Factors determining the supply of micro insurance in the South African insurance market

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DECLARATION

I, Dudzai Christopher Chikumbu, hereby declare that this thesis, “Factors determining the supply of micro insurance in the South African insurance market” is my own work.

I further declare that:

1. The necessary citations have been provided where I have consulted the work of others.
2. Sections with no citations are my own ideas, arguments and conclusions.
3. The views expressed in the research are not necessarily those of the university but those of the researcher and the relevant literature references are suitably cited.
4. The content of this research study was not and will not in the future be submitted for any other qualification at any other tertiary institution.
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6. This document has been language edited by a professional language editor.

Dudzai Christopher Chikumbu

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ABSTRACT

Access to financial services by low-income households is an important tool for meeting the millennium development goals and development. Micro insurance is a crucial financial service designed to provide affordable and accessible insurance solutions to low-income populations often excluded from traditional insurance markets. However, there is a dearth in literature especially in the South African context, looking at micro insurance from a supply-side perspective. This study sought to explore the factors determining the supply of micro insurance in the South African insurance market. Through the use of a purposive sampling method, 25 business development and market executives from selected insurance service providers participated in the study. Semi-structured interviews were used to gather data and the inductive thematic analysis was used to analyse data. Seven main themes emerged from the data. The study found that among other factors, the decision to supply or not to supply microinsurance in South Africa is mainly influenced by a combination of factors such as the distribution channels, pricing considerations, transaction costs, availability of historical data, and the regulatory framework. The study suggests strategies that leverage market insights, foster innovation, and advocate for supportive policies to expand access to affordable and sustainable microinsurance solutions for low-income populations. This would help in increasing the demand for, and supply of microinsurance in South Africa. The study concluded that while microinsurance holds promise as a tool for promoting financial inclusion in South Africa, its success depends on addressing regulatory framework challenges, the design of the products, balancing affordability and profitability, awareness issues and sustainability challenges. Through the application of a critical perspective and engaging stakeholders across sectors, policymakers, and civil society organisations, insurers can work together to unlock the full potential of microinsurance in improving the lives of low-income communities.

Key words: Micro Insurance, Supply, Low-income, South Africa.

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CHAPTER 1: CONTEXT OF THE STUDY

1.1. Introduction and background and of the study

Access to financial services by low-income households is an important tool for meeting the millennium development goals and development. Micro insurance is designed to provide affordable and accessible insurance solutions to low-income populations often excluded from traditional insurance markets (Wrede et al., 2016). Analogous to the terms such as microfinance and microcredit, micro insurance refers to insurance products specifically targeting low-income markets (Wrede, et al., 2016). Churchill (2007) defines micro insurance as 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 (2007) further observes that this definition is essentially the same as one might use for conventional insurance except for the clearly prescribed target market (low-income people). In both conventional and micro insurance, the premium must match the level of risk. It is important to note that the definition of micro insurance excludes government social welfare programmes. The definition of micro insurance explicitly focuses on risk management mechanisms managed on accepted insurance principles of contribution and risk pooling. While social welfare seeks to support the poor and does mitigate risks, it does not operate along insurance lines (National Treasury of South Africa, 2011). Micro insurance forms part of the broader insurance market distinguished mainly by its particular focus on the low-income market, which translates into distinct means of product design and distribution (Bester, Chamberlain & Hougaard, 2008). Generally, micro insurance targets persons who are excluded by mainstream commercial insurers. Invariably, these are low-income households. It is for this reason that some authors refer to micro insurance as insurance for the poor (Dercon, Bold & Calvo, 2006; Dercon, 2003).

Historically, low-income households were largely excluded from formal insurance services (Chummun & Bisschoff, 2014a). Studies by Churchill (2007), Dercon, et al. (2006) as well as Chummun and Bisschoff (2014a) have highlighted the reasons why conventional insurers side-line low-income households. Dercon, et al. (2006) argue that conventional insurers do not serve the poor mainly because of the high transactional costs associated with managing large volumes of small policies. In support, Chummun and Bisschoff (2014a) contend that while micro credit can survive with a few clients, the same cannot be said for micro insurance, because insurance companies require a large number of policy holders in order to estimate the value and frequency of future claims they will pay to policy holders. According to Churchill (2007), insurers do not serve the poor as they assume that poor people cannot afford insurance. Churchill (2007) further observes that conventional insurers have historically side-lined low-income households because their products did not meet the specific characteristics of the low-income market.

Micro insurance is part of micro finance which falls under the broader development economics field (Ahuja & Guha-Khasnobis, 2005). According to Demirguc-Kunt, Klapper and Singer (2017), most of the attention and research on household finance and development economics in the past two decades has been on micro credit. Demirguc-Kunt, et al. (2017) further observe that there has been a shift of focus in recent years towards bank account ownership, savings and payment services as well as insurance, especially agricultural insurance. According to Roth, McCord and Liber (2007), donors, governments and financial institutions have slowly come to realise that low-income people, just like the rest of the population, need a range of financial services of which insurance services are crucial parts. Roth, et al. (2007) further contend that micro insurance is a distinct field of development practice that needs further attention as it helps low-income people to retain the financial gains they make

Insurance products can be critical tools in managing financial risks related to large, unexpected expenses such as those stemming from sudden illness, crop failures, natural disasters, or income loss due to the death of a breadwinner (Karlan & Morduch, 2010). While many people use savings or credit to manage financial risks, formal insurance offers additional benefits. Formal insurance products can pool risk over a much larger population, which affords households broader coverage than they would have if they relied on their own savings, credit, or community (Dercon, et al., 2006). This is especially true for adults in low-income households with limited assets (Demirguc-Kunt, et al., 2017). Moreover, formal insurance products can provide protection from common risks faced by individuals in the same community, like extreme weather. Because such risks affect individuals in a community at the same time, informal community mechanisms are often insufficient as the concept behind community mechanisms is mostly risk pooling without much risk transfer to other parties (Chummun & Bisschoff, 2014b). Formal insurance provides better coverage as it actually transfers the risk from the community members to insurance and reinsurance markets. Insurance reduces vulnerability as the uncertain prospect of loss gives way to certainty of making small regular premium payments (Akotey, Osei & Gemegah, 2011). Therefore, micro insurance provides cover for large losses that low-income households are unlikely to cover on their own through credit, savings and other informal mechanisms.

In the year 2000, the United Nations established the Millennium Development Goals to assess the progress made towards global economic and social development. One of the main Millenium Development Goals is to eradicate extreme poverty and hunger (United Nations Development Programme, 2013). While development experts tend to focus on efforts to promote economic development as a strategy to achieve this goal, they have to recognize that gains are lost quickly when vulnerable households experience a loss or crisis. It is necessary to complement efforts to boost economic productivity with corresponding efforts to provide protection (Churchill & Matul, 2012). The impact of risk is greater where there is absence of ex ante mitigation options. By protecting the earnings of low-income people, micro insurance compliments economic productivity thereby contributing to achieving the main Millennium Development Goals (United Nations Development Programme, 2013.

Supplying insurance to low-income persons is a strong development tool for countries looking to encourage financial inclusion (Micro insurance network, 2015). According to Diniz, Birochi and Pozzebon (2012), financial inclusion means access to formal financial services at an affordable cost for all members of an economy, favouring mainly low-income groups. Insurance forms part of the broader financial services market. In turn, micro insurance, which is the provision of insurance cover to low-income persons, forms part of the toolkit to fight financial exclusion and conversely promote financial inclusion.

According to Churchill and Matul (2012), micro insurance has two main facets – one focusing on extending social protection to the poor in the absence of appropriate government schemes and the other seeking to offer a vital financial service to low-income persons by developing an appropriate business model that enables the poor to be a profitable market segment for insurers. This study focuses on the latter, that is, looking at micro insurance from a market based and not a social protection approach.

1.2. Problem statement

It is evident that micro insurance is important to the welfare of people in developing countries including South Africa. Micro insurance primarily aims to achieve profit while alleviating poverty (Mazambani & Mutambara, 2018). However, the micro insurance market remains significantly underpenetrated by insurance suppliers. In addition, there is a bias in literature towards the demand-side factors of micro insurance, leaving the supply-side unaddressed. Among studies that address the demand-side factors of micro insurance are Dercon, et al. (2006), Mobarak and Rosenzweig (2012) and Jowett (2003). There is a dearth of literature especially in the South African context that looks at micro insurance from a supply-side perspective.

The South African micro insurance market is still at a preliminary stage in terms of development compared to its commercial market which is well developed (Chummun & Bisschoff, 2014b). The conventional insurance sector is well developed with 67 life insurers, 70 non-life insurers and 9 registered reinsures. On the other hand, only 10 entities are registered as micro insurers as of March 2023 (South African Reserve Bank, 2023). The disparity in insurance supply between conventional insurance and micro insurance reveals that there are supply factors unique to micro insurance whose understanding needs to be deepened. The question is, what do insurers consider when deciding to supply micro insurance to low-income people?

1.3. Research questions

- For insurers who are currently supplying micro insurance in South Africa: What factors influence these insurers to supply micro insurance?
- For insurers who are currently not supplying micro insurance in South Africa: What factors influence these insurers to not supply micro insurance?

1.4. Research objectives

The objectives of the study are as follows:

Primary objective

- To explore the factors determining the supply of micro insurance in the South African insurance market.

Secondary objective

- To analyse how these factors contribute to the development of strategies and approaches to increase the supply of micro insurance in the South African insurance market.

1.5. Significance of the study

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). In order for this to happen, access to banking services, credit and insurance are critical. Historically, conventional insurance has not been inclusive to the extent that it has remained inaccessible to low-income households. The micro insurance market remains significantly underpenetrated by insurance suppliers and as a result, a large number of South Africans cannot access insurance, thereby remaining financially excluded. This study was exploratory in nature, and it uncovered the factors that insurers consider in deciding whether or not to supply insurance to low-income people. An understanding of these factors has important implications from a variety of perspectives. Firstly, understanding the factors determining the supply of micro insurance paves a way for the development of a conducive environment to deepen the micro insurance market from a policy standpoint. Secondly, understanding factors determining the supply of micro insurance assists in the development of a sound regulatory framework for this emerging insurance class. Finally, understanding micro insurance supply-side factors provides important insights into the support that is required to broaden supply, thereby making the market more competitive.

1.6. Thesis layout

Chapter 1: Background of the study

This chapter provides an introduction and background of the study. The chapter also encapsulates the significance of the study to the micro insurance insurers, policy makers and the future researchers. In alignment with the research problem presented, the research questions and objectives were constructed. The chapter also highlighted the significance of the study.

Chapter 2: A literature review

This chapter sought to summarise and critically discuss relevant empirical research on factors that influence the supply of micro insurance. The chapter first sought to conceptualise micro insurance and provide its historical background. The chapter provided global and South African context of micro insurance as well as the legislative framework. Furthermore, the chapter reviewed factors that influence the demand and supply of micro insurance and discussed the challenges inhibiting the supply of micro insurance in South Africa. Lastly, literature on strategies to increase and improve micro insurance was provided.

Chapter 3: Research methodology

This chapter presents the research methodology used in the study. Included in the discussion are the research paradigm, design, method, sample, sampling technique, data collection method, the procedure for data collection, and the data analysis method.

Chapter 4: Presentation of research findings

This chapter presents the findings from the interviews. Findings are presented in six main themes. The presentation of the results is guided by the research questions. The results on the context of micro insurance were presented first. Secondly, the findings of factors considered by insurers when deciding whether to supply micro insurance were presented. Finally, the chapter presented the strategies that can be used by insurers, the government and community organisations to grow micro insurance by focusing on inclusivity, affordability and profitability.

Chapter 5: Discussion of findings

This chapter discusses the findings of the study. The discussions were guided by the research questions and objectives of the study. Relevant literature and legislative framework were used to support the discussion of the findings.

Chapter 6: Conclusions, limitations, and recommendations

This chapter summarises the findings of the study and provides conclusions that were drawn from the study. It also highlights the limitations of the study. Recommendations specific to the insurers, government and future researchers are suggested.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

The previous chapter provided the context of the study. The present chapter looks at various studies done by other researchers on micro insurance. The chapter presents various views and perspectives of different researchers, which are based on the research questions. Firstly, the chapter conceptualises micro insurance, thereafter, it provides the historical development of micro insurance, global perspective and local perspective of micro insurance. The chapter also provides literature on the factors that influence the demand and supply of micro insurance.

2.2. Conceptualisation of micro insurance

Micro insurance refers to insurance products specifically targeting low-income markets (Wrede et al., 2016). Churchill (2007) defines micro insurance as 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 (2007) further observes that this definition is essentially the same as one might use for conventional insurance except for the clearly prescribed target market (low-income people). Dror and Piesse (2014, p. 24) state that “the definition of insurance can be split into two aspects: firstly, what constitutes insurance and secondly what is ‘micro’ in micro insurance.” Insurance is defined as an agreement under which an insurer shall pay specific pre-defined compensation when financial losses are caused by predefined events, in exchange for premium paid by the insured (Dror & Piesse, 2014). The term “micro” refers to the financial situation of the clientele: the poor (Churchill, 2007). Micro insurance targets low-income households and as a result, some authors refer to it as insurance for the poor (Dercon et al., 2006; Dercon, 2003). This is supported by Paramasivan and Rajaram (2016) who split the definition into two parts and describe the terms “micro” as affordable for the poor and “insurance” as risk pooling to compensate the individual and group. According to Platteau and Gelade (2017), the name micro insurance given to insurance programmes targeting the poor echoes the well-known micro credit programmes, and this is on purpose. Platteau and Gelade (2017) further observe that what both micro insurance and micro credit have in common is a specific attention to low-income earners in developing countries, and they try to overcome a market imperfection identified as a major cause of persistent poverty. These definitions of micro insurance identify the target population; low-income people. However, they fail to offer any practical guidelines on market operation or regulation (Kwon, 2010). The South African Department of National Treasury (2011) offers a more precise definition of micro insurance. They define it as insurance that is accessed by the low-income population provided by a variety of different providers and managed in accordance with generally accepted insurance practice. The researcher prefers to use this definition because it identifies both the target population and the suppliers of micro insurance. In addition, the definition explicitly focuses on risk management mechanisms managed on acceptable insurance principles thereby excluding government social welfare programmes which often involve subsidies and do not necessarily operate along insurance lines.

2.3. The benefits of micro insurance

Although the types of risks faced by the poor are not different from those faced by others, the poor are more vulnerable because of their financial situation (Ahuja & Guha-Khasnobis, 2005). When these risks materialise, low-income people are less likely to cope (Dror & Piesse, 2014). These risks have serious consequences to poor people’s welfare and livelihoods. Therefore, expanding insurance provision to them could be an important tool with substantial long-term welfare benefits (Dercon et al., 2006). Dercon (2003) contends that shocks like property loss and illness may have long-lasting effects on the poor which results in higher levels of poverty leading to poverty traps. It is important to note that the poor have strategies in place to manage and cope with the consequences of risk. According to Dercon et al. (2006), these strategies typically involve self-insurance via savings, credit, informal mutual assistance arrangements and avoiding high risk activities. Research from Georgia shows that the most common risk management strategies involving excessive borrowing increases poor households’ vulnerability to poverty (Churchill & Matul, 2006). Churchill and Matul (2006) observed that in Albania crises often require selling productive assets at great discounts to pay expenses and debt which reduces poor households’ ability to resume productive activities, recover and cope with future risks. Whilst these strategies lower uncertainty, they do not provide complete coverage and they lead to inefficient outcomes through which poor people forego more profitable but riskier activities (Dror & Piesse, 2014). Consequently, their ability to accumulate capital suffers. Micro insurance can complement or crowd out these strategies whilst enabling low-income people to pursue profitable income-generating activities (Dercon et al., 2006).

