A Business Insurance Product coupled with an Investment Policy Geared to Promote Sustainability of South African SMEs.

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1 ABSTRACT

Traditional insurance companies need to develop the ability to create innovative digital products tailored to improving the financial health of Small and Medium-Sized Enterprises (SMEs) in order to keep up with changing economic and digital trends, adapt to a consumer-driven economy, and stay competitive in an industry that is shifting towards Insurtech (Svahn, 2017).

The aim of this business venture is to investigate the feasibility and potential for creating a short-term product that facilitates cash injections into SMEs through an embedded investment policy solution. This paper examines how such a product can be formulated, implemented within an insurance company while remaining compliant with regulatory requirements.

The study, conducted through interviews with experienced professionals in the insurance industry, revealed that small and medium-sized enterprises (SMEs) require significant support to grow and sustain their businesses. Commercial insurance is seen as a crucial factor in achieving this goal. However, the current offerings by short-term insurance providers need to be re-evaluated in order to better assist SMEs in dealing with unexpected setbacks such as theft, breakages, fires, floods, and strikes. It is essential for these offerings to provide cash assistance to help with ongoing business operations as well. The existing commercial insurance models have noticeable deficiencies that prevent the development of a comprehensive product that addresses both asset protection and financial assistance. These shortcomings are mainly attributed to regulatory hurdles, a lack of focus on customer value propositions, and revenue models that primarily benefit shareholders.

The Delphi technique was employed in order to get expert opinion and consensus on major challenges that arise in administering a dual product being offered for SMEs with the idea of helping them should a ‘rainy day’ occur or for expanding the operations of the business. Additionally, the professional had to outline how they envisage the specific features of this embedded product to look like and what the impact would be within the short-term insurance industry.

DECLARATION

I affirm that the research project presented herein is solely of my creation. This submission meets the prerequisites for obtaining a Master's degree in Business Administration at University of Witwaterstrand. It has not been previously submitted to any other educational institution for certification or evaluation purposes.

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3 INTRODUCTION

3.1 STATEMENT OF PURPOSE

The purpose of the business venture is to explore the practicality and possibility of developing a future fit business short-term product with an embedded investment policy solution to assist SMEs with much needed cash injection within their business operations. The paper seeks to understand how the product will be structured and implemented within an insurance company while still ticking the box when it comes to regulatory requirements. Exploring the idea of commercial insurance transitioning from a linear value chain to a dynamic value exchange which is what EY (2022) envisioned would be paramount for the success of insurance companies of the future. A new product that will allow incumbent/traditional insurance companies to compete with non-traditional competitors such as MGAs, captive insurers and Insurtech's who are constantly challenging the status quo by putting the consumer first in the centre of innovation and challenging South African economy landscape.

3.2 BACKGROUND OF THE STUDY

At the back of Covid-19 and the country experiencing lockdown, increasing interest rates, energy shortage supplies, recent extreme flood losses in KZN, writing and retaining business for local short-terms insurers has proven to be even more challenging (EY, 2023). Businesses/consumers are feeling more added pressure on their disposable income/profits and insurance is more and more becoming a luxury then a necessity (CNBCAFRICA, 2023). According to the latest 2021 Customer Satisfaction index for the Short-Term Insurance Industry released by Consulta, consumer loyalty and retention is on a decline trajectory. This is highly influenced by the fact that insurers are finding it challenging to articulate what their value proposition is and differentiation strategy on all the products and services that they offer. At the back of this they find themselves, not being able to catch up with the current demands of customers and they are still doing insurance the same way it was done many years ago.

In 2018 the Lion of Africa released a statement that they will be closing its doors (FANEWS, 2023), in November last year (2022) – Constantia Insurance Company Limited was placed in final liquidation (Contantia, 2023). The underlying reasons of mostly why these insurance companies had to close their doors was the inability to stay relevant, diversify their portfolio and being able to keep much needed skills within the company. This has caused an added negative connotation to insurers in South Africa meaning that business cannot trust their insurers because they themselves fail to remain sustainable. You had some of these insurance companies running loss ratios, which were in excess of 100% meaning they were running their business to pay losses and they were not making any profit with the premiums paid by the clients (BusinessDay, 2023).

