Thinks that the R40 per month for the Zimele product should be discounted	1	2	3	4	5

3 PLACE

	The firm I work for…	**Disagree Agree**				
3.1	Uses a call centre in selling the Zimele product	1	2	3	4	5
3.2	Uses cell-phones in selling the Zimele product	1	2	3	4	5
3.3	Uses brokers and agents in selling the Zimele product	1	2	3	4	5
3.4	Uses banks in selling the Zimele product	1	2	3	4	5
3.5	Uses retailers (e.g. Shoprite) in selling the Zimele product	1	2	3	4	5
3.6	Uses licensing third parties such as fast-food outlets (e.g. McDonalds) in selling the Zimele product	1	2	3	4	5
3.7	Will launch new methods of distribution in selling the Zimele product	1	2	3	4	5
3.8	Thinks that there is an immediate need to review its distribution methods of the Zimele product	1	2	3	4	5
3.9	Has already reviewed its distribution methods and is implementing new distribution methods for the Zimele product	1	2	3	4	5

4 PROMOTION

	The firm I work for…	**Disagree Agree**				
4.1	Conducts an intensive promotion campaign to offer the Zimele Microinsurance product to new clients	1	2	3	4	5
4.2	Provides early success stories of the funeral product to the clients (e.g approval of claim within time limits) to promote the product	1	2	3	4	5
4.3	Organises seminars to promote the Zimele product to the low-income earners	1	2	3	4	5
4.4	Uses direct mailing as a promotion method for the Zimele product	1	2	3	4	5

4.5	Grants special discounts to clients paying the premiums on the due dates to promote the Zimele product	1	2	3	4	5
4.6	Organises special entertainment events to promote the Zimele product to the clients	1	2	3	4	5
4.7	Increases individual (one-on-one) communications to prospective clients to promote the Zimele product	1	2	3	4	5
4.8	Provides brochures to promote the Zimele product	1	2	3	4	5

5 TRUST

	The firm I work for…	**Disagree Agree**				
5.1	Is trustworthy to the low-income earners in South Africa	1	2	3	4	5
5.2	Creates trust among the existing clients about the Zimele Microinsurance product	1	2	3	4	5
5.3	Creates trust among the prospective clients about the Zimele Microinsurance product	1	2	3	4	5
5.4	Provides platforms (e.g. workshops, get- together,brochures etc) for engagement and interaction with the target audience (the low-income households) so that an element of trust is created and maintained between the parties	1	2	3	4	5
5.5	Provides trust so that the low-income households see insurance as a necessity	1	2	3	4	5
5.6	Provides trust so that the low-income households place their premium income with the insurer	1	2	3	4	5
5.7	Provides trust so that the low-income households are confident that the insurance company will pay in an event of a valid claim	1	2	3	4	5

6 COMMUNICATION

	The firm I work for…	**Disagree Agree**				
6.1	Communicates/explains (financially educates) well the concept, mechanism and benefits of Zimele Microinsurance to the low-income households through formal(letters) and informal means(emails).	1	2	3	4	5
6.2	Communicates /explains (financially educates) well the Zimele Microinsurance product terms and conditions, features, and its benefits to the low-income earners	1	2	3	4	5
6.3	Communicates efficiently/explains (financially educates) the allocation/break-down of the Zimele Microinsurance price (premium) to the low-income earners.	1	2	3	4	5
6.4	Communicates efficiently/explains (financially educates) the Zimele Microinsurance policy contract wordings to the low-income earners	1	2	3	4	5
6.5	Communicates efficiently/explains (financially educates) the importance of Microinsurance to the low-income households	1	2	3	4	5

7 TECHNOLOGY

	The firm I work for…	**Disagree Agree**				
7.1	Is equipped with an effective automated system for its Microinsurance operations.	1	2	3	4	5
7.2	Interlinks well its automated system across branches and Head Office for its Microinsurance operations (LAN/WAN)	1	2	3	4	5
7.3	Optimises the processes of its automated system and builds economies of scale in preparing reports and making decisions	1	2	3	4	5
7.4	Consists of a fast internet and wireless connection systems enabling communications between relevant stakeholders	1	2	3	4	5

7.5	Enables an immediate issue of the Microinsurance policy contract with the assistance of its automated systems	1	2	3	4	5
7.6	Easily traces the identity/payment/profile and claim history of customers in the entire firm with its automated systems	1	2	3	4	5