Enhancing the ability of the poor to deal with risk is increasingly becoming an integral component of poverty alleviation strategies seen in different parts of the world (Mohapatra & Kumar, 2014). According to Mechler et al. (2006), micro insurance can break the cycle of poverty by providing low-income households with post disaster liquidity, thereby securing their livelihood and providing for reconstruction. Mechler et al. (2006) further argue that micro insurance can also encourage the poor to invest in risk prevention if insurers offer lower premium discounts to reward risk reducing behaviours. Micro insurance can be used to extend social protection to excluded populations thereby complementing government protection mechanisms (Churchill, 2007). According to Churchill and Matul (2006), micro insurance as an instrument to extend social protection has several comparative advantages over traditional security schemes. Some of the advantages identified by Churchill and Matul (2006) are that micro insurance can reach people excluded from statutory social insurance like persons working in the informal sector, and that micro insurance is often offered via community-based schemes which tend to experience fewer problems with fraud since members often know each other.

Besides the poverty alleviation and social security benefits, micro insurance can also present a profitable market for insurers. According to Chummun and Bisschoff (2014c), micro insurance can result in a “win-win” situation, combining social benefits for the poor and commercial profit for insurers. In South Africa, insurance firms are beginning to see low-income households as a new market opportunity (Chummun & Bisschoff, 2014c).

2.4. The historical development of micro insurance

Micro insurance first appeared as a new financial service within micro finance and later developed into a sector of its own (Paramasivan & Rajaram, 2016). According to Siegel, Awang and Canagarajah (2001), micro insurance is an extension of the micro finance concept into the realm of insurance to deal specifically with risk management. Siegel et al. (2001) further submit that a strong link exists between micro finance and micro insurance programmes, as the former have pivoted many of the latter. In support, Brown and McCord (2000) submit that many of the pioneering efforts to provide micro insurance have been linked to existing micro finance programmes, because existing networks make it less costly to provide micro insurance products. Some authors argue that the efforts to provide micro insurance began after some microfinance institutions realised the need to have a risk management product that can protect both their clients' and their own interests (Siegel et al., 2001; Cohen, McCord & Sebstad, 2005). This is because micro insurance can reduce the negative impact of risk events on clients' ability to repay loans, thereby helping existing clients and expanding credit to riskier clients (Siegel et al., 2001).

The micro insurance sector emerged in the late 1990s following the success of the microfinance industry in providing credit and savings to the poor (Churchill, 2007). However, the provision of insurance to the poor dates to the 1800s when some of today's large insurance companies started as mutual protection schemes for low-income workers (Churchill & Matul, 2006). Churchill (2007) argues that in the 1800s, insurance was perceived to be for the poor since wealthy people could self-insure. Churchill (2007) further contends that this perception has reversed, and many poor people see insurance as a financial service for the wealthy. It is for this reason that some authors argue that micro insurance is not a new concept but a "back to basics" campaign for the insurance industry to protect the poor (Churchill & Matul, 2006; Churchill, 2007).

2.5. The state of micro insurance

2.5.1. The global perspective

Access to financial services by low-income households is an important tool for meeting the millennium development goals and development (Kara, Zhou & Zhou, 2021). The benefits of financial services for the poor are now universally acknowledged in developing countries (Roth, McCord & Liber, 2007). Roth et al. (2007) further observe that, despite the benefits of micro insurance, the global outreach is still limited. This section looks at the current state and the recent trends of micro insurance in developing countries in Africa and Asia.

2.5.1.1. Micro insurance in Africa

The development of an insurance sector is measured by insurance penetration, which is defined as gross premium income as percentage of the gross domestic products

(Bulti, 2018). In general, there has been little sector development in Central and North Africa (Cohen et al., 2005). The micro insurance sector has experienced tremendous growth in Sub-Saharan Africa, with the number of people and properties covered by micro insurance growing by over 200% in the three years from 2008 to 2011 (McCord and Biese, 2015). McCord and Biese (2015) further observe that Southern Africa dominates the micro insurance sector, with East and West Africa on the rise. According to the Microinsurance Network (2015), although South Africa has the highest micro insurance penetration rates, other countries such as Burkina Faso, Ethiopia, Tanzania and Zambia write premiums that account for a significant share of their respective insurance markets.

The highest demand of micro insurance is for health and life products, followed by property insurance and accidental death and disability cover (Roth et al., 2007). This is further confirmed by McCord and Biese (2015) who state that life coverage comprises 76% of the total micro insurance market in Africa. However, it is important to note that some poor people who take up life insurance do it obligatorily. According to Cohen et al, (2005), some microfinance institutions link life insurance to credit products and compel borrowers to take up life insurance which will cover the outstanding balance of the loan in the event of the borrower's death. According to Odenyo (2018), some microfinance institutions in Kenya focus on products that benefit themselves more than the client, which explains the dominance of credit life insurance on the Kenyan micro insurance market. Although the client benefits from not having to repay the loan after a shock event, the primary beneficiary of credit life insurance is the microfinance institution. Odenyo (2018) further submits that micro finance institutions are often unwilling to offer credit life insurance beyond the loan period. This phenomenon suggests that credit life micro insurance benefits micro finance institutions more than the actual policyholders.

There are more than twelve different types of organisations which provide micro insurance in Africa, and these include commercial insurers, mutual insurers, hospitals, non-governmental organisations, and microfinance institutions (McCord, 2013). According to Churchill and Matul (2012), micro insurance has two main facets – one focusing on extending social protection to the poor in the absence of appropriate government schemes and the other seeking to offer a vital financial service to low-income persons by developing an appropriate business model that enables the poor to be a profitable market segment for insurers. Since this study is on the latter, the focus is on institutions that provide micro insurance in accordance with the generally accepted insurance practice. These include community-based organisations, commercial insurers, and microfinance institutions. Despite the large number of community-based insurers providing micro insurance, they only cover 12% of the total lives and properties insured in Sub-Saharan Africa while regulated commercial insurers provide 78% of lives and properties covered in the region (McCord, 2013). McCord (2013) further submits that this difference shows that micro small-scale organisations will not drive the growth and expansion of micro insurance. The growth and expansion of micro insurance lies in the commercial insurance industry.

In Africa, micro insurance has grown without the benefit or challenges of a legal framework that addresses the peculiarities of this type of insurance (McCord, 2013). According to Biener et al. (2014), the regulation of micro insurance is receiving increased scrutiny as one way of promoting the development of a thriving micro insurance market. Sixteen countries in Africa have already adopted some form of legal framework that is specific to micro insurance, while nine countries are working on developing appropriate frameworks for their situations (McCord, 2013). Bulti (2018) submits that these twenty-five countries account for 94% of the total lives covered in Africa. McCord (2013) argues that regulation did not push micro insurance in Africa; rather, it appears that regulators begin to consider a framework once critical mass of coverage is evident. Although there is no clear evidence to suggest that the lack of regulation has hindered the growth and expansion of micro insurance in Africa, the lack of a regulatory framework does seem to create uncertainty among insurers (Bulti, 2018). Bulti further contends that this uncertainty appears to be retarding expansion and innovation on the micro insurance markets. According to Churchill (2007), regulation can be beneficial, but enforcing the laws of conventional insurance on micro insurance hampers the growth of the micro insurance sector.

2.5.1.2. Micro insurance in Asia

Micro insurance in Asia is dominated by India and China (Roth et al., 2007). Roth et al. (2007) further observe that regardless of the volumes in India and China, more than 90% of low-income people in Asia do not have micro insurance cover. According to Microinsurance Network (2021), it is estimated that between 7% and 15% of the population in Bangladesh, Cambodia, India, Indonesia, Pakistan, the Philippines, Sri Lanka, Thailand, and Vietnam is covered by a micro insurance product. This section will focus on India because it represents one of the largest markets for micro insurance in the world (Market, 2021). According to Allianz and UNDP Public Private Partnership (2006), India has the most dynamic micro insurance sector in the world and has valuable lessons for the rest of the world, particularly in the regulation of micro insurance.

In the early 2000s, the government of India made it compulsory for all new insurers to sell a percentage of their products to the poor, which dramatically changed the face of micro insurance in that country (Roth et al., 2007). This quota system mandated insurers to have a percentage of their net premiums underwritten from rural and informal sectors which led many life insurers to diversify into custom-designed life micro insurance segments that cater for the needs of low-income people (Courbage & Loubergé 2021). Roth et al. (2007) submit that the Sankat Haran Policy sold in India is perhaps the world's biggest micro insurance product as measured by the number of subscribers.

The government plays an important role in promoting the growth of micro insurance in India. However, growth outside of government sponsored schemes is slow and is focused largely on life insurance products (Microinsurance Network, 2021). The Indian Insurance Regulatory and Development Authority divided micro insurance products into two categories, namely, the General insurance and the Life Insurance (Singh & Bihari, 2018). Singh and Bihari (2018) further submit that to simplify the insurance offerings, the regulators allowed insurers to offer hybrid products that cover both life and non-life risks.

Regardless of the government’s efforts to promote micro insurance in India, insurers still consider micro insurance as an “obligatory necessity”, rather than a profitable product category (Singh & Bihari, 2018). According to Allianz and UNDP Public Private Partnership (2006), the way Indian insurers typically design micro insurance products is to adjust existing conventional products to suit the needs of micro insurance clients. The insurers’ focus is towards achieving the mandated target numbers, even at the cost of subsidising the products and consequently, they regard micro insurance as a “cost of doing business” (Singh & Bihari, 2018).

2.5.2. Micro insurance in South Africa

This section presents a brief overview of the South African micro insurance industry, focusing on the market trends and the regulatory environment in which the industry operates**.**

2.5.2.1 Nature and trends in the South African micro insurance industry

The South African insurance industry accounts for 71% of Africa's total premiums (Metcalfe, 2010). The insurance penetration rate is 17%, the highest in Sub-Saharan Africa (KPMG, 2021). However, the micro insurance market remains significantly underpenetrated. Micro insurance does not have a significant presence in South Africa and is often bundled together with other insurance products, not normally sold as a stand-alone product (KPMG, 2017). Relative to its peers, South Africa has a developed micro insurance industry, and this is largely due to the prevalence of funeral insurance among low-income people (Smith et al., 2010). Apart from funeral insurance, micro insurance is neither widely used nor widely available in South Africa (Chummun & Bisschoff, 2014a). Chummun and Bisschoff (2014a) further contend that the dominance of funeral insurance in the low-income market is due to the high social and cultural value placed on dignified funerals. Despite the introduction of new products aimed at low-income households, non-life insurance has achieved limited uptake among the poor in South Africa (Alhassan & Magazi, 2021). The only non-life insurance product that has achieved substantial voluntary take-up is cell phone insurance (KPMG, 2017). According to Bester, Chamberlain and Hougaard (2009), the uptake of cell phone insurance reflects the rapid adoption of mobile phones and the important role they play as personal and business communication tools in the lives of low-income people.

The South African micro insurance market is different from most markets in Africa in the sense that voluntary insurance accounts for most of the micro insurance market (Bester et al., 2009). Bester et al. (2009) further submit that involuntary or compulsory credit life insurance accounts for only 22% of the micro insurance market. However, Smith et al. (2010) argue that the prevalence of compulsory credit life insurance in South Africa is underestimated because of low awareness of cover among low-income people. According to the Department of National Treasury of South Africa (2014), credit life insurance is typically a once-off purchase, usually purchased directly through the credit provider simultaneously with the primary credit transaction. The Department of National Treasury of South Africa (2014) submits that credit consumers are often unaware of credit life cover because of lack of appropriate disclosures at the point of sale. Regardless of the underestimation of the prevalence of compulsory credit life insurance, voluntary funeral insurance is clearly more dominant than compulsory credit life insurance. According to Smith et al. (2010), 40% of the low-income market have funeral cover while only 2% have life cover other than funeral.

There are various types of organisations which provide micro insurance in South Africa. They include formal commercial insurers, mutuals, hospitals, non-governmental organisations, and microfinance institutions (McCord, 2013). McCord (2013) further submitted that formal insurance accounts for more than half of the micro insurance market, with the rest being informal risk-pooling through burial societies and self-underwriting by funeral parlours not authorised as insurers. This study focuses on organisations that provide micro insurance in accordance with generally accepted insurance practice.

In all successful micro insurance products, intermediation innovations such as the use of cell phones as a communication sales tool and joint ventures with retailers as distribution channels, have played an important role (Bester et al., 2009). Bester et al. (2009) further argue that innovation in micro insurance distribution has been facilitated by the availability of a large, well developed retail network as well as a sophisticated payment system in South Africa. There are examples of large commercial insurers that partner with retailers to supply micro insurance. Retailers typically offer products that are underpinned by their retail credit products. These retailers have further diversified into non-retail credit products by leveraging their strong customer relationships, rich internal customer bases and monthly instalment collection platforms (Finmark Trust, 2014).

In the year 2000, Hollard Insurance Company Limited launched a partnership with Edcon, a non-food retailer involving the distribution of credit life insurance to reduce its debt losses (Merry et al., 2014). According to Finmark Trust (2014), Edcon initially distributed credit life insurance only but later started offering life, funeral, and mobile phone insurance. The partnership between Hollard Insurance Limited and Edcon resulted in approximately 6 million micro insurance policies in force (Merry et al., 2014). In 2006, Hollard Insurance Limited partnered with Pep Stores, a low-income market clothing retail store, to provide funeral insurance products underwritten by Hollard Insurance Limited (Smith et al., 2010). Smith et al., (2010) further submit that this partnership offers a low-cost distribution network for funeral insurance because of Pep Stores' existing infrastructure which is used to facilitate distribution and capture payment of insurance premiums.

Despite the success of the various micro insurance initiatives in South Africa, most of the initiatives have not centred around assets and property insurance but rather around life insurance products like funeral insurance (South African Insurance Association, 2008). However, the dominance of life insurance products is not unique to the low-income market. The South African Insurance Association (2008) argues that even in the high-income market, assets insurance is often just bought when linked to the acquisition of or financing of an asset, such as a motor vehicle, home, or household contents and especially when the asset was bought on credit.

2.5.2.2. South Africa's regulatory framework for insurance

Before 1 June 2018, there were two main pieces of legislation applicable to the insurance industry and, by extension, to micro insurance. These are Long-Term Insurance Act 52 of 1998 and the Short-Term Insurance Act 53 of 1998 (Aliber, 2002). Other legislations of note were the Friendly Societies Act 25 of 1956, the Co-operatives Act 14 of 2005 and the National Credit Act of 2005 (The Department of National Treasury of South Africa, 2008).

The Long-Term Insurance Act 52 of 1998 governs long-term insurance while the Short-Term Insurance Act 53 of 1998 applies to short-term insurance. According to Smith et al. (2010), long-term insurance covers life events, while short-term insurance predominantly covers losses relating to property. The Financial Services Board was the statutory body in charge of supervision (Bester et al., 2009). Micro insurance was not a separately defined or regulated market in South Africa. Low-income products such as the funeral insurance were provided through mainstream insurers and consequently, they were regulated as part of the overall insurance regulatory system (Department of National Treasury of South Africa, 2008). However, there were three instances in which the regulation created a lower compliance burden for micro insurance products. According to the Department of National Treasury of South Africa

(2008), the Long-Term Insurance Act 52 of 1998 awarded special treatment to assistance policies which are defined by the Act life policies with aggregate values of benefits of R10 000 or lower.

The Department of National Treasury of South Africa (2008) further submits that the regulation made an exemption regarding the minimum qualifications of intermediaries on assistance policies and allowed uncapped commissions on assistance policies. In addition, the regulation exempted friendly societies from registering under the Long-term Insurance Act 52 of 1998, if they do not provide benefits exceeding R5 000 per covered life (Department of National Treasury of South Africa, 2008). It is important to note that in all the three instances, none of the products that were awarded special treatment were in the short-term insurance category. The special treatment applied to low life products only.