Inability to learn fast and adapt quickly has been the leading cause in some of these insurers such as Lion of Africa and Constantia to close their doors (Njenga, 2021). InsurTechs have proven to be major disruptors of the insurance value chain that has not evolved since the beginning. Turnaround times, being more penetrative to the market, claims processing and underwriting have been some of the points that the InsurTech industry have addressed and solved and the proof is in the pudding. A recent article published by IBS intelligence (Cardoza, 2023), revealed that South Africa currently has five (namely Ctrl Technologies, Inclusivity Solutions, Naked, Pineaple, Simply) InsurTech companies that are disrupting the insurance space and they are gaining traction in retaining customers and attending to the real need of the requirements of the customer. The common value proposition of these companies is that you get a quote in a couple of seconds without speaking to a call centre agent or having to wait for one to call you at an inconvenient time asking you questions. Some also have a point reward system and some even go as far as to give you back your "unused premiums." They are doing a huge makeover of an industry that has always been overcomplicated with many terms and conditions and in addition to that – insurance always came at a cost and one would hope that when it comes to claims stage their insurer would not give them hassles when paying out the claim. When all said and done, such an arrangement where assets are protected and an incentive whether in the form of cash or something similar currently exists for personal line policies and business/commercial policies are at a disadvantage because such products are missing in action in the market.

3.3 PROBLEM STATEMENT

Businesses, specifically SMEs, have to survive in challenging environments where they cannot afford to not have some sort of vent which can be insurance for their assets. In addition to this, SMEs need cash flow to assist in business operations. Covid-19 will forever remain as a reminder that businesses need to be future proofed. According to a recent article by StatsSA (SA, 2023), four in ten businesses find themselves in a position where they are about to close their doors as they are unable to continue with business as usual. This business proposal is aimed at addressing this problem by creating a niche and innovative product that not only provides cover for business assets, but it comes with an investment of a percentage of unused premium paid by the client. A practical solution to solve a current need by SMEs and this business case is going to be test driven by insurance industry experts to evaluate the viability of such a product in the short-term insurance space.

Little attention has been paid to the short-term industry especially when it comes to building a sustainable economy by rebuilding businesses of tomorrow. A recent article by Rachal Hillier (2022) titled, “The Legal Challenges of Insuring Against a Pandemic” stipulates that the recent COVID-19 insurance related losses has been widely felt by SMEs and this has directly resulted in many businesses closing their doors and with the adjusted increase in premiums at renewal (as most insurance companies are now trying to recoup the money spent on COVID-19 related claims) – many businesses are finding themselves having to cancel their policies because they are unable to afford increased premiums. The opportunity for a product that is fit for purpose with a digital strategy to bring the required tailor-made product for each business at an affordable price and be able to save a portion of their premium into an investment portfolio and the money invested becomes cash for the business to use whenever the money is required.

More and more businesses in South Africa are lining up for business rescue because of the challenging landscape of doing business in the country (Werksmans, 2022). Chapter 6 of the new Companies Act, No. 71 of 2008 (the Act) presents business rescue to the South African business landscape. This is to serve as a rescue plan for businesses who find themselves in financial woes and are unable to meet their financial obligation as a business. A business rescue practitioner is then appointed with the vision of restructuring and providing a turnaround strategy for the business to either get back to profitability or give better returns for its current creditors before the business is liquidated (Werkmans, 2022).

In South Africa, SMEs constitute over 98% (McKinsey, 2024) of business and hire between 50 and 60% of the country’s workforce in various sectors. Furthermore, they account for a quarter of job growth within the private sectors. Despite contribution only around 39%, as opposed to EU countries contribution at about 57% towards GD. There is no denying that this segment plays a critical role in propelling the nation's economy forward.