8 CULTURE

	The firm I work for…	**Disagree Agree**				
8.1	Comprises of an insurance culture among the low-income households.	1	2	3	4	5
8.2	Has a set-up organisational culture in place	1	2	3	4	5
8.3	Provides workshops and platforms to maintain an insurance culture	1	2	3	4	5
8.4	Organises regular meetings with burial societies, stokvels , church groups, fast food outlets, retailers, cell phones companies, church groups and banks to support and encourage an insurance culture	1	2	3	4	5

9 MICROCREDIT-MICROINSURANCE LINK

	The firm I work for…	**Disagree Agree**				
9.1	Has a policy of microcredit linked to Microinsurance for the low-income households.	1	2	3	4	5
9.2	Makes it imperative that any microloan should be secured by a Microinsurance policy with the same company as a collateral security	1	2	3	4	5
9.3	Supports that that any microloan should be secured by a Microinsurance policy with any other company as a collateral security	1	2	3	4	5

10 MICROINSURANCE REGULATORY FRAMEWORK

	The firm I work for…	**Disagree Agree**				
10.1	Supports the fact that a Microinsurance act or license is urgently needed.	1	2	3	4	5
10.2	Favours the existing regulatory system	1	2	3	4	5
10.3	Supports that that there are many problems in the existing regulatory framework and a new coherent Microinsurance framework is required for the further development of Microinsurance industry	1	2	3	4	5

11. FINANCIAL LITERACY

	The firm I work for…	**Disagree Agree**				
11.1	Financially educates well the concept, mechanism, importance and benefits of Zimele Microinsurance to the low-income households through formal (letters) and informal means (emails).	1	2	3	4	5
11.2	Financially educates well the Zimele Microinsurance product terms and conditions, features and policy contract wordings to the low-income earners	1	2	3	4	5
11.3	Financially educates the allocation/break-down of the Zimele Microinsurance price (premium) to the low-income earners.	1	2	3	4	5

12. PHYSICAL EVIDENCE

	The firm I work for…	**Disagree Agree**				
12.1	Is located in the prime area of business and is easily accessible to low-income households	1	2	3	4	5
12.2	Has branches in the outskirt areas and are easily accessible to the low-income earners who live in any locations and suburbs	1	2	3	4	5
12.3	Consists of many customers who were not easily accessible at the time they were targeted for Microinsurance	1	2	3	4	5

13. HUMAN RESOURCE TRAINING AND DEVELOPMENT

	The firm I work for…	**Disagree Agree**				
13.1	Invests a lot in the research and development (training) of its employees who deals with Microinsurance	1	2	3	4	5
13.2	Requires imperatively a certificate in financial planning or a fit and proper license for its middlemen to offer Microinsurance	1	2	3	4	5
13.3	Constantly monitors/reviews the progress of its staff dealing with Microinsurance	1	2	3	4	5

14. PROCESSES

	The firm I work for…	**Disagree Agree**				
14.1	Thinks that there is an immediate need to review its processes of the Zimele product	1	2	3	4	5
14.2	Has already reviewed its processes for the Zimele product	1	2	3	4	5
14.3	Is implementing new efficient processes for the Zimele product	1	2	3	4	5

15. PEOPLE

	The firm I work for…	**Disagree Agree**				
15.1	Invests in the appearance, attitudes, behaviours of its agents and staff	1	2	3	4	5
15.2	Gives business cards to all staff and agents offering Microinsurance services	1	2	3	4	5
15.3	Continuously motivates its agents and staff to portray a good commercial image of the firm through different means and ways	1	2	3	4	5

C MEASURING THE BUSINESS SUCCESS OF MICROINSURANCE

	***Over the PAST TWO years*, the firm I work for…**	**Disagree Agree**				
C.1	Has successfully been achieving sales targets for the Zimele Microinsurance product	1	2	3	4	5
C.2	Has gradually been increasing the year after year sales for the Zimele product	1	2	3	4	5
C.3	Has decreased its transaction costs when selling the Zimele product	1	2	3	4	5
C.4	Has successfully been increasing its market share for the Zimele product	1	2	3	4	5
C.5	Has increased its profit margin, due to the Zimele product	1	2	3	4	5
C.6	Has increased its number of clients, due to the Zimele product	1	2	3	4	5
C.7	Has shown an increase in the growth rate of the Zimele product	1	2	3	4	5
C.8	Has successfully been increasing its earnings per share (EPS), due to the Zimele product	1	2	3	4	5