The Short-term Insurance Act 53 of 1998 and the Long-term Insurance Act 52 of 1998 excluded indemnity health insurance (Bester et al., 2009). Bester et al. (2009) further submit that indemnity health insurance did not fall under the supervision of the Financial Services Board and was regulated separately under the Medical Schemes Act 131 of 1998. Although the Short-term Insurance Act 53 of 1998 and Long-term Insurance Act 52 excluded indemnity health insurance, both acts included a category of health insurance, which was defined to include capital insurance for health events. Effectively, the regulatory system on health insurance became product category-based whereby the nature of the risk event underlying the product determines the level of risk held by the insurer and therefore the applicable regulation (Smith et al., 2010). Smith et al. (2010) further argue that the exclusion of indemnity health insurance from the Short-term Insurance Act 53 of 1998 and Long-term Insurance Act 52 of 1998, together with the strict regulatory environment for medical schemes allowed little room for innovation in health cover for low-income people.

Insurers are required to hold capital to ensure that they can meet their liabilities with sufficient probability (Department of National Treasury of South Africa, 2008). The Short-term Insurance Act 53 of 1998 and the Long-term Insurance Act 52 of 1998 stipulated a minimum capital of R5 million for insurers (Smith et al., 2010). Aliber (2002) argues that these legislations favoured large companies that were able to meet the minimum capital surplus requirements, thereby creating barriers of entry for small firms who could serve the low-income market. In addition to the barriers of entry, the minimum qualifications for intermediaries stipulated by the Financial Advisory and Intermediary Services Act 37 of 2002 increased the per transaction cost of intermediating financial services, thereby creating a disincentive to serve the low-income market (Chummun & Bisschoff, 2014b). 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 prompted the National Treasury to reconsider the insurance regulatory framework in South Africa (Department of National Treasury of South Africa, 2011).

On 1 June 2018, the Insurance Act 2017 came into effect and one of its primary objectives is to introduce a legal framework for micro insurance to promote financial inclusion (Insurance Act, 2017). Traditionally, the most significant barrier to entry in the insurance industry has been the minimum capital requirements as well as the significant cost involved in running and managing an insurance company. According to the Department of National Treasury of South Africa (2018), the introduction of a micro insurance legal framework which aims to facilitate the entry of new firms, should increase access to insurance thereby promoting financial inclusion. The framework simplifies and reduces prudential requirements imposed on micro insurers. It links prudential requirements to the product offering, thereby reducing costs which previously may have been a barrier to entry and uptake by the lower income household target market (Van Der Vyver, 2020).

2.6. Theoretical model to measure the business success of micro insurance in South Africa

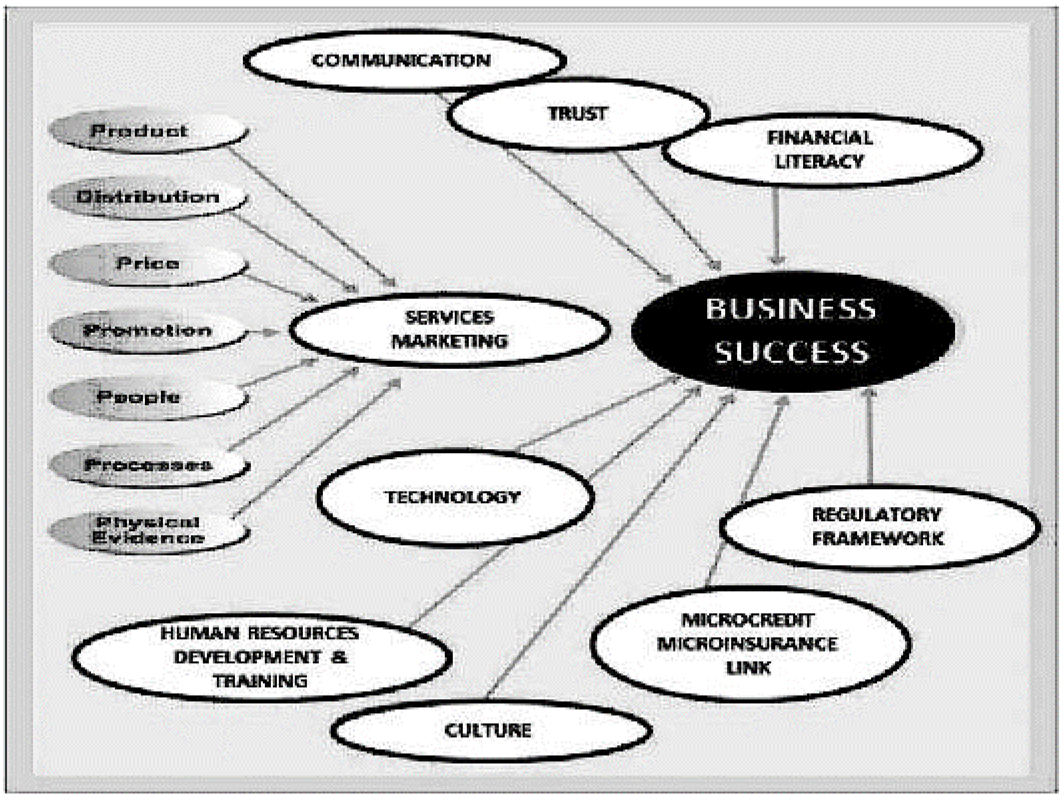

Figure 2.1: Business success of micro insurance in South Africa

Adopted from Chummun and Bisschoff (2014).

Chummun and Bisschoff (2014) formulated a theoretical framework to assess the business success of micro insurance providers within the South African context. Following comprehensive literature reviews, interviews, and the subsequent validation of the model, 15 variables were identified as determinants of micro insurance success in South Africa. In contemplating the provision of micro insurance services, providers should take into account the subsequent variables: communication, trust, financial literacy, regulatory framework, the linkage between microcredit and micro insurance, cultural factors, human resource development and training, as well as technology and service marketing (encompassing product, distribution, pricing, promotion, personnel, processes, and physical evidence).

2.6.1. Communication

Micro insurance service providers engage with low-income individuals regarding their products and services. Effective communication is crucial for educating low-income earners about their insurance coverage options. The Micro Insurance Network (2010) highlighted that low-income earners often possess limited knowledge or lack awareness of the available products and services due to insufficient communication. According to Duncan and Moriarty (1998), the function of insurance providers has evolved to encompass financial counselling. This shift indicates an extension of responsibilities to include listening, aligning, and matching the needs of low-income earners with affordable insurance solutions. Consequently, among various factors, it is imperative to consider the methods through which micro insurers will communicate with low-income earners prior to making decisions about the provision of micro insurance.

2.6.2. Trust

Trust fosters a robust firm-client relationship (Six, 2007). Cultivating trust through effective communication significantly enhances the likelihood of low-income earners embracing insurance products (Microinsurance Network, 2010). A judicious approach is essential for building trust and comprehending the risks low-income earners encounter. Thus, the relationship between firms and clients directly impacts the success of the business. In essence, insurers must contemplate establishing trust with low-income earners when evaluating micro insurance provisions.

2.6.3. Financial Literacy

Education and financial literacy are fundamental in equipping individuals with the knowledge and skills to assess risk management tools (Chummun & Bisschoff, 2014). Once low-income earners are informed about the existing insurance products through effective communication, initiatives can be undertaken to enhance their understanding of micro insurance concepts, terms, and conditions. This educational effort will empower low-income earners to comprehend various products and make informed choices, augmenting insurance uptake. Consequently, the greater the emphasis micro insurers place on promoting insurance literacy and financial education, the higher the likelihood that low-income households will become informed about the concept of micro insurance and its associated benefits. If micro insurance entities aim to succeed in providing their products to low-income earners, investment in financial literacy and awareness is paramount.

2.6.4. Product

Products and services must be meticulously designed to cater to customers' needs. In this regard, micro insurance offerings should be customised to specifically address the requirements of low-income earners while ensuring their retention. This objective can be realised through investments in research and technology that facilitate a deeper understanding of the low-income demographic. Data availability can give insurers valuable insights regarding product offerings, pricing strategies, and distribution channels. These considerations are pivotal for micro insurers when determining micro insurance provisions, as they can significantly influence the business success (Chummun & Bisschoff, 2014).

2.6.5. Price

Angove and Tande (2011) assert that the pricing strategy of micro insurance products significantly impacts market share, product positioning, customer fidelity, and an organisation's competitive edge. Conversely, Chummun and Bisschoff (2014) warn that micro insurance providers must balance the imperative of profit generation and the provision of affordable insurance coverage. Consequently, the pricing of insurance products should be determined by the dual considerations of profitability and the provision of economically accessible options. Empirical research suggests that individuals with low incomes face challenges in managing premiums that are prohibitively expensive for them (Angove & Tande, 2011). Thus, pricing constitutes a critical factor that providers contemplate when deliberating the feasibility of offering micro insurance.

2.6.6. Distribution

Distribution pertains to how micro insurance products are delivered to low-income populations. Implementing innovative and cost-effective distribution channels can facilitate the supply of micro insurance products, thereby yielding profits essential for business viability (Chummun & Bisschoff, 2014).

2.6.7. Promotion

The strategies employed by micro insurance firms to convey the value and advantages of their offerings serve to persuade low-income households to make purchases. These strategies are commonly categorised as promotional tactics. The significance of brand visibility and recognition cannot be overstated (Joubert, 2007). Therefore, insurers are encouraged to allocate resources toward promotional strategies aimed at attracting low-income earners, which, in turn, will bolster business success.

2.6.8. Physical evidence

The physical infrastructure that supports interactions between insurers and low-income earners is crucial. The presence and accessibility of physical venues such as community halls, soccer clubs, church groups, and cooperatives exemplify settings where low-income individuals can convene and engage with micro insurance providers to enhance awareness, foster financial literacy, and communicate the values and advantages of their products and services. Hence, the greater the convenience and accessibility of a micro insurance supplier, the more likely the firm is to succeed (Joubert, 2007). It can be posited that the availability of physical infrastructure accessible to both micro insurers and low-income households significantly contributes to the prosperity of the micro insurance sector.

2.6.9. People

Within micro insurance, all stakeholders (employees, agents, and service providers) play integral roles in service delivery and shaping the perceptions of low-income earners (consumers). It is imperative to meticulously screen and select frontline personnel who possess the requisite competencies (sales expertise) to distribute insurance products. Maintaining a positive marketing image is contingent upon the performance of these stakeholders (Chummun & Bisschoff, 2014). For instance, exceptional service delivery creates a favourable impression among customers (low-income earners), which is vital for customer retention, thereby contributing to overall business success.

2.6.10. Process

This encompasses the mechanisms, procedures, and workflows of activities commencing from the negotiation phase between micro insurance providers and clients until the policy issuance. The degree of success is contingent upon the duration taken to persuade low-income earners to procure a policy. As customers, low-income earners can evaluate the process based on the efficacy of the offerings provided by micro insurance entities. Consequently, the systems, procedures, and processes must exhibit efficiency and effectiveness for the enterprise to succeed. The presence of systems, mechanisms, procedures, and processes can significantly influence the propensity of micro insurance firms to extend their services to low-income earners.

2.6.11. Technology

The accessibility of technology constitutes a critical factor that micro insurers assess prior to the provision of products to low-income households. As elucidated by Chummun and Bisschoff (2014), the utilisation of technological devices and the availability of data can facilitate the extension of insurance services to economically disadvantaged households, thereby ensuring the maintenance of business success. Conversely, micro insurance providers can leverage technology to analyse insurance data to inform risk assessment and elucidate customer requirements.

2.6.12. Culture

Hofstede (2006) articulates that culture, within an organisational context, encompasses the shared knowledge, beliefs, values, norms, behaviours, and practices that shape operational modalities within an organisation. In the realm of micro insurance, organisational culture assumes a pivotal role in the marketing of products and services. There exists a necessity for a culture characterised by a commitment to delivering quality and affordable services. From the customers' perspective, it is imperative to comprehend their cultural contexts when devising culturally sensitive and respectful products.

2.6.13. Human development and training

A pressing requirement exists to enhance the skill sets of service providers within the micro insurance sector (Microinsurance Network, 2010). Dedicated employees who possess the requisite skills are more inclined to deliver high-quality services to clients. Micro insurance firms must ensure that they are adequately staffed with trained personnel capable of fulfilling the demands of their clientele. The availability of motivated, skilled staff coupled with ongoing training opportunities can substantially contribute to business success.

2.6.14. Micro insurance Regulatory framework

Supportive regulatory frameworks are instrumental in fostering micro insurance growth (Chummun & Bisschoff, 2014). In the presence of conducive regulatory environments, micro insurers are more predisposed to provide micro insurance products, given the supportive structures that facilitate growth. Such growth is integral to achieving business success and sustainability.

The factors mentioned above possess the potential to significantly influence the business success of micro insurers in South Africa. Additionally, these factors can serve as a theoretical basis for comprehending the considerations micro insurers consider when deliberating the provision of micro insurance services to low-income earners. This model offers a theoretical lens to the present study.

2.7. The demand of micro insurance

The study of the supply of micro insurance would be superfluous unless the poor demanded it (Brau, Merrill & Staking, 2011). There are many people who are exposed to various risks that could potentially be micro insurance consumers. However, it would be a grave miscalculation to assume that vulnerability equates to effective demand (Brown & McCord, 2000). The uptake or demand of insurance remains low in low-income markets. According to Mutambara and Mazambani (2018), insurers must understand the needs and preferences of low-income people in order to create demand. This section looks at various studies done by other researchers to understand why the uptake of insurance is low in low-income markets.

2.7.1. Understanding insurance

There is a general agreement among researchers that the key reason why low-income people do not buy insurance is that they do not understand it. Dercon, et al. (2006) contend that the poor do not buy insurance because they sometimes have difficulties in understanding insurance contracts. This is supported by Churchill (2007) who states that insurance policy wordings are sometimes unsuitable for low-income people who are often not financially literate. However, Platteau and Ontiveros (2013) argue that increased knowledge of insurance does not always translate into higher demand.

Based on the above studies, the researcher deduced that there is no clear evidence to support the notion that an increased knowledge of insurance results in higher demand.

2.7.2. Delayed consumption

People with low incomes struggle to meet basic needs and they prioritise immediate consumption needs thereby forgoing any kind of investments such as micro insurance (Mazambani & Mutambara, 2018). Churchill (2007) supports this observation and further argues that many poor people are hesitant about paying premiums for an intangible product with future benefits that may never materialize. Mazambani and Mutambara (2018) submit that poor people generally do not appreciate the inherent value of micro insurance, particularly with regards to making an upfront payment for uncertain future benefits. It is imperative for insurers to continuously educate and demonstrate the benefits of micro insurance to low-income people in order to create demand.

2.7.3. Affordability

Low-income people may show a great interest in micro insurance but do not adopt the products because they cannot afford them (Brouwer & Akter, 2010). Affordability refers to the ability of particular consumer groups to pay for a minimum level of a certain service (Fankhauser & Tepic, 2007). According to Abbas, Arujath-Badu, Kachele, and Muller (2015), the adoption of insurance is mainly influenced by the ability to pay, and low-income people are excluded from insurance because of their inability to pay. The ability to pay is the key driver of effective demand (Mazambani & Mutambara, 2018). Therefore, insurers must make micro insurance products affordable in order to activate the low-income market and create the necessary demand.