Figure 1: Importance of SMEs in SA. Source: McKinsey (2024)

SMEs are a vital component of economies, creating jobs and enabling inclusive growth

	Majority of businesses	Create private sector jobs	Meaningful share of the GDP	Enable inclusive growth
EU	99.8%	68%	57%	30%
G2	99%	65%	46%	25%
SA	98.5%	25.8%	39%	38%
	SMEs' share of total no. of businesses	SMEs' share of private sector workforce	SMEs' share of national GDP	SMEs owned by women

Discovery Insure has embarked on a similar journey which includes a reward system that is purely based on the driver behaviour(Holliday, 2019). This is done through what Discovery terms as Shared-value Insurance which means that all stakeholders such as clients, the insurance company and society – all benefit. This is through their Vitality Drive initiative which rewards insured drivers for driving well (Discovery, 2021). This has worked well in the personal lines space but still far removed from actually giving the business actual cash to inject back into its business operations. Much ground has been covered in the personal lines space where many InsurTech companies are dominating the space and they are providing cheaper cover because of the efficient use of new technology. Such technology includes telematics, IoT trends such as monitoring of lifestyles by partnering with companies who have created fitness watches/apps and wellness platforms.

Many researchers (Moodley, 2019; IBM, 2011; Pillay, 2019) have covered the fast penetration of new InsurTech start-ups that are slowly taking market share from traditional insurers when it comes to the personal lines space. They are using emerging technologies in order to not only provide on demand insurance but to provide customise insurance that speaks to the individual needs of the customer (Holliday, 2019). There have been very little research/products developed or available for business/commercial insurance that is tailor made in order to give cash back to the client by investing a percentage of the unused premiums for the client to use as they see fit for their business. Insureds will start viewing insurance companies as business partners who are there to ensure sustainability of their business operations rather than seeing them as insurers who are there to get their premium with little hope in them paying out valid claims.

In summary, the project is exploring the viability of a dynamic embedded business insurance product that will be efficient and heavily data-driven to deliver greater benefits for SMEs.

3.4 PROJECT AIM

The project seeks to determine how possible it would be to actually offer a dual product that could potentially use two licences (both short and long-term) to have a business insurance product that comes with an investment policy. The challenges when it comes to launching this product to the market and also if legislation could potentially support this product which is geared towards helping SMEs strengthen their businesses by tapping into the investment policy following the maturity period. Partnering effectively can be a vital factor in allowing insurance companies to drive innovation across their products and channels, thereby addressing unmet needs and reaching unserved businesses.

3.5 DELIMITATIONS OF THE PROJECT

The business venture is only geared to SME's that currently have a robust short-term insurance program. The product is positioned at being offered as a direct product meaning that the middleman (being a broker/intermediary) is not required to distribute the product. This is not an investment product for businesses but it is positioned at assisting SMEs to have a longer life span of their business operation by using short-term insurance as a tool in their business strategy. Product is targeted at South African SMEs and these businesses are classified as making a turnover of more than R15m and less than R500m (Agesan Rajagopaul, How South African SMEs can survive and thrive post Covid-19, 2020). These businesses are positioned at being the lifeblood of our economy as they have been estimated at employing a workforce of close to 80% of employees in South Africa (McKinsey, 2021). In most cases the businesses falling under this category (both formal and informal sectors) have limited cash reserves for business operations, limited client bases and have limited resources in order to combat negative business pressures when compared to larger companies/corporates.

3.6 DEFINITION OF TERMS

3.6.1 Business short term insurance

Also referred to as commercial insurance – this is the type of insurance that provides cover for businesses to protect against physical damage of their assets and other tangible properties other than human life and an example is motor, property, buildings, plant and machinery. This type of insurance is characterized under nonlife insurance and it would normally be in force for a period of twelve months and then having to have it renewed falling every year (Geiss and Geiss, 2015).

3.6.2 Personal lines insurance

Also falls under the short-term insurance category but this targets the individual and not business insurance. The individual takes out short term insurance coverage for their personal home content, building and motor vehicle.

3.6.3 On-demand insurance coverage

Refers to a recent new trend in insurance used by Insurtech providers where customers get to choose the type of protection when they need it and be able to “switch it off” or lapse the policy when they no longer need the cover all on a mobile app (KPMG, 2017). Insurance companies use sensors and other telematics devices along with machine learning algorithms in order to ensure that the correct pricing is charged to the client that the risk is underwritten properly.

3.6.4 Insurtech

The origins of contemporary insurance can be linked to significant occurrences such as the Great Fire of London in 1666. This led to the creation of property insurance, and Edward Lloyd established his coffee shop in London which later became a hub for marine insurance development - ultimately resulting in the famous Lloyd’s of London insurance market establishment. Additionally, both the Amicable Society for a Perpetual Assurance Office (1706) and Equitable Life Assurance Society (1762) emerged during this period; these groups pioneered age-based analysis methods used today when calculating premiums on life-insurance policies.