C.9	Has gradually been increasing its return on equity (ROE) for the shareholders of the firm, due to the Zimele product	1	2	3	4	5

D MEASURING THE BUSINESS SUCCESS OF MICROINSURANCE(GENERAL)

	The firm I work for…	**Disagree Agree**				
D.1	Has successfully been achieving business success through implementing an efficient and effective technological system of the Microinsurance	1	2	3	4	5
D.2	Has successfully been achieving business success through a supportive Human resources training and development programme in Microinsurance to its staff	1	2	3	4	5
D.3	Has successfully been achieving business success through the competitive pricing policy of Microinsurance	1	2	3	4	5
D.4	Has successfully been achieving business success through innovative distribution channels of Microinsurance	1	2	3	4	5
D.5	Has successfully been achieving business success through engagement in the promotional campaigns of Microinsurance	1	2	3	4	5
D.6	Has successfully been achieving business success through the support of an adherent Microinsurance culture	1	2	3	4	5
D.7	Strongly thinks that a more coherent regulatory Microinsurance framework will lead to business success of the firm	1	2	3	4	5
D.8	Has successfully been achieving business success through the implementation of adequate and strong set-up infrastructure of Microinsurance	1	2	3	4	5
D.9	Has successfully been achieving business success by being constantly accessible to the low income earners	1	2	3	4	5
D10	Has successfully been achieving business success by portraying a professional image of its agents and staff to the low-income people	1	2	3	4	5
D11	Has successfully been achieving business success by being trustworthy to the low income earners	1	2	3	4	5
D12	Has successfully been achieving business success by imperatively linking microcredit loans with Microinsurance	1	2	3	4	5
D13	Has successfully been achieving business success by being constantly financially educating the low income earners on the concepts, benefits and importance of Microinsurance	1	2	3	4	5
D14	Has successfully been achieving business success through effective communication to the low income earners	1	2	3	4	5
D15	Has successfully been achieving business success by processing efficiently all documentations to the low income earners	1	2	3	4	5

THANK YOU VERY MUCH FOR YOUR PARTICIPATION

APPENDIX 2: PURIFIED QUESTIONNAIRE

A GENERAL INFORMATION

Please mark your selection with an (X)

1 Please indicate your gender

Male		1
Female		2

2 Please indicate to which age category you belong (for statistical purposes only)

Less than 20 years		1
20 – 29 years		2
30 – 39 years		3
40 – 49 years		4
50 – 59 years		5
60 years or more		6

3 Please indicate to which population group you belong (for statistical purposes only)

Asian		1
Black		2
Coloured		3
White		4
Not willing to say		5

4 How long have you been working at the firm? _____ years

5 What is the name of the firm you are working for? _____

B COMPONENTS OF ZIMELE/ MICROINSURANCE

Please answer the following questions based on your own perceptions. There are no right or wrong answers. Please indicate to what extent you **agree** with the following statements: (1) strongly disagree, (2) disagree, (3) neutral, (4) agree, (5) strongly agree

1 PRODUCT

	The firm I work for…	**Disagree**				**Agree**
1.3	Issues the policy contract of the Zimele Microinsurance product in a simple and informal language	1	2	3	4	5
1.4	Provides an increased awareness of the Zimele product to the market niche and segment targeted (the low-income earners)	1	2	3	4	5
1.5	Provides a more attractive Zimele Microinsurance cover product design and product features to the clients compared to the banks in the marketplace	1	2	3	4	5

1.6	Provides a more attractive Zimele Microinsurance cover product design and product features compared to the burial societies in the marketplace	1	2	3	4	5
1.7	Provides a more attractive Zimele Microinsurance cover product design and product features compared to the other insurers in the marketplace	1	2	3	4	5
1.8	Provides a more attractive Zimele Microinsurance cover product design and product features compared to the retailers (e.g. Shoprite) in the marketplace	1	2	3	4	5
1.10	Provides information to the client about how strict the firm is in complying with relevant standards and regulations of Life Offices Association (LOA) in respect of the Zimele product	1	2	3	4	5