2.7.4. Availability of alternative risk copying tools

Some authors, notably Mobarak and Rosenzweig (2012) as well as Jowett (2003) argue that the poor do not buy insurance because pre-existing informal risk management arrangements may either reduce the demand for formal insurance or prevent the establishment of formal insurance markets. According to Churchill (2007), insurance involves exchanging the uncertainty of large losses for the certainty of small regular payments. When the loss and degree of uncertainty decreases, insurance loses out to credit and savings (Churchill & Matul, 2006). Churchill and Matul (2006) further contend that the poor in Latin America for instance may be unwilling to buy some of the existing formal insurance products and instead prefer to rely on savings and credit since the lack of appropriately targeted products would make existing products relatively too costly for the poor, possibly outweighing the benefits. Akter, Brouwer, Chowdhury and Aziz (2008) also submit that there is a negative relationship between the demand for disaster insurance and the availability of other disaster coping mechanisms like credit and government assistance if people view those mechanisms as substitutes to insurance. However, Karlan, Osei, and Osei-Akonto (2014) argue that liquidity constraints are a significant barrier to the take-up of insurance and therefore, the availability of alternatives like credit and cash grants to low-income people increases the uptake of insurance. Based on the above studies, the researcher deduced that there is no clear evidence to support the notion that the availability of alternative risk copying tools reduces the demand of micro insurance.

2.7.5. Trust

Trust is another reason why the poor do not buy insurance (Churchill & Matul, 2006). According to Chummun and Bisschoff (2014c), unlike with micro credit, where the customer gets money from a micro lender and takes up the responsibility of returning it, micro insurance reverses responsibility and the customer pays premium upfront and hopes that the insurers keep their promise to make a payment in future. For a market that probably has never been exposed to insurance products, trust is the element that should be created between the insurance service provider and the prospective policyholder.

The demand factors for micro insurance have been widely documented in literature. There is a bias in literature towards the demand-side factors of micro insurance leaving the supply-side ones unaddressed. There is a dearth in literature especially in the South African context looking at micro insurance from a supply-side perspective. This study sought to address this gap by exploring the factors determining the supply of micro insurance in the South African insurance market.

2.8. The supply of micro insurance

The South African micro insurance market is still at a preliminary stage in terms of development compared to the commercial market which is well developed (Chummun

& Bisschoff, 2014c). The disparity in insurance supply between conventional insurance and micro insurance reveals that there are supply factors unique to micro insurance whose understanding needs to be deepened. This section looks at various studies done by other researchers on the factors affecting the supply of micro insurance.

2.8.1. Regulation

Regulation of any market can either promote or impede its development (Chatterjee, 2012). In South Africa, one of the factors that has historically affected the supply of micro insurance is the absence of a micro insurance regulatory framework (Chummun, 2017). Before the enactment of the Insurance Act 2017 on 01 June 2018, micro insurance was not a separately defined or regulated market in South Africa. Low-income insurance products were provided through mainstream insurers and consequently, they were regulated as part of the overall insurance regulatory system (Department of National Treasury of South Africa, 2008). While it is easy for the regulators to treat all risks carriers alike, it will not lead to more inclusive insurance markets (Churchill, 2007). According to Aliber (2002), the regulatory system favoured large companies that were able to meet the minimum capital surplus requirements, thereby creating barriers to entry for small firms who could serve the low-income market. In support, Chummun and Bisschoff (2014a) submit that the minimum qualification requirements for intermediaries stipulated by the Financial Advisory and Intermediary Services Act 37 of 2002 increased the per transaction cost of intermediating financial services, thereby creating a disincentive to serve the low-income market. According to IAIS (2008), a regulation can be beneficial, but enforcing the laws of conventional insurance on microinsurance will hinder the growth of the sector.

The government's commitment to promote an inclusive insurance market prompted the National Treasury to reconsider the regulatory framework in South Africa (Department of National Treasury of South Africa, 2011). When the Insurance Act of 2017 was enacted, one of its primary objectives was to introduce a legal framework for micro insurance to promote financial inclusion and by implication, the supply of micro insurance (Insurance Act, 2017). It is important to note that most studies that address the effects of the regulatory framework on the supply of micro insurance in South Africa were done before the enactment of the Insurance Act of 2017 in 2018. At this point, there is no evidence to support the notion that the changes to the regulatory framework in 2018 indeed increased the supply of micro insurance in South Africa.

2.8.2. Distribution channels

Another factor that can affect the supply of micro insurance is the inadequacy of distribution channels (Njugana & Arunga, 2013). Distribution goes beyond sales activities. It encompasses a variety of administrative and intermediation activities necessary to deliver the product to the customer (Churchill, 2007). According to Chummun (2017), insurers incur high transaction costs when operating in low-income, low margin markets such as rural areas. Microinsurance Network (2015) identifies key attributes of a successful distributor of micro insurance attributes. Firstly, the distributor must have a strong brand trusted by the clients. Secondly, the distributor must have accessible points of sale that reach out into the community rather than requiring the client to come to the company. Thirdly, the distributor must have the ability to do cheap and simple transactions. In support, Bester et al. (2009) submit that in all successful micro insurance products, intermediation innovations such as the use of cell phones as a communication sales tool and joint ventures with retailers as distribution channels have played an important role. One can argue that these factors are not universal to all contexts. Hence, the need to interrogate the applicability of these factors in other contexts like South Africa because of its unique historical, political and socio-economic context.

In South Africa, there are examples of large commercial insurers that partner with retailers to distribute micro insurance. Retailers typically offer products that are underpinned by their retail credit products. These retailers have further diversified into non-retail credit products by leveraging their strong customer relationships, rich internal customer bases and monthly instalment collection platforms (Finmark Trust, 2014). In 2000, Hollard Insurance Company Limited launched a partnership with Edcon, a retailer which was interested in distributing credit life insurance to reduce its debt losses (Merry et al., 2014). The partnership resulted in approximately 6 million micro insurance policies in force (Merry et al., 2014). In 2006, Hollard Insurance Limited partnered with Pep Stores, a low-income market clothing retail store, to provide funeral insurance products underwritten by Hollard Insurance Limited (Smith et al., 2010). Smith et al. (2010) further submit that this partnership offers a low-cost distribution network for funeral insurance because of Pep Stores' existing infrastructure which is used to facilitate distribution and capture payment of insurance premiums. Funeral parlours, mobile services, retailers and public utility companies are distribution channels that can be explored for micro insurance delivery, thereby increasing supply of micro insurance (Chummun, 2017).

2.8.3. Availability of data

Insurers require historical industry data to assess and price risks. This data is limited as the micro insurance industry is still new (Kumar, 2016). This view is supported by Odenyo (2018) who argues that many of the low-income population are first-time buyers of insurance and hence, the underwriting information is limited. Therefore, insurers struggle to assess and price the risks of low-income people accurately. Odenyo (2018) further contends that the unavailability of data poses a threat to insurers' profitability, and this may discourage insurers from serving the low-income market. According to Churchill (2007), the unavailability of data may result in insurers building a big margin of error when predicting and pricing the risks. Consequently, the premiums will be too high for the low-income people.

2.9. The challenges of micro insurance

Previous studies by Churchill (2007), Dercon et al. (2006) as well as Chummun and Bisschoff (2014a) have highlighted the challenges faced by mainstream insurers when serving the low-income market. One of the primary challenges faced by conventional insurers in serving the low-income market relates to the transaction costs associated with managing large volumes of small policies (Churchill, 2007). To be profitable, micro insurance must adopt a "low-margin/high-volume" philosophy. In serving the low-income population, insurers incur significant expenses in marketing to a clientele that may be unfamiliar with insurance, collecting premiums from persons who may not have bank accounts, assessing and paying out small claims. As a percentage of the premium, these costs are relatively higher for small policies.

A related problem is the distribution of insurance to the poor. It is generally difficult for standard insurance companies to have close contact with the poor (Dercon et al., 2006). The distribution systems used by insurers, that is, brokers, agents and direct sales are generally appropriate for corporate customers and high-value individual customers, and not the poor. According to Chummun and Bisschoff (2014b), distributing micro insurance products could be a challenge, particularly in the rural and remote areas not serviced by the industry. Chummun and Bisschoff (2014b) further argue that selling insurance products to the low-income market using the traditional distribution channels is difficult for a small insurer who does not have an established infrastructure and extensive footprint nationally. Regardless of infrastructure and footprint, traditional distribution might also be difficult for the established insurers who use brokers and agents. This is because broker commission is a percentage of the premium and it generally motivates brokers to focus on policies with higher premiums. According to Joubert (2007), insurance brokers are hesitant to sell micro insurance products because they receive very small commissions. Churchill (2007) argues that one way to effectively distribute micro insurance products is for insurers to partner up with delivery channels that already have financial transactions with the low-income market, like micro finance institutions, trade unions, community organizations and retail shops that cater for the low-income market.

Designing products that meet the specific characteristics of the low-income market is a big challenge for conventional insurers (Churchill, 2007). A product must provide value for the consumer. This value is in the eye of the beholder (Cookham, 2009). The products generally offered by insurers are not designed to meet the specific characteristics of the low-income market, particularly the irregular cash flows of households with breadwinners in the informal economy. According to Cohen and Sebstad (2006), some insurers have failed because they made the mistake of introducing scaled-down policies from higher income segments into the low-income market. Micro insurance products are much more than mere simplified or cheaper versions of conventional insurance products. Churchill (2007) points out the need to use simple language on insurance policies as another challenge faced by insurers in designing products for the low-income market.

Insurers are currently not serving the low-income market because of scarcity of data (Wrede et al., 2016). Insurers require historical industry data in order to assess and price risks. This data is limited as the micro insurance industry is still new (Kumar, 2016). Therefore, insurers struggle to assess and price the risks of low-income people accurately. According to Churchill (2007), the unavailability of data may result in insurers building a big margin of error when predicting and pricing the risks. Consequently, the premiums will be too high for the low-income people. Insurers also struggle with coming up with premium payment plans that are in line with the cash flow of the low-income people. According to Leftley (2002), one micro insurance product in Albania failed because its up-front payment requirements were not in line with the policyholder's cash flow.

Overcoming bias against insurance is a big challenge in extending insurance to the poor. According to Churchill (2007), the bias comes from both the consumers and suppliers of insurance. Insurance is an intangible product, and many poor people may be uncomfortable with paying premiums for a product that is intangible, with future benefits that may never be claimed. On the other hand, commission-based salaries are very common in the insurance industry. As a result, salespersons are more likely to ignore the low-income market and focus on larger policies with higher premiums and commissions. This bias from both the demand and supply side poses the need for insurance suppliers to create awareness about micro insurance. This might be time consuming and considering that the insurers might have to use communication mediums that are different from those used to reach commercial insurance customers. For example, "internet pop-up advertisements" which are very common in the mainstream insurance market might be unsuccessful in the low-income market whose exposure to the internet might be limited.

Lastly, a major challenge in extending insurance to low-income people is regulation. An insurer that is primarily committed to serving the low-income market is generally expected to be more effective at doing so than a conventional insurer that ventures into micro insurance (Churchill, 2007). However, regulations may create barriers of entry into the market for specialist micro insurers. According to National Treasury of South Africa (2011), the minimum short- term capital requirements presented a barrier of entry that is unnecessarily high for insurers that will only provide low-benefit, short term micro insurance products.

2.10. Conclusion

This chapter reviewed the existing literature in line with the research questions of this study. Firstly, the chapter conceptualised micro insurance. Thereafter, it discussed the benefits and the historical development of micro insurance. The chapter also discussed the state of micro insurance from a global perspective and further narrowed down the discussion to the South African context. The chapter also provided literature on the demand and supply of micro insurance. The next chapter presents the research methodology that was adopted to carry out this research in terms of philosophy, design, data collection and data analysis.

CHAPTER 3: RESEARCH METHODOLOGY

3.1. Introduction

The previous chapter provided a literature review on micro insurance. The present chapter presents the methodology that was used in the study. The chapter focuses on the philosophy of the study, research design, research method, sample and sampling procedure, data collection method, data collection procedure, ethical considerations, and data analysis. The chapter also looks at the strategies utilised by the researcher to ensure trustworthiness and rigour of the study.

3.2. Philosophy of the study

This study adopted an interpretivist approach. Interpretivism does not predefine dependent and independent variables (like when using a positivism paradigm) but focuses on the full complexity of human sense-making as the situation emerges (Kaplan & Maxwell, 1994). In a qualitative study, the interpretivism philosophy can uncover subjective factors influencing microinsurance supply in South Africa by exploring participants' meanings and social constructs within the context. The philosophy helps guide how data is collected and interpreted (Pervin & Mokhtar, 2022). When using an interpretivism approach, the subjectivity experiences of participants are important. Ontologically, interpretivism views reality as socially constructed. Applying ontological interpretivism lens, the factors that influence the supply of micro insurance are socially constructed and they differ from one individual to another. Epistemologically, interpretivism focuses on understanding the subjective meanings and social constructs. The role of the researcher is to understand how participants construct and interpret their lived experiences. The study sought to uncover the factors that insurers consider in deciding whether to supply insurance to low-income people or not. According to Myers (1997), interpretivism is concerned with the uniqueness of a particular situation, contributing to the underlying pursuit of contextual depth. Each business is unique in terms of market strategy, values, objectives, and culture. The focus of this study was on getting an in-depth understanding of what decision makers in businesses consider in deciding whether to supply micro insurance or not. The researcher was also interested in identifying strategies and approaches to increase the supply of micro insurance in the South African insurance market.

3.3. Research design

An explorative research design was used for this study. Explorative research consists of an attempt to discover something new and interesting (Swedberg, 2020). Similarly, Kalu and Bwalya (2017) posit that an explorative design in qualitative research involves investigating complex phenomena to understand human experiences, cultures, and values, utilising methods like interviews and focus groups for data collection. An explorative research design was appropriate for this study as micro insurance is a fairly new concept in South Africa. Using semi-structured interviews, this design allowed the researcher to explore the factors that determine its supply in the South African market.

3.4. Research method

Research methods are systematic approaches employed to gather, analyse, and interpret data in order to address specific research questions or problems. Methods can be categorised into quantitative (e.g., surveys, experiments) and qualitative (e.g., interviews, focus groups), or a combination of both in mixed methods research (Marhasova, Garafonova, Derii & Rudenko, 2022).

The key differences between qualitative and quantitative research methods in research lie in their approaches, objectives, and data types. While qualitative research focuses on understanding social phenomena through in-depth exploration of participants' experiences, quantitative research emphasises numerical data and statistical analysis to generalise findings. Furthermore, qualitative research is interpretive, seeking to understand meanings constructed by individuals. It often involves small, targeted populations and addresses complex social issues, allowing for rich, nuanced insights (Denny & Weckesser, 2022). On the other hand, quantitative research relies on structured data collection and statistical analysis, aiming to quantify variables and generalize results across larger populations (Mohajan, 2020). More so, qualitative methods utilise data collection techniques such as interviews and narrative analysis, focusing on subjective experiences and context (Papakitsou, 2020). On the other hand, quantitative methods utilise surveys and experiments to gather numerical data, facilitating objective comparisons and statistical validation (Mohajan, 2020).

The researcher employed a qualitative research method. Unlike quantitative research which examines differences in amount or level of the variables being studied and cause and effect relationships among them, qualitative research is concerned with the patterns and forms of such variables (Cropley, 2019). A qualitative approach was suitable for this study because the researcher was not seeking to validate any causal relationships but to conduct an enquiry into factors that drive the supply of micro insurance. According to Mohajan (2018), qualitative research seeks to explore and discover issues that are currently occurring due to little exposure that the issues are getting. Therefore, a qualitative research method was appropriate as micro insurance is a new concept in South Africa with some insurers even being tentative in their approach to it. Little research has been done on this subject especially in the South African context. However, it should be noted that a qualitative research approach as some limitations such lack generalised and reliability (due to subjectivity nature of the approach). The researcher used reflexivity in data collection and interpretation to strengthen the qualitative approach.