Today, the world has drastically transformed with new technologies infiltrating nearly all facets of daily life. As a result, technology companies now reign supreme as the largest corporations in the world.

Although technology has made significant progress in various industries, the insurance sector has long been considered slow to embrace innovative technological solutions. Mario Greco, former CEO of Italy's Generali Group, cautions that if insurers don't catch up with advancements in technology urgently, they may become extinct.

In recent years, the adoption of technology in insurance has increased significantly due to competitive pressures, evolving customer expectations, and the emergence of digitalization and mobile usage (Farrel, 2023) . This trend is commonly referred to as insurtech and has been embraced by both established insurers as well as innovative start-up companies.

3.7 ASSUMPTIONS

The biggest hurdle on launching the proposed dual product is said to be the current insurance regulation. Reason being is that insurance policies are referred to as policies of indemnifying and not betterment and having an investment product embedded within the short term policy will need special approval from the Financial Sector Conduct Authority (FSCA).

The other assumption made is that insurance companies who adopt the product already have the resources in running an Insurtech company focusing on personal lines. These will be the same resources utilized for the plug-in of the proposed business insurance product.

During the interview, the respondents will respond accurately and without bias to questions.

3.8 CHAPTER OUTLINE

Chapter 1 of this document provide information of the problem identified and the opportunity for the business venture. More background is provided of the problem that the business venture is trying to resolves which is currently a painpoint for most SMEs in South Africa. The second chapter will be focused on providing background on the literature utilized and highlight the insurance products that are currently available in the market and highlight the gaps of why some of these products are not futuristic in ensuring that businesses become sustainable. The third forth chapter is to include the research methodology and provide a detailed structure of how the product is going to look like and also what the pricing structure will look like. The fifth and final chapter will conclude the business plan and provide recommendations on how the product can be implemented by a short-term insurer and provide a view on how this process will generally take (this is obviously company specific depending on the resources available and also the capital available for investments).

4 LITERATURE REVIEW

4.1 SHORT-TERM INSURANCE INDUSTRY

The initial record of insurance goes back to the early Roman times (4000-300 BCE) where mainly cargo from ships and the ships themselves were insured (Thompson, 2023). These were done in the form of what was referred to as bottomry contracts which mainly involved reducing of risk that involved either the sharing of the risk with other ship owners or by transferring the risk to people who were lending money at the time or investors (This-Matter, 2023). The foundation of insurance has been always to transfer or share the risk in order to reduce the financial impact should a loss occur to the owner of the assets. According to literature, marine insurance was the first established type of insurance and this was attributed to the fact that the first means of transportation of goods was primarily by water. These boats carrying cargo were at many times destroyed or even goods stolen while at sea and this was ruining shippers financially. To reduce the risk these shippers would ether spread the risk amongst themselves by jointly assisting other shippers when they lost their cargo in the river – they would generally help them rebuild/repurchase what they had lost.

The other method or reducing their loss was to transfer the risk entirely to moneylenders/investors. Shippers would loan whatever they needed to in order to get the cargo into see and if that cargo was lost or abandoned then their loans would be voided and they would not need to pay it off to the moneylenders. This type of insurance described is what is referred to as short-term/nonlife insurance. The main idea this type of insurance coverage is that is it always given over a short period of time whether for a day/month or for a year (defined as short-term policies as opposed to long-term insurance). This would then include covering assets such as motor, buildings, and machinery/content and even include different type of liabilities. Insurers are in the business of accepting risk and these policies are designed to protect against damage/harm/loss of property that is caused by an unforeseen (many perils such as fire, storm, damage, theft can be a leading cause) event (IISA, 2023). The table below illustrates some to the different short-term insurance policies that currently exist in the market:

Table 1: A comprehensive offering of the commercial/business insurance offering. Source: Short Term Insurance Act No. 53 1998

Types of short-term policies	Details
Engineering	This relates to providing cover for machinery or equipment used in the course of business, buildings or other structures (Africa, 1998).
Guarantee	This relates to a "contract in terms of which a person, other than a bank, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the policy as a risk relating to the failure of a person to discharge an obligation, occurs and includes a reinsurance policy in respect of