2 PRICE

	The firm I work for…	**Disagree**				**Agree**
2.1	Uses a predatory pricing (a price that drives competitors out of the market) using the Life Offices Association (LOA) budget as subsidies	1	2	3	4	5
2.3	Provides a more affordable premium rate for the Zimele microisurrance cover than the banks in the marketplace	1	2	3	4	5
2.4	Provides a more affordable premium rate for the Zimele cover than the burial societies in the marketplace	1	2	3	4	5
2.5	Provides a more affordable premium rate for the Zimele cover than the other insurers in the marketplace	1	2	3	4	5
2.6	Provides a more affordable premium rate for the Zimele cover than the retailers (e.g. Shoprite) in the marketplace	1	2	3	4	5
2.7	Provides a more affordable premium rate for the Zimele cover than the fast-food outlets (e.g. McDonalds) in the marketplace	1	2	3	4	5

3 PLACE

	The firm I work for…	**Disagree**				**Agree**
3.1	Uses a call centre in selling the Zimele product	1	2	3	4	5
3.5	Uses retailers (e.g. Shoprite) in selling the Zimele product	1	2	3	4	5

4 PROMOTION

	The firm I work for…	Disagree				Agree
4.1	Conducts an intensive promotion campaign to offer the Zimele Microinsurance product to new clients	1	2	3	4	5
4.2	Provides early success stories of the funeral product to the clients (e.g approval of claim within time limits) to promote the product	1	2	3	4	5
4.3	Organises seminars to promote the Zimele product to the low-income earners	1	2	3	4	5
4.4	Uses direct mailing as a promotion method for the Zimele product	1	2	3	4	5
4.5	Grants special discounts to clients paying the premiums on the due dates to promote the Zimele product	1	2	3	4	5
4.6	Organises special entertainment events to promote the Zimele product to the clients	1	2	3	4	5
4.7	Increases individual (one-on-one) communications to prospective clients to promote the Zimele product	1	2	3	4	5
4.8	Provides brochures to promote the Zimele product	1	2	3	4	5

5 TRUST

	The firm I work for…	Disagree				Agree
5.1	Is trustworthy to the low-income earners in South Africa	1	2	3	4	5
5.2	Creates trust among the existing clients about the Zimele Microinsurance product	1	2	3	4	5
5.3	Creates trust among the prospective clients about the Zimele Microinsurance product	1	2	3	4	5
5.4	Provides platforms (e.g. workshops, get- together,brochures etc) for engagement and interaction with the target audience (the low-income households) so that an element of trust is created and maintained between the parties	1	2	3	4	5
5.5	Provides trust so that the low-income households see insurance as a necessity	1	2	3	4	5
5.6	Provides trust so that the low-income households place their premium income with the insurer	1	2	3	4	5

5.7	Provides trust so that the low-income households are confident that the insurance company will pay in an event of a valid claim	1	2	3	4	5

6 COMMUNICATION

	The firm I work for…	**Disagree**			**Agree**	
6.1	Communicates/explains (financially educates) well the concept, mechanism and benefits of Zimele Microinsurance to the low-income households through formal(letters) and informal means(emails).	1	2	3	4	5
6.3	Communicates efficiently/explains (financially educates) the allocation/break-down of the Zimele Microinsurance price (premium) to the low-income earners.	1	2	3	4	5
6.4	Communicates efficiently/explains (financially educates) the Zimele Microinsurance policy contract wordings to the low-income earners	1	2	3	4	5
6.5	Communicates efficiently/explains (financially educates) the importance of Microinsurance to the low-income households	1	2	3	4	5

7 TECHNOLOGY

	The firm I work for…	**Disagree**			**Agree**	
7.1	Is equipped with an effective automated system for its Microinsurance operations.	1	2	3	4	5
7.2	Interlinks well its automated system across branches and Head Office for its Microinsurance operations (LAN/WAN)	1	2	3	4	5
7.4	Consists of a fast internet and wireless connection systems enabling communications between relevant stakeholders	1	2	3	4	5
7.5	Enables an immediate issue of the Microinsurance policy contract with the assistance of its automated systems	1	2	3	4	5
7.6	Easily traces the identity/payment/profile and claim history of customers in the entire firm with its automated systems	1	2	3	4	5