3.5. Sample and sampling procedure

A sample is a segment of the population that is selected for investigation (Bryman, 2016). Sampling is the process by which some elements of the target population are selected as being representative of the entire population (Cooper & Schindler, 2006). This study employed a non-probability purposive sampling method. Patton (2002) defines purposive sampling as a non-random method of sampling where the researcher selects cases with the required information for in depth study. Using a purposive sampling method, a sample of 25 (reached data saturation) business development and market executives from selected insurance service providers was used. With purposive sampling, the selection is based on the researcher's knowledge of the participants with information relevant to the study (Etikan et al., 2016). In this study, business development and market executives were selected based on the researcher’s knowledge that they have the specific information relevant to this study. According to Patton (2002), the logic and power of purposeful sampling lies in selecting information-rich cases for study in depth. Information-rich cases are those from which one can learn at length about issues of central importance to the purpose of the inquiry, thus the term purposive sampling. Studying information-rich cases yields insights and in-depth understanding rather than empirical generalisations. Purposive sampling method was appropriate for this study because it allowed the researcher to get information about factors considered by insurers when deciding to supply micro insurance. The interviewed insurers were the right participants because they were knowledge experts of the subject under investigation.

3.6. Data collection

Semi-structured interviews were used to collect data. A series of pre-planned questions were used to guide the collection of information from participants. The semi-structured interviews allowed the researcher to direct the interview and at the same time, allow the respondents to shape the flow of information. Interviews were chosen for this study because, as indicated by Wilkinson and Birmingham (2003), they give the researcher more of an insight into the meaning and significance of what is happening unlike other instruments which focus on the surface elements of what is happening. Moreso, the research questions in this study were open ended. Interviews were therefore suitable for this study because they are appropriate for studies that seek to answer open-ended questions to get in-depth information from a small group of people (Guion et al, 2011). The interview questions were aligned with the research questions and the literature reviewed. Using the hybrid working model that most companies adopted following the Coronavirus pandemic of 2019 (COVID-19), the researcher conducted virtual interviews via Zoom.

3.7. Procedures for data collection

The researcher sent emails to the directors/managers of the selected insurance companies seeking permission to conduct research. When permission was granted, the researcher sent emails to the selected participants to seek their recruitment consent for the research. All the participants were happy to participate and confirmed consent via email. The researcher called the participants telephonically to explain the process and set up the interviews. All interviews were set at dates and times that are convenient to the participants. All interviews were done online. Interviews took from 45-90 minutes.

3.8. Data analysis

The researcher used thematic analysis to analyse the data. Thematic analysis is a method of systematically identifying, organising and offering insight into patterns of meaning or themes across a dataset (Braun & Clarke, 2006). The researcher conducted thematic analysis using the inductive approach. According to Braun and

Clarke (2006), with an inductive approach to data coding, the codes and themes stem from the data. Using the inductive approach, the researcher used the six steps of thematic analysis suggested by Clarke et al. (2015). Firstly, the interviews were transcribed. The next step was the analysis of the interview outcomes using open coding. Gallicano (2013) defines open coding as a process whereby the researcher goes through the data several times and then starts to create tentative labels for chunks of data that summarise what is happening, based on the meaning that emerges from the data. The researcher proceeded to record examples of participants' words and established properties of each code. Initial codes were generated and collated into themes. A thematic map was developed by checking if the themes make sense in relation to the codes and the entire data set. Thereafter, the themes were defined, and a report was produced. The inductive thematic analysis was used because the researcher wanted the themes to emerge from the data. This method of data analysis is appropriate in qualitative studies that aim to identify, organise and get meaning from the pattern of themes.

3.9. Ethical considerations

Ethics in research ensure that participants get protection against possible harm (Earl & Wendler, 2020). This study adheres to the University of the Witwatersrand's ethical protocols. Several ethical considerations were considered to ensure that the research was conducted ethically. The researcher obtained ethical clearance from the University of Witwatersrand before collecting data. Firstly, the researcher informed all participants of the purpose and importance of the research study. Secondly, participants were informed that they have the right to cancel or stop the interview at any time if they feel the need to do so. Thirdly, the participants were made aware of the recording of the interviews, and they signed consent forms before the recording started. The interviews were confidential, and data was encrypted and kept in a password protected computer. Only the researcher and supervisor have access to the data.

3.10. Trustworthiness and rigor of the study

The following discussion will focus on the strategies used by the researcher to ensure trustworthiness of the study. It is important to note that requirements for demonstrating rigor in qualitative studies vary from those required in quantitative studies. According to Maher et al. (2018), the requirements of reliability, replication and validity generally associated with demonstrating rigour in quantitative studies are less applicable to qualitative studies. Maher et al. (2018) further submit that trustworthiness is considered a more appropriate criterion for evaluation qualitative studies. To ensure trustworthiness, Guba and Lincoln (1989) propose that the research should satisfy four criteria namely credibility, transferability, dependability and confirmability.

3.10.1. Credibility

Credibility establishes whether the research findings represent plausible information drawn from the participants' original data and correctly interpret the participants' original views (Gunawan, 2015). Credibility ensures that the study measures what is intended and is a true reflection of the reality of the participants (Maher et al., 2018). The researcher had prolonged engagements with the participants. To improve the validity of the data, the research supervisor was also involved in coding, analysis, and interpretation of results. Before finalising the study, the researcher shared the data, interpretations, and conclusions with the participants to verify the study's credibility. This was done to confirm the interpretation of the meaning of the findings from the participants.

3.10.2. Transferability

Transferability is the ability of the research findings to be transferred to other contexts or settings (Maher et al., 2018). In this study, the researcher provided a detailed description of not just the experiences of the participants but their context as well so that the experiences become meaningful to an outsider. This helps future researchers to evaluate whether the results are applicable to other contexts. However, limitations of the study should be considered before applying the findings to another context.

3.10.3. Dependability

Dependability refers to data stability over time and over conditions (Kemparaj & Chavan, 2013). Dependability ensures the process is described in sufficient detail to facilitate another researcher to repeat the work (Maher et al., 2018). The researcher clearly described the research steps taken from the start of the research project to the reporting of the findings. The records of the research path were kept throughout the study. This provides an audit trail that can be used in the future.

3.10.4. Confirmability

Confirmability is concerned with establishing that data and interpretations of the findings are not creations of the inquirer's imagination but derived from the data (Gunawan, 2015). The goal of confirmability is to minimise investigator bias by acknowledging researcher predispositions (Maher et al., 2018). The researcher provided an audit trail that describes each step of data analysis from the start of the research project to the development and reporting of the findings.

3.11. Conclusion

This chapter provided the steps followed by the researcher to collect and analyse data. The chapter presented the research philosophy, research design, research method, sampling procedure, data collection method, data collection procedure, ethical considerations, data analysis and the strategies used by the researcher to ensure trustworthiness and rigour of the study. The following chapter presents the research findings.

CHAPTER 4: RESULTS AND FINDINGS

4.1. Introduction

The previous chapter presented the research methodology used in this study. This chapter presents the results and findings from the study.

4.2. Reflection on the data analysis process

Thematic analysis was used to analyse the data. Thematic analysis is a method of systematically identifying, organising and offering insight into patterns of meaning or themes across a dataset (Braun & Clarke, 2006). For this study, thematic analysis was conducted using an inductive approach. According to Braun and Clarke (2006), with an inductive approach to data coding, the codes and themes stem from the data. Using the inductive approach, the researcher used the six steps of thematic analysis suggested by Clarke, et.al (2015). Firstly, the interviews were transcribed and then the interview outcomes were analysed using the open coding process. Gallicano (2013) defines open coding as a process whereby the researcher goes through the data several times and then starts to create tentative labels for chunks of the data that summarise what is happening based on the meaning that emerges from the data. From there, examples of participants' words and established properties of each code were recorded. Initial codes were generated and collated into themes. A thematic map was developed by checking if the themes make sense in relation to the codes and the entire data set. Thereafter, the themes were defined, and named accordingly as shown on Table 4.1.

4.3. Background information of the participants

The first interview question focused on the participants' background information. Participants were asked to describe their duties, work experience and tenure in the respective insurance firms that they worked for. This information was important because the respondents' competence of answering questions correctly depended on their work experience and the period in which they had worked in their respective organisations.

4.4. Themes generated from the data

The study sought to explore the factors determining the supply of micro insurance in the South African insurance market. The study looked at both insurers that are currently supplying micro insurance and those that are not. By looking at both sides, the study sought to answer the following two questions:

- For insurers who are currently supplying micro insurance: What factors influence these insurers to supply this product?
- For insurers who are currently not supplying micro insurance: What factors influence these insurers to not be involved in the micro insurance market?

Table 4.1 presents the themes that were developed from that data.

Table 4.1 Themes generated from the study

Major themes	Sub-theme(s)	Notes
1. Micro insurance context	• Life insurance and non-life insurance • Funeral insurance	• Products offered (funeral insurance, cell phone insurance, credit life insurance). • Dominance of funeral insurance • Cell phone insurance showing potential for growth.
Factors for supplying or not supplying micro insurance		
2. Distribution		• Marketing, sales, premium collection, policy administration and claims payment. • Availability of low cost and effective distribution channels encourages insurers to supply micro insurance. • Unavailability of affordable and effective distribution channels discourages insurers to supply micro insurance.
3. Availability of historical data		• Historical data is used to predict future risk.

		● Insurers with technology and access to data that is specific to the low-income market are encouraged to offer micro insurance products because they can predict future risk and determine the price of insurance. Hence, balancing affordability and business sustainability. ● Inversely, insurers with limited technology and access to data are discouraged to offer micro insurance because of limited basis to predict future risks.
4. Transaction costs		● Costs incurred when selling micro insurance. ● Low transaction costs encourage insurers to supply micro insurance. ● High transaction costs discourage insurers from supplying micro insurance.
5. Pricing		● Premiums set by the insurance companies. ● Affordability is a fundamental principle of micro insurance. ● Historical data is used to predict risks and determine the pricing of micro insurance.

		• Insurers who can offer affordable premiums and still make profit are encouraged to offer micro insurance. • Inversely, insurers who cannot offer low premiums based on their operational costs are discouraged from supplying micro insurance.
6. Regulation		• Governance of micro insurance. • Supportive legislation encourages the supply of micro insurance. • Restrictive legislation discourages the supply of micro insurance.

It is important to recall that the main purpose of the study was to explore the factors determining the supply of micro insurance in the South African insurance market. The main research question was, what do insurers consider when deciding whether to supply micro insurance to low-income people? To answer the main research question, sub questions were created to give a comprehensive answer. The first question focused on providing the context of micro insurance in South Africa. The aim was to understand the services offered and the reasons for offering those services. The second question specifically focused on the factors considered by insurers when deciding whether to supply micro insurance or not.

4.4.1. Theme 1: Micro insurance context

It was important to offer a South African micro insurance context before presenting factors that determine the supply of micro insurance in South Africa. In this study, this theme is referred to as the "Micro insurance context". This theme provides the reasons and context of services offered by insurance suppliers in South Africa. Two sub-themes came out strongly from this theme: life insurance and non-life insurance. A life insurance policy covers a life event, health event, disability event or death event (Insurance Act 18, 2017). On the other hand, a non-life insurance policy covers an unplanned or uncertain event, other than a life event, death or disability event not resulting from an accident (Insurance Act 18, 2017).

4.4.1.1. Sub-theme 1: Life insurance

The findings from the study revealed that in the South African micro insurance market, life insurance is more dominant than non-life insurance. In the life insurance category, funeral insurance is dominant. Funeral insurance is defined as a type of life insurance product where the benefit is used towards funeral expenses (Bester, Chamberlain & Hougaard, 2009). The following extracts taken from the transcribed data represent what was shared by the participants whose organisations offered life insurance:

Participant 3:

> *"We are a life insurance company. Our focus is to serve *** residents in South Africa, who wish to be repatriated to *** in the unfortunate event that they pass on. We provide a convenient and affordable solution through the *** International plan."*

Participant 7:

> *“Our organisation has cell captives with *** Life Limited and we specialise as underwriting managers for *** and other financial services providers”.*

Participant 5:

> *“Yes, we offer micro insurance. We are one of the first insurance companies to get a formal micro insurance license in 2021. We offer funeral insurance. Our plan provides cover to the principal member, spouse and children below the age of 23. Other dependents and children above the age of 23 are covered at an additional premium.”*

Participant 8:

> *“We do micro insurance. We specialise in funeral cover. We offer funeral services because people need to have peace of mind so that their families and beneficiaries do not suffer in the unfortunate event of their deaths.”*

Insurers interviewed are of the view that providing funeral insurance makes business sense since there is high uptake of funeral insurance by low-income groups. One can argue that the high uptake can be attributed to the socio-cultural value placed on dignified funerals in South Africa.

4.4.1.2. Sub-theme 2: Non-life insurance

The findings from the study revealed that there is limited up-take of non-life insurance products in the low-income market. In the non-life category, cell phone insurance is gaining momentum in the low-income market. The following extracts taken from the transcribed data represent what was shared by the participants whose organisations offered life insurance:

> Participant 8:
>
> *“We also cover small personal items, particularly cell phones, but our main focus is on funeral insurance.”*
>
> Participant 17:

"We recently designed a new product which covers shacks and informal houses. Low-income people can buy insurance for their assets. If they are insuring their cell phones, I am sure they will also see value in insuring their homes"

Participants indicated that the uptake of non-life insurance is low and is mainly limited to cell phone insurance.

4.4.2. Factors that determine the supply of micro insurance

The main objective of the study was to explore the factors that influence insurance suppliers to supply or not to supply micro insurance. Participants were asked to discuss what influenced their organisations to supply or not supply micro insurance. Five themes emerged from the data. These themes refer to the factors that insurance suppliers consider when deciding to supply or not to supply micro insurance. Figure 4.1 summarises the factors that insurance suppliers consider when deciding whether to supply micro insurance.

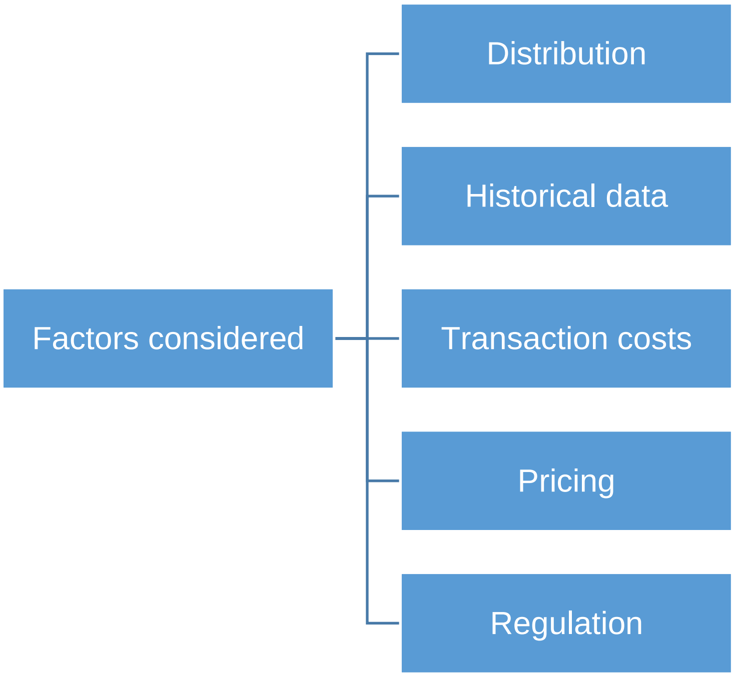

Figure 4.1 Factors considered

4.4.2.1. Theme 2: Distribution

Distribution is not only limited to sales activities; it involves a variety of administrative and intermediation activities necessary to deliver the product to the customer (Churchill, 2007). These activities include marketing, sales, premium collection, policy administration and claims payment (Churchill, 2007). Participants indicated that their organisations consider distribution when deciding whether to supply insurance to low-income people. The following extracts highlight some of the responses from the interviews:

Participant 3:

> *"We look at factors like distribution and how the premium will be collected. In our case, reaching the clients has become much easier since we introduced the chatbot on WhatsApp. When it comes to premiums, we do not collect premiums via debit orders. Our clients make payments at retail shops."*

Participant 1:

> *"We spent a lot of time segmenting the market carefully and we realised that there are things we can do and things we cannot do. For instance, for the segment that earns less than R4 500.00 per month, we do not have a solution yet, but we are working with donor organisations globally in order to find a systemic solution to address the risks that are faced by people in that segment. If for example you want to reach rural clients, you need a high touch distribution model which means high cost."*

Participant 13:

> *"The distribution is expensive, so you might need to go to retailers. To reach that market, you have to pay someone to be on the ground and distribute your product. The amount of business I will need to sell per day will be 10 times more than what the normal commercial or personal lines insurance salesman sells per day in order to make it profitable. So, you know, in my mind that is the only way to really distribute micro insurance."*

Participant 4:

> *"We look at a number of factors like how to reach the client and distribute the product. It is generally difficult for insurance companies to reach low-income people. However, we managed to have a partnership with a remittance company, ***, which already had a wide customer base of low-income people. Our funeral plan is linked to the services of the remittance company. The cost of distribution is fairly low because of the partnership with **** Company."*

All the participants pointed out that distribution is one of the factors that they consider when deciding whether to supply micro insurance or not. Insurers who are currently supplying micro insurance indicated that they utilise partnerships with delivery channels that already have financial transactions with the low-income market such as retail shops (like PEP stores), trade unions and community organisations. Thus, reducing distribution and cost and increasing access to low-income markets. However, insurers who are not supplying micro insurance indicated that it is costly to reach the low-income market.

4.4.2.2. Theme 3: Availability of historical data

Historical data is data collected about past events and circumstances pertaining to a particular subject (Zeng, 2000). The study found out that insurance companies consider the availability of historical data of their target market when deciding to supply micro insurance. The following extracts represent what was shared by the participants:

Participant 10:

> *"Insurance companies need data to input actuarial models for designing policies and estimating premium prices. We need this data to predict the future profitability of policies based on informed assumptions. Micro insurance is fairly new, compared to other classes of insurance and unfortunately, there is no sufficient data and our ability to make informed decisions is hampered. The industry has a short track record with micro insurance. In order for us to come up with the right products and prices, we will need to invest in research and development which also comes at a price*."

Participant 12:

> *"If we were to offer micro insurance, we would also have to invest heavily in technology which will also be costly. Another reason is that micro insurance is still new in South Africa and there is not enough historic data available for us to determine the prices. Without enough data, the price of insurance generally goes up which is actually against the fundamental principle of micro insurance that it must be affordable."*

Participant 1:

> *"We have not yet familiarized ourselves with the low-income market. At the moment, there is not enough information for us to design and price products for this market. We will need to invest in research and technology, and we don't think it's worth it, considering the fact that the micro insurance must be cheap."*

Participants indicated that availability of historical data is one of the factors that they consider when deciding whether to supply micro insurance or not. Insurers who are currently supplying micro insurance indicated that they had access to technology and historical data that is specific to the low-income market. Historical data is important in predicting future risk and determining the price of insurance. On the other hand, the insurers who do not supply micro insurance indicated that limited technology and access to data discourages them to offer micro insurance because of limited basis to predict future risks.

4.4.2.3. Theme 4: Transaction costs

Transactional costs came out strongly as one of the factors considered when deciding whether to supply insurance to low-income people. Transaction costs refer to the costs a company incurs during the selling of a micro insurance product (Skogh,1989). Participants indicated that their organisations considered transactional costs as a factor to consider before deciding to supply or not to supply micro insurance. The following extracts represent what was shared by the participants:

Participant 9:

> *"This line of business has high transaction costs as it involves large volumes of very small polices. The costs are very high in relation to the premium that we will collect per policy. When we offer products to clients, we look at costs involved in delivering the products. The premiums that we receive must be able to cover the transaction cost as well as the expenses involved in order for the business to be profitable."*

Participant 2:

> *"At the moment, we don't believe that micro insurance is viable for us. This is something that we can do as a social initiative but not as a business. Micro insurance must obviously be affordable. The premiums must be low. The costs involved in marketing and distributing micro insurance are high in relation to the premium that we will collect. In this regard, we believe that micro insurance will not be profitable for us."*

Participant 17:

> *"Ok, like any other business, the profitability of insurance has to do with the amount of premium that you collect by unit versus your costs, right? The costs are too high relative to the premium. If we factor in claims expenses, we are left with nothing."*

Participant 4:

> *"It is very important to offer insurance to the low-income market. However, it has to make financial sense. At the moment, we do not think this line of business is profitable. This line of business has high transaction costs as it involves large volumes of very small polices. The costs of marketing, distributing and administering these policies is very high in relation to the premium that we will collect per policy."*

Micro insurance has high transaction cost as it involves large volumes of small policies (Churchill, 2007). Findings indicate that insurers who are currently supplying micro insurance have mechanisms to minimise transactional cost. On the other hand, insurers with no sustainable mechanisms to manage transaction costs end up deciding not to supply micro insurance. Most of the insurers interviewed highlighted high transactional costs as a factor influencing most insurance companies not to supply micro insurance.

4.4.2.4. Theme 5: Pricing

Pricing came out strongly as one of the factors considered when deciding whether to supply insurance to low-income people or not. Insurance pricing is the rate of charges or premiums set by the insurance companies (Bulti, 20r18). The study found out that insurance companies consider the pricing when deciding to supply micro insurance. The following extracts represent what was shared by the participants:

Participant 12:

> *"Micro insurance is still new in South Africa and there is not enough historic data available for us to determine the prices. Without enough data, the price of insurance generally goes up which is actually against the fundamental principle of micro insurance that it must be affordable."*

Participant 4:

> *"We will need to invest in research and technology, and we don't think it's worth it, considering the fact that the micro insurance must be cheap."*

Participant 9:

> *"Micro insurance involves large volumes of small policies. The cost per policy is high, and this puts pressure on the price of the policies."*

Participant 10:

> *"Insurance companies need data to input actuarial models for designing policies and estimating premium prices. We need this data to predict the future profitability of policies based on informed assumptions. Micro insurance is fairly new, compared to other classes of insurance and unfortunately, there is no sufficient data and our ability to make informed decisions is hampered."*

Affordability is a fundamental principle of micro insurance. Findings indicate that insurers who can offer affordable premiums and still make profit are encouraged to offer micro insurable. On the other hand, insurers who cannot afford to offer low premiums based on their operational costs are discouraged from supplying micro insurance.

4.4.2.5. Theme 6: Regulation

Insurance regulation refers to the government overseeing the insurance market to ensure fairness and professionalism among those working for the insurance industry (Microinsurance Network, 2015). Participants indicated that their organisations consider regulation when deciding whether to supply insurance to low-income people. The following are sentiments of some participants:

Participant 13:

> *"Historically, micro insurance was not regulated and has always been dominated by funeral homes, which is a barrier for us. Funeral homes have a very bad reputation in the insurance industry, but we said if we want to reach the low-income market, we actually have to partner with them because they are most trusted by our clients and they have the best representation in the market."*

Participant 5:

> *"Yes, we offer micro insurance. We are one of the first insurance companies to get a formal micro insurance license in 2021 following the passing of the new Insurance Act. We offer funeral insurance. Our plan provides cover to the principal member, spouse and children below the age of 23."*

The insurers interviewed held the view that regulations governing micro insurance must strike a balance between consumer protection and enabling market development. Supportive legislation encourages the supply of micro insurance. On the other hand, restrictive legislation discourages the supply of micro insurance.

4.5. Conclusion

This chapter presented the findings of the study. The researcher presented the deduced themes and made use of extracts to support the themes. It is important to recall that the main purpose of the study was to explore the factors determining the supply of micro insurance in the South African insurance market. Five factors came out strongly from this study: namely distribution, historical data, transaction costs, pricing, and regulation. The next chapter will discuss the findings of the study.

CHAPTER 5: DISCUSSIONS OF FINDINGS

5.1. Introduction

The previous chapter presented the findings of the study. The chapter first provided the background of the participants. This information was vital in giving readers a profile of participants and their suitability in responding to the interview questions. Information such as participants’ job descriptions, tenure and experience in insurance were explored. The chapter further provided the findings on micro insurance context in South Africa and factors insurers consider when deciding to supply or not supply micro insurance. Using an inductive thematic data analysis method, six main themes came from the data analysis. The research questions and objectives of the study guided the presentation of results.

Before discussing the findings, it is pertinent to reflect on the objectives of the study. Firstly, the study focuses on understanding the context of micro insurance. Secondly, the study discusses the factors that influence the supply of micro insurance in South Africa. Based on the findings, the study will develop strategies and approaches to increase the supply of micro insurance in the South African insurance market. It should be noted that legislation, and literature will be used to support the discussions.

5.2. Reflecting on the objectives of the study

It should be recalled that the study sought to explore the factors determining the supply of micro insurance in the South African insurance market. Additionally, the study sought to analyse how these factors contribute to developing strategies and approaches to increase the supply of micro insurance in the South African insurance market. The study focused on both insurers currently providing micro insurance and those not providing micro insurance. It was vital to explore both sides to address the questions that prompted this study.

5.3. Discussion

5.3.1. The context of micro insurance in South Africa

Micro insurance in South Africa operates within a complex socio-economic landscape, aiming to provide affordable and accessible insurance solutions to low-income populations often excluded from traditional insurance markets (Wrede et al., 2016). The first objective of the study was to explore the context of micro insurance in South

Africa. Results from the study reveal that the micro insurance sector encompasses both life and non-life products (as shown in Figure 5.1), each with its challenges and opportunities.

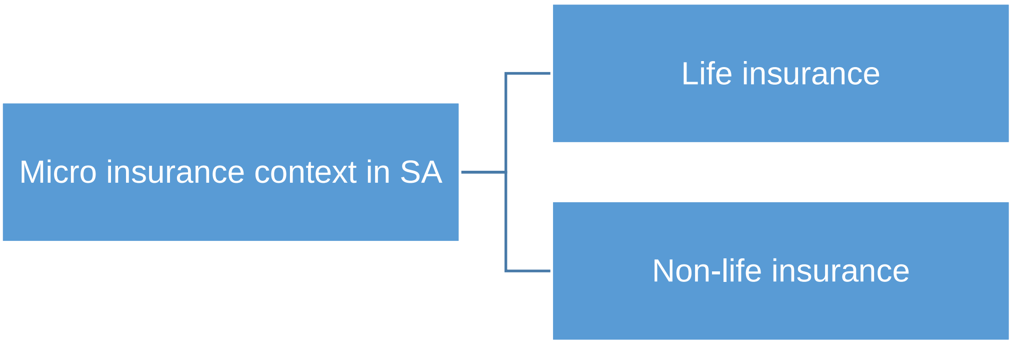

Figure 5.1: Micro insurance context in South Africa

5.3.1.1. Life micro insurance

Life micro insurance products in South Africa primarily cover life, health, disability, and funerals (Insurance Act 18 of 2017). Findings reveal that funeral cover is dominant in the life insurance category. In line with this finding, Magazi (2019) submits that funeral cover remains the dominant micro insurance cover in South Africa. It can be argued that the dominance of funeral insurance in the low-income market can be attributed to the high social and cultural value placed on dignified funerals. This insight is also aligned with Chummun and Bischoff (2014a), who also found a high cultural expectation of having a dignified funeral in South Africa. This then makes funeral insurance attractive even to lower-income groups. Based on the results of the current study and literature, it is plausible to argue that there are opportunities for growth for the life micro insurance landscape if there is a formal regulatory framework that is fair, professional and protected (for both clients and insurers).

Participants representing insurers under study highlighted that there are challenges in providing life insurance services despite life micro insurance's importance and promising growth. For instance, many burial societies operate informally, lacking proper regulatory oversight and financial stability. This lack of regulation can expose members to risks such as fraud and insolvency, raising questions about the reliability and sustainability of these schemes (Keller, 2021). This will, in turn, taint the image of life microinsurance in South Africa. Strategies should be developed to increase and safeguard life micro insurance in South Africa.

5.3.1.2. Non-life micro insurance

The non-life micro insurance policy covers an unplanned or uncertain event, other than a life event, death or disability event not resulting from an accident (Insurance Act 18 of 2017). In other words, non-life micro insurance products in South Africa cover a range of risks, including property, health, and agriculture. For example, weather-indexed insurance products protect small-scale farmers against crop losses due to adverse weather conditions. Similarly, health microinsurance schemes offer coverage for essential healthcare services and hospitalisation expenses. Insights from this study indicate that there is limited up-take of these products. This is due to affordability and lack of awareness of the value proposition offered by such products. This finding is consistent with a study by Alhassan and Magazi (2021) who found that despite introducing new and diversified services aimed at the low-income market, non-life insurance has received limited subscriptions in the low-income group in South Africa. Despite this, there are some interesting emerging trends.

In the non-life insurance category, cell phone insurance is gaining momentum in the low-income market. Cell phones play a critical role in enhancing personal and business communications. The increase in reliance on mobile phones for personal, educational and business use has resulted in the voluntary take-up of cell phone insurance, the only asset-based insurance product starting to achieve some uptake. A previous study by KPMG (2017), revealed a similar trend. One of the critical challenges facing non-life micro insurance is the affordability of premiums relative to the level of coverage provided. Lazar and Davenport (2015) submit that the challenge of affordability is mainly because low-income households often face competing financial priorities and may struggle to afford insurance premiums, especially when low coverage limits. Additionally, adverse selection and moral hazard can affect the sustainability of non-life micro insurance schemes, particularly in the absence of effective risk management and underwriting practices (Lazar & Davenport, 2018).

Considering the context of micro insurance in South Africa, a few things can be deduced from the insights shared above. It is acknowledged that while micro insurance has the potential to enhance financial resilience and improve access to essential services for low-income households in South Africa, its effectiveness is contingent upon addressing several key issues, such as regulatory framework, design of tailor-made products, affordability, awareness issues, and sustainability challenges.

Firstly, the informal nature of many micro insurance schemes underscores the need for robust regulatory frameworks to ensure consumer protection and financial stability. Regulatory authorities must strike a balance between promoting innovation and safeguarding the interests of vulnerable consumers. Moreover, micro insurance products should be designed to meet the needs and financial constraints of low-income populations. Premiums must be affordable, and coverage should be tailored to address the targeted communities' specific risks. Furthermore, promoting financial literacy and raising awareness about the value of insurance is crucial for increasing uptake and trust in micro insurance products. Consumers must understand their rights and obligations under insurance contracts to make informed decisions. Moreso, insurers must adopt sound risk management practices to ensure the long-term viability of micro insurance schemes. This includes investing in data analytics, diversifying risk pools, and implementing effective claims management processes.

It can be argued that while micro insurance is promising to promote financial inclusion and resilience in South Africa, its success hinges on addressing regulatory, design, affordability, awareness, and sustainability challenges. By adopting a critical perspective and engaging stakeholders across sectors, policymakers, insurers, and civil society organisations can work together to unlock the full potential of micro insurance in improving the lives of low-income communities. The following section will discuss the factors determining the supply of micro insurance in South Africa.