8 CULTURE

	The firm I work for…	**Disagree**			**Agree**	
8.1	Comprises of an insurance culture among the low-income	1	2	3	4	5

	households.					
8.2	Has a set-up organisational culture in place	1	2	3	4	5
8.3	Provides workshops and platforms to maintain an insurance culture	1	2	3	4	5
8.4	Organises regular meetings with burial societies, stokvels , church groups, fast food outlets, retailers, cell phones companies, church groups and banks to support and encourage an insurance culture	1	2	3	4	5

9 MICROCREDIT-MICROINSURANCE LINK

	The firm I work for…	**Disagree**			**Agree**	
9.1	Has a policy of microcredit linked to Microinsurance for the low-income households.	1	2	3	4	5
9.2	Makes it imperative that any microloan should be secured by a Microinsurance policy with the same company as a collateral security	1	2	3	4	5
9.3	Supports that that any microloan should be secured by a Microinsurance policy with any other company as a collateral security	1	2	3	4	5

11. FINANCIAL LITERACY

	The firm I work for…	**Disagree**			**Agree**	
11.1	Financially educates well the concept, mechanism, importance and benefits of Zimele Microinsurance to the low-income households through formal (letters) and informal means (emails).	1	2	3	4	5
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12. PHYSICAL EVIDENCE

	The firm I work for…	**Disagree**			**Agree**	
12.1	Is located in the prime area of business and is easily accessible to low-income households	1	2	3	4	5

12.2	Has branches in the outskirt areas and are easily accessible to the low-income earners who live in any locations and suburbs	1	2	3	4	5
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	The firm I work for…	**Disagree**			**Agree**	
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15. PEOPLE

	The firm I work for…	**Disagree**			**Agree**	
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C MEASURING THE BUSINESS SUCCESS OF MICROINSURANCE

	***Over the PAST TWO years*, the firm I work for…**	**Disagree**			**Agree**	
C.1	Has successfully been achieving sales targets for the Zimele Microinsurance product	1	2	3	4	5
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C.5	Has increased its profit margin, due to the Zimele product	1	2	3	4	5
C.6	Has increased its number of clients, due to the Zimele product	1	2	3	4	5
C.7	Has shown an increase in the growth rate of the Zimele product	1	2	3	4	5
C.8	Has successfully been increasing its earnings per share (EPS), due to the Zimele product	1	2	3	4	5
C.9	Has gradually been increasing its return on equity (ROE) for the	1	2	3	4	5

shareholders of the firm, due to the Zimele product						

D MEASURING THE BUSINESS SUCCESS OF MICROINSURANCE(GENERAL)

	The firm I work for…	**Disagree Agree**				
D.1	Has successfully been achieving business success through implementing an efficient and effective technological system of the Microinsurance	1	2	3	4	5
D.2	Has successfully been achieving business success through a supportive Human resources training and development programme in Microinsurance to its staff	1	2	3	4	5
D.3	Has successfully been achieving business success through the competitive pricing policy of Microinsurance	1	2	3	4	5
D.5	Has successfully been achieving business success through engagement in the promotional campaigns of Microinsurance	1	2	3	4	5
D.6	Has successfully been achieving business success through the support of an adherent Microinsurance culture	1	2	3	4	5
D.7	Strongly thinks that a more coherent regulatory Microinsurance framework will lead to business success of the firm	1	2	3	4	5
D.8	Has successfully been achieving business success through the implementation of adequate and strong set-up infrastructure of Microinsurance	1	2	3	4	5
D.9	Has successfully been achieving business success by being constantly accessible to the low income earners	1	2	3	4	5
D10	Has successfully been achieving business success by portraying a professional image of its agents and staff to the low-income people	1	2	3	4	5
D11	Has successfully been achieving business success by being trustworthy to the low income earners	1	2	3	4	5
D13	Has successfully been achieving business success by being constantly financially educating the low income earners on the concepts, benefits and importance of Microinsurance	1	2	3	4	5
D14	Has successfully been achieving business success through effective communication to the low income earners	1	2	3	4	5
D15	Has successfully been achieving business success by processing efficiently all documentations to the low income earners	1	2	3	4	5

THANK YOU VERY MUCH FOR YOUR PARTICIPATION