5.3.2. Factors determining the supply of micro insurance in South Africa

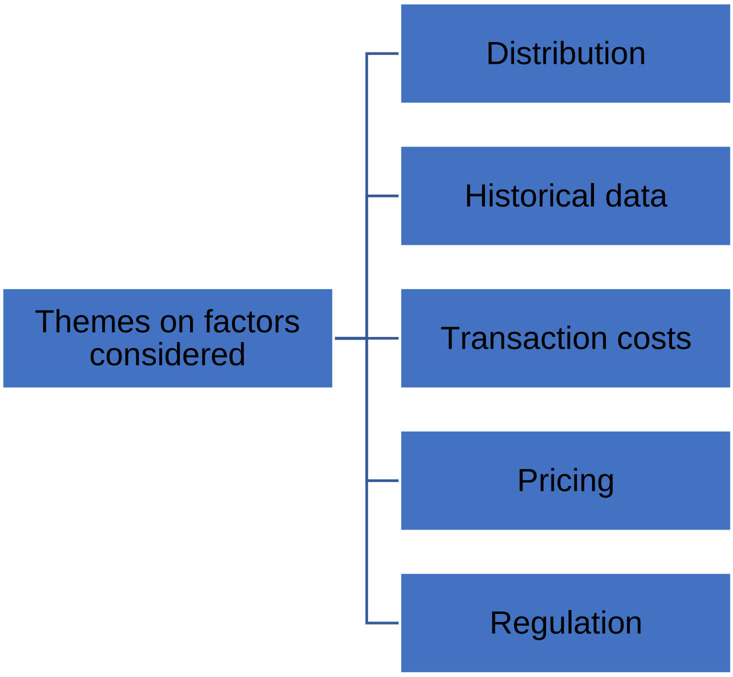

Figure 5.2: *Themes representing factors considered by insurers*

The main objective of the study was to find out the factors that determine the supply of micro insurance in South Africa. The study sought to understand factors that influence the decision to supply or not to supply micro insurance. Hence, the insurers' perspective was critical in that regard. The study found five main themes that represent the factors that are mainly considered by insurers when deciding whether to offer micro insurance services or not. Figure 5.2 indicates that insurance suppliers offering micro insurance consider factors such as distribution, availability of historical data, transaction costs, pricing and the governing regulations. The section below will discuss these factors in detail.

5.3.2.1. Distribution

Micro insurance insurers consider activities such as marketing, sales, premium collection, policy administration, and claims before deciding whether to supply coverage or not. This means that insurers who can (according to their capacity) develop innovative and sustainable marketing, develop creative ways of generating sales, effective premium collection methods, policy administration, and the ability to process claims are more likely to consider offering micro insurance services. Inversely, when distribution is expensive (high cost and low gains), insurers consider not offering the services because the distribution costs exceed the expected income. Additionally, in inaccessible remote areas, distribution of micro insurance services becomes a challenge. A study by Chummun and Bischoff (2014a) found that insurers facing challenges in the distribution of micro insurance end up not providing services to areas beyond their reach.

Insights from the study indicate that effective distribution channels are critical for reaching underserved populations with micro insurance products. Insurers must leverage existing networks, such as microfinance institutions, community organisations, and mobile platforms, to facilitate product distribution and sales (Braun & Schreiber, 2017). Therefore, cost-effective distribution channels are a critical determinant of micro insurance supply. Therefore, there is a need for insurers, government, private entities and non-government organisations (NGOs) to improve the accessibility and efficiency of distribution channels to influence the availability and uptake of micro insurance. In support of Braun and Schreiber (2017), Rendek (2012) stress the need to make formal legal partnerships between insurers and distributors such as retail stores and NGOs. This is consistent with what was highlighted by Chummun and Bisschoff (2014) in their model that was developed to measure the business success of micro insurance in South Africa. Distribution channels (as one of the 15 variables) was highlighted as one of the factors considered by micro insurance firms when considering offering micro insurance. Business success depends on cost effective distribution channels that will increase profit.

5.3.2.2. Availability of historical data

Historical data on claims experience and risk profiles are essential for pricing and underwriting micro insurance products. Investing in data collection and analysis capabilities can improve insurers' ability to predict and manage risks effectively, thereby enhancing the supply of micro insurance (Churchill & McCord, 2012). In South Africa, where data may be limited or unreliable because micro insurance is still new (Kumar, 2016), insurers need help accurately assessing risk and setting premiums. Insurers often rely on proxy indicators and data from similar markets to inform their pricing decisions. In line with this submission, Odenyo (2018) submits that most low-income people are first-time insurers, hence limited underwriting data.

Insurers surveyed pointed to the use of historical data as an important factor considered predicting and calculating risk. In other words, data availability helps insurers to balance the need to make a profit and the need to make their services affordable. Insurers with access to technology and data from research and the capabilities to analyse the data will be able to judge if it is sustainable to offer micro insurance. For example, if the available data can predict future risk, pricing and underwriting, providing micro insurance will make financial sense to insurers. Insights from the study indicate that insurers with the technology and access to historical data relevant to their market are most likely to balance the need to make a sustainable profit and offer affordable services to the low-income market.

The notion of affordability is the underlying principle of micro insurance. South African insurers point to limited historical data as a barrier to the supply of micro insurance since it makes it difficult for insurers to predict future losses. As a result, the pricing of micro insurance services becomes difficult. In most cases, the uncertainty can influence insurers not to provide micro insurance because they might overcharge or undercharge clients. Therefore, this forces insurers to refrain from offering micro insurance. The results are supported by Odenyo (2018), who posits that the unavailability of data poses a significant threat to insurers' profitability and sustainability. Hence, this discourages insurers from serving micro insurance to the low-income market.

From the above-shared views and insights from the study, it is plausible to argue that the availability of adequate and relevant data, technology to make use of the data and capabilities of the insurers are essential in influencing micro insurance suppliers to decide to offer or not to offer micro insurance. It should be noted that, historical data as factor, brings in an additional variable to the model that was used as the theoretical framework for this study. The model (Chummun & Bisschoff, 2014) is based on 15 factors, however, the present study found that availability of historical data is also an important factor that determines success of micro -insurance firms.

5.3.2.3. Transaction costs

In this study, transactional costs refer to the costs an insurance company incurs when selling micro insurance. In other words, these are the costs of providing a service. These costs are associated with underwriting, administration, and claims processing, significantly impacting the supply of micro insurance. Insurers surveyed pointed to high transaction costs as another factor they consider. In other words, insurers are most likely to supply micro insurance when the transactional costs are lower than the income they get from providing micro insurance services to low-income markets. Low transactional costs incentivise insurers to offer micro insurance because it is financially viable. However, high transactional costs can erode profitability and make it financially unviable for insurers to offer microinsurance to low-income clients. Insurers must implement efficient processes and leverage technology to streamline operations and reduce transaction costs. Moreover, partnerships and economies of scale can help spread fixed costs across a more extensive customer base, making micro insurance more feasible (Keller, 2021).

5.3.2.4. Pricing

Pricing micro insurance products in South Africa requires careful consideration of affordability and sustainability. Premiums must be set at levels that low-income households can afford while ensuring they cover claims and administration costs. However, pricing too low may lead to under-pricing risk and jeopardise the financial viability of micro insurance schemes. Insurers must balance affordability and actuarial soundness to attract customers and maintain long-term sustainability (Odenyo, 2018). Data is essential in predicting future losses. So, the setting of pricing depends on considering the future risks and costs involved. However, the underlying principle is to make the insurance products affordable and, at the same time, make a profit. Insurers who can minimise costs when offering the service are likely to consider offering micro insurance. However, if the costs are too high, it causes premiums to be high as well to offset those costs. This will then defeat the underlying principle of micro insurance. Consequently, insurers will not offer micro insurance because their target market will not afford it. It is for this reason that Mazambani and Mutambara (2018) recommend that insurers must make the pricing of premiums affordable to attract low-income markets and create the necessary demand. Furthermore, one must be cautious not to conclude that making the services affordable does guarantee profitability and business sustainability. Other factors, such as marketing and raising product awareness, can improve profitability and sustainability. This view is premised on Huneberg's (2022) study that found that a lack of understanding of product benefits and low levels of trust in insurance providers can negatively influence micro insurance penetration on the demand side. Hence, it affects the supply of micro insurance inversely. This is also supported by the theoretical framework developed by Chummun and Bisschoff (2014).

5.3.2.5. Regulatory concerns

The regulatory environment significantly influences the decision to supply micro insurance. This study found that insurers hold the view that regulations governing micro insurance must strike a balance between consumer protection and enabling market development. Regulatory barriers, such as excessive capital requirements and complex licensing procedures, can deter insurers from entering the micro insurance market. Conversely, supportive regulations that provide clarity, flexibility, and incentives for innovation can foster the growth of microinsurance and enhance consumer confidence. Chummun (2017), argues that a formalised, professional, fair regulation framework can benefit insurance service providers and recipients. When the Insurance Act 2017 was enacted in 2018, one of its primary objectives was to introduce a legal framework for micro insurance to promote financial inclusion (Insurance Act, 2017). However, there is no tangible evidence to support the notion that the changes to the regulatory framework in 2018 increased the supply of micro insurance in South Africa.

Summarily, the decision to supply micro insurance in South Africa is influenced by a combination of distribution channels, pricing considerations, transaction costs, availability of historical data, and the regulatory framework. Insurers must navigate these factors strategically to develop sustainable micro insurance solutions that meet the needs of low-income populations while ensuring financial viability and compliance with regulatory requirements. The following section will be on strategies that can be used to increase micro insurance in South Africa.

5.4. Identified factors' contribution to developing strategies and approaches to increase the supply of micro insurance

The study also sought to develop strategies and approaches to increase the supply of micro insurance in South Africa. A combination of distribution channels, pricing considerations, transaction costs, availability of historical data, and the regulatory framework influences insurers' decision to supply microinsurance in South Africa. These factors contribute to developing strategies and approaches to increase the supply of micro insurance in different ways explained below.

5.4.1. Strengthening distribution channels

Insights from the study can help insurers develop innovative distribution channels tailored to the needs of low-income populations such as mobile platforms and community-based agents. Insurers should partner with microfinance institutions, community organisations, and employers to expand the reach of micro insurance to underserved communities. Siloya (2022) states that using partnerships and enhancing technology supports distribution. Moreso, Nzembela and Mazambani (2019) indicated that most insurance products are not designed and distributed with consideration of cultural diversity. Insurers are encouraged to develop strategies considering cultural backgrounds to address this lack of inclusivity.

5.4.2. Optimising pricing and cost structures

There is a need to address the challenges of determining the correct pricing for insurance premiums. Insurers are encouraged to conduct market research to understand the affordability constraints and risk perceptions of the low- income people as their target market. This can be complemented by implementing flexible pricing models and exploring opportunities to reduce transaction costs through digitalisation and process optimisation (Huneberg, 2022).

5.4.3. Enhancing data collection and analysis

Insurers should invest in data collection and analytics capabilities to improve risk assessment and underwriting processes. Collaborating with industry stakeholders and research institutions to gather reliable historical data and develop risk models tailored to the South African context can be beneficial in getting data to predict future risks.

5.4.4. Advocating for supportive regulation

There is a need to ensure good governance in micro insurance. There is a need for a supportive legislative framework and transparent, consistent implementation by regulators. The strategy will be to engage with regulators to advocate for regulatory reforms that promote financial inclusion and remove barriers to entry for micro insurance providers. Insurers should participate in industry associations and working groups to shape policy discussions and promote best practices in micro insurance regulation.

5.4.5. Promoting financial literacy and consumer awareness

Findings from the study can inform strategies and approaches to developing educational programs and campaigns to raise awareness about the benefits of micro insurance and improve financial literacy among low-income populations in South Africa. Insurers should collaborate with government agencies, NGOs, and community leaders to disseminate information and empower consumers to make informed decisions about insurance products.

5.5. Conclusion

The main aim of the study was to understand the factors considered by the insurers when deciding to offer micro insurance to low-income households in South Africa. Firstly, the chapter discussed the context of micro insurance in South Africa and provided the life and non-life insurance context. Secondly, the chapter discussed how a combination of factors such as distribution channels, availability and access to historical data, pricing, transactional costs and the regulatory framework influence the decision of whether insurers will supply micro insurance or not. Lastly, the chapter discussed how the identified factors can be used in formulating strategies that could be used by insurers, government and NGOs in further developing and growing micro insurance and cater for the low-income market.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1. Introduction

The previous chapter discussed the findings of the study. This chapter starts by summarising the findings of the study. The synthesis is guided by the research questions and the objectives of the study. The chapter also provides the conclusions drawn from the study. The presentation of conclusion is guided by research questions and objectives of the study. The chapter also presents the limitations of the study and provides recommendations to insurers, government, and future researchers.

Table 6.1: Summary of key findings

Research Questions	Objectives	Findings
What is the context of micro insurance in South Africa?	To understand the micro insurance context in South Africa.	● Life micro insurance is dominated by funeral insurance. ● Cell phone insurance is increasingly being recognised as a potential non-life insurance product.
What do insurers consider when deciding whether to supply micro insurance to low-income people?	To explore the factors determining the supply of micro insurance in the South African insurance market.	● Factors such as distribution, historical data, transaction costs, pricing and regulatory framework are the most common factors that influence the decision for insurers to supply or not supply micro insurance. ● Both insurers that supply and not supply consider the above-mentioned factors. ● It has to make business sense to offer micro insurance. ● Insurers balance the need to make profit and the need to offer affordable micro insurance services. ● Only those with the resources to minimise the distribution cost and transaction costs, effect “right pricing” and navigate the challenges of the legislative framework are motivated to supply micro insurance.
How do the identified factors contribute to developing strategies and approaches to	To analyse how these factors contribute to the development of strategies and	● Strengthening distribution channels through partnerships. ● Optimising pricing and cost structures.

increase the supply of micro insurance in the South African insurance market?	approaches to increase the supply of micro insurance in the South African insurance market.	• Enhancing data collection and analysis to improve predicting risks. • Promoting financial literacy and consumer awareness. • The government must facilitate hard and soft infrastructure in many rural areas for better accessibility. • Creating a centralized database that can be used to store customer details to manage information asymmetry. • Implementing, monitoring and evaluating consistently and transparently supportive regulations to safeguard insurers and recipients of micro insurance services.

Source: Table developed by the researcher

6.2. Conclusions drawn from the study

6.2.1. The context of the micro insurance in South Africa

Firstly, the study sought to provide the context of micro insurance in South Africa. Micro insurance in South Africa consists of life and non-life insurance. Funeral cover is the dominant product that insurers supply in the life insurance category. On the other hand, cell phone insurance is a promising product in the non-life market in low-income households. It was also noted that while micro insurance holds promise as a tool for promoting financial inclusion in South Africa, its success depends on addressing regulatory, design, affordability, awareness issues and sustainability challenges. Through the application of a critical perspective and engaging stakeholders across sectors, policymakers, and civil society organisations, insurers can work together to unlock the full potential of micro insurance in improving the lives of low-income communities.

6.2.2. Factors considered by insurers in their decision to supply or not supply micro insurance

From the findings, it can be concluded that among other factors, the decision to supply micro insurance in South Africa is mainly influenced by a combination of distribution channels, pricing considerations, transaction costs, availability of historical data, and the regulatory framework.

6.2.3. Distribution channels

Effective distribution channels serve as the lifeline for extending micro insurance coverage to marginalized communities. Leveraging existing networks, such as micro finance institutions, community organisations, and mobile platforms, increases insurers' reach and enhances accessibility to micro insurance products. The study concludes that insurers with the resources to partner with insurance distributors (at a low cost and in an effective way) are encouraged to supply micro insurance. On the other hand, insurers without access to low cost and effective distribution channels are discouraged to offer micro insurance.

6.2.4. Historical data

Findings of the study contend with previous literature that indicated that historical data analysis is a cornerstone in insurers' risk assessment and premium calculation processes. By harnessing technological advancements and research-driven insights, insurers balance the need to make profit and offer affordable micro insurance. This study underscores the significance of data availability, analytical capabilities, and technological infrastructure in fostering sustainable micro insurance offerings. Therefore, this study concludes that insurers with access and expertise to utilise historical data specific to the low-income people are in a better position to supply micro insurance.

6.2.5. Transaction costs

Consideration of transaction costs plays a decisive role in insurers' decision-making process regarding supplying or not supplying micro insurance. Low transactional overhead incentivises insurers to tap into low-income markets because of their financial viability. Conversely, high transaction costs pose formidable barriers, impeding market entry and eroding profitability. In micro insurance, the need to maintain a balance between risk mitigation and economic feasibility is important. Therefore, the study concludes that low transaction costs encourage insurers to supply micro insurance. On the other hand, high transaction costs discourage insurers from supplying micro insurance.

6.2.6. Regulatory frameworks

Regulatory frameworks have profound influence on the micro insurance landscape, shaping market dynamics and insurers' operational strategies. A conducive regulatory environment fosters innovation and market development, while overly restrictive policies stifle growth and deter insurers from extending their services. This study provides nuances on the interplay between consumer protection imperatives and market enablement. It advocates for a harmonized regulatory approach that balances regulatory rigor with market inclusivity. Therefore, the study concludes that supportive regulatory incentivises insurers to supply micro insurance. Conversely, an unregulated environment acts as a barrier to growth of micro insurance.

6.2.7. Pricing

Affordability stands as a key principle in the provision of micro insurance. This study underscores the need for sustainable pricing strategies that reconcile operational costs with low-income consumers' affordability thresholds. Insurers should cautiously adjust premiums to align with market realities to create a competitive edge, fostering market penetration and long-term sustainability. Conversely, pricing strategies out of sync with market realities risk alienating potential beneficiaries, undermining the overarching goal of financial inclusivity. The study therefore concludes that pricing of micro insurance is influenced by other factors such as historical data, understanding of transaction costs, and the characteristics of the target market. Insurers, with access to data can predict risks and set premiums that will be affordable and make them profitable. On the other hand, insurers without a basis for setting the "right prices" end up deciding not to supply micro insurance.

6.3. Identified factors' contribution to developing strategies and approaches to increase the supply of micro insurance

Lastly, the study sought to develop strategies and approaches to increase the supply of micro insurance in South Africa. Strategies such as using partnerships to mitigate the costs of distribution and increasing the market reach were suggested. Moreso, investing in technology that gathers and analyses insurance data is important in predicting risks, which is key in the pricing of micro insurance. The study concludes that strategies that leverage market insights, foster innovation, and advocate for supportive policies, can expand access to affordable and sustainable micro insurance solutions for low-income populations. Thus, increasing the demand for and supply of micro insurance in South Africa.

6.4. Recommendations

6.4.1. Insurance service providers

The study provided factors that insurers consider when deciding whether to supply micro insurance to low-income markets or not. Findings from the present study can be used by insurers to have a better insight and create inclusive strategies and approaches to improve and increase micro finance to low-income households. The study offered some suggestions that could be useful in addressing the challenges that insurers and low-income people in South Africa face. To insurers, the following recommendations are made:

6.4.1.1. Strengthening distribution channels

Insights from the study can help insurers develop innovative distribution channels tailored to the needs of low-income populations, such as mobile platforms and community-based agents. Insurers are advised to partner with microfinance institutions, community organisations, and employers to expand the reach of microinsurance to underserved communities. Thus, using partnerships and enhancing technology supports distribution. Insurers are also encouraged to develop micro insurance products considering cultural backgrounds to address this lack of inclusivity.

6.4.1.2. Optimise pricing and cost structures

There is a need to address the challenges of determining the correct pricing for insurance premiums. Insurers are encouraged to conduct market research to understand the affordability constraints and risk perceptions of the low-income as their target market. This can be complemented by implementing flexible pricing models and exploring opportunities to reduce transaction costs through digitalisation and process optimisation.

6.4.1.3. Enhance data collection and analysis

Insurers should invest in data collection and analytics capabilities to improve risk assessment and underwriting processes. Collaborating with industry stakeholders and research institutions to gather reliable historical data and develop risk models tailored to the South African context can be beneficial in getting data to predict future risks.

6.4.1.4. Advocate for supportive regulation

There is a need to ensure good governance in micro insurance. There is a need for a supportive legislative framework and transparent, consistent implementation by regulators. The strategy will be to engage with regulators to advocate for regulatory reforms that promote financial inclusion and remove barriers to entry for micro insurance providers. Insurers should participate in industry associations and working groups to shape policy discussions and promote best practices in micro insurance regulation.

6.4.1.5. Promote financial literacy and consumer awareness

Insurers are encouraged to develop educational programs and campaigns to raise awareness about the benefits of micro insurance and improve financial literacy among low-income populations. Insurers should collaborate with government agencies, NGOs, and community leaders to disseminate information and empower consumers to make informed decisions about insurance products.

6.4.2. Government and policymakers

To the government the following recommendations are made:

- The government must facilitate hard and soft infrastructure in many rural areas for better accessibility.
- The Technical Advisory Group for Microinsurance (TAG) should coordinate the creation of a centralised database that can be used to store customer details to manage information asymmetry.
- Supportive regulations should be consistently and transparently implemented, monitored and evaluated to safeguard insurers and recipients of micro insurance services.

6.4.3. Future researchers

To future researchers, the following recommendations are made:

- A mixed method is suggested to validate the findings.
- Future researchers are encouraged to replicate the present study and include a bigger sample size that is representative.
- Future researchers should include the voice of the targeted market. This will give a more comprehensive and balanced view of the context of micro insurance in South Africa.

6.5. Limitations of the study

The study made use of a small sample size. The aim was to get context-specific findings, but the results cannot be generalised to a broader population due to the need for a representative sample size. More so, the study employed a qualitative methodology. It was appropriate for getting an in-depth understanding of subjective experiences. However, relying only on a qualitative methodology in a study of this nature is limiting in terms of lack of generalisability and representativity. Lastly, the study sought answers from the insurance suppliers. This is a one-sided perspective. Voices of insurance recipients were silent. Getting both perspectives is recommended.

6.6. Conclusion

The study significantly contributes to the existing body of knowledge in the field of microinsurance, particularly within the South African context. The study focusses on the less explored supply-side factors of microinsurance. This focus fills a critical gap in the literature, which has predominantly emphasised demand-side factors. The study's investigation of supply-side factors such as distribution channels, transaction costs, pricing strategies, regulatory frameworks, and historical data availability integrates new dimensions into the theoretical framework of microinsurance. By doing so, it broadens the understanding of what drives insurers' decisions to enter or avoid the microinsurance market. The research offers context-specific insights into the South African insurance market, highlighting unique socio-economic and regulatory challenges and opportunities. These insights can be utilised to refine existing theories and models of microinsurance to better fit the South African and similar emerging markets.

The findings provide actionable recommendations for insurers, policymakers, and practitioners. For insurers, understanding the importance of efficient distribution channels and accurate historical data can lead to more effective market strategies. For policymakers, the study underscores the need for supportive regulatory frameworks to foster market inclusivity and growth. By identifying and addressing barriers to the supply of microinsurance, the study promotes financial inclusion for low-income households. This can lead to greater financial stability and reduced vulnerability to economic shocks for marginalised communities. The study's recommendations can inform policy development aimed at creating a more conducive environment for microinsurance providers. This includes advocating for regulatory reforms that balance consumer protection with market growth, ultimately benefiting society by increasing access to essential financial services. The identification of gaps and limitations, such as the need for larger, more representative samples and the inclusion of the target market's perspective, paves the way for future research. This can lead to a more comprehensive understanding of the microinsurance landscape and further improvements in both theory and practice.

It is imperative to consider the broader implications of the findings. The findings are in line with the factors that were considered by Chummun and Bisschoff (2014) when they developed and validated a model to measure business success of micro-insurance in South Africa. The only addition factor that came from the study was the importance of the historical data in predicting risks. This means that in additional of the 15 factors considered to influence business success of micro insurance, availability of historical data should be considered. Future researchers can add historical data on the 15 factors and validated the findings.

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7. APPENDICES

8.1. Appendix A: interview guide

The first part will be to make sure that the participant is informed of the purpose of the study. Issues of voluntary participation, right to withdraw participation without any risk, confidentiality, protection of private information, benefits of the study, potential for publishing the findings and permission to record will be emphasized. After gettinginformed consent (signed in writing), the researcher will proceed to the main interview questions.

Question 1:

May you please briefly introduce yourself (what you do in the organisation, your position, tenure, work experience, etc).

Question 2:

Briefly describe your organisation.

Probing questions

- What are the services that you offer?
- Why do you offer those services?

Question 3:

Do you offer Micro insurance?

3 (i) If yes, what motivated you to offer micro insurance?

Probing questions

- Which products do you offer?
- What factors do you consider when offering micro insurance?

(ii) If no, what influenced you not to offer micro insurance?

Probing question:

- What are the factors that you consider before choosing to offer products to clients?

8.2. Appendix B: Gatekeeper permission letters

Hollard.

02 February 2023

To whom it may concern

The purpose of this letter is to inform you that I give Dudzai Christopher Chikumbu permission to conduct the research titled Factors determining the supply of micro insurance in the South African insurance market at Hollard International

Yours Faithfully;

Tafadza Ziteya
Managing Executive: General Insurance ; Hollard International

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Email: info@maksure.co.za
Web: www.maksure.co.za

3 February 2023

To whom it may concern

The purpose of this letter is to inform you that I give Dudzai Christopher Chikumbu permission to conduct the research titled Factors determining the supply of micro insurance in the South African insurance market at Maksure Risk Solutions.

Sincerely,

Simbarashe Makwembere
Managing Director

OLDMUTUAL

INSURE
SPECIALTY

Wanooka Place, St Andrews Road, Parktown, Johannesburg, 2193
Tel +27 (0)11 374 9111. www.ominsure.co.za

1 February 2023

TO WHOM IT MAY CONCERN

The purpose of this letter is to inform you that I give Dudzai Christopher Chikumbu permission to conduct the research titled Factors determining the supply of micro insurance in the South Africa insurance market at Old Mutual Insure.

Regards

SAMANTHA BOYD
Chief Executive Specialty

SIKHOSINI & Associates Pty Ltd.

'Risks Driven By Innovation'

02 February 2023

TO WHOM IT MAY CONCERN

The purpose of this letter is to inform you that I give Dudzai Christopher Chikumbu permission to conduct the research titled Factors determining the supply of micro insurance in the South African insurance market at Sikhosini and Associates Pty Ltd

Yours Sincerely,

Blessings Dube
Key Individual

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STIA FINANCIAL
SERVICES PTY LTD

Date: 31/01/2023.

To whom it may concern

The purpose of this letter is to inform you that I give Dudzai Christopher Chikumbu permission to conduct the research titled Factors determining the supply of micro insurance in the South African insurance market at STIA Financial services (pty)ltd.

Sincerely,

Jacques Pienaar

Director

JURISTIC REP
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8.3. Appendix C: Consent form

WITS UNIVERSITY

PARTICIPANT CONSENT SHEET

Project Title:
Factors determining the supply of micro insurance in the south African insurance market.

1. I have been given a Participant Information Sheet which explains the nature and processes involved in this study, which is attached hereto.
2. I was given time to read it, or had it read to me, in the language I best understand.
3. I was given time to ask any questions I wanted to and found any answers given to me to be reasonable and satisfactory.
4. I believe I fully understand why the study is being conducted and what the intended outcomes will be.
5. I understand that there will be no immediate benefit to me, should I agree to participate, nor will I receive any payment; conversely, participation will not cost me anything but my time.
6. I understand that, even if I initially consent to take part in the study, I may subsequently withdraw at any time and would not be required to give any reasons; if that happened, any data collected about me for the purposes of the study would immediately be destroyed, unless I give consent for it to be retained.
7. I have been given a range of contact details, listed below. If I require further information or become concerned about any aspect of this study I am free to speak to any of these contacts.

Contact details:

Researcher:
Name: Dudzai Chikumbu
Telephone: [redacted]
Email: 1762876@students.wits.ac.za

Supervisor:
Dr Albert Mushai, Supervisor
Telephone: [redacted]
Email: albert.mushai@wits.ac.za

Name of Participant: ____
Date: ____
Place: ____
Signature or mark ____

<u>Witnessed by</u>:

Name of Witness: ____
Signature: ____
Date: ____

WITS UNIVERSITY

CONSENT FORM FOR AUDIO RECORDING OF STUDY PARTICIPATION

Project Title:
Factors determining the supply of micro insurance in the south African insurance market.

I hereby consent to audio recording of the interview.

.
I understand that:

- The recording will be stored in a secure location (password protected computer) with restricted access to the researcher and the research supervisor.
- The recording will be transcribed and any information that could identify me will be removed.
- The recordings will be erased within either (a) two (2) years of the publication of the research findings, or (b) six (6) years, if no publications arise from this research.
- Anyone wishing to access this information in the future will first have to obtain the approval of the Human Research Ethics Committee (Non-Medical) of the University of the Witwatersrand, Johannesburg.
- Direct quotes from my interview, without any information that could identify me, may be cited in the research report or other write-ups of research.

Contact details:

Researcher:
Name: Dudzai Chikumbu
Telephone: [redacted]
Email: 1762876@students.wits.ac.za

Supervisor:
Dr Albert Mushai, Supervisor
Telephone: [redacted]
Email: albert.mushai@wits.ac.za

Name of Participant: ____________________________________
Date: ____________________________________
Place: ____________________________________
Signature or mark ____________________________________

Witnessed by:

Name of Witness: ____________________________________
Signature: ____________________________________
Date: ____________________________________

8.4. Appendix D: Ethical clearance

UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

Research Office

HUMAN RESEARCH ETHICS COMMITTEE (NON-MEDICAL)
R14/49 Chikumbu

CLEARANCE CERTIFICATE	**PROTOCOL NUMBER: H22/11/7**
PROJECT TITLE	Factors determining the supply of micro insurance in the South African insurance market
INVESTIGATOR(S)	Mr D Chikumbu
SCHOOL/DEPARTMENT	Business Sciences /
DATE CONSIDERED	18 November 2022
DECISION OF THE COMMITTEE	Approved Risk Level: Minimal
EXPIRY DATE	13 February 2026

DATE 14 February 2023 **CHAIRPERSON** ______________________
(Professor J Watermeyer)

cc: Supervisor : Dr A Mushai

DECLARATION OF INVESTIGATOR(S)

To be completed in duplicate and **A SIGNED COPY** returned to the Secretary electronically. Unreported changes to the application may invalidate the clearance given by the HREC (Non-Medical)

I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to ensure compliance with these conditions. Should any departure be contemplated from the research procedure as approved I/we undertake to submit an amendment of the protocol to the Committee. **I/we agree to completion of a regular progress report. For Minimal and Low Risk studies, this is due annually on 31 December. For Medium and High Risk studies, this is due twice annually on 30 June and 31 December.**

____
Signature

15 / 02 / 2023
Date

PLEASE QUOTE THE PROTOCOL NUMBER ON ALL ENQUIRIES

EDITORIAL CERTIFICATE

Factors determining the supply of micro insurance in the South African insurance market

CLIENT: Dudzai C. Chikumbu

ISSUE DATE: 28 March 2024

This document certifies that the above manuscript was proofread and edited for proper English language | Grammar | Punctuation | Spelling and Style by one of our highly qualified professional academic editors. The editor endeavoured to ensure that the author(s)' intended meaning was not altered during the editing process. All amendments were tracked with the Microsoft word "Track Changes" feature. Therefore, the author(s) had the option to reject or accept each change individually.

EDITOR: Dr N. Dube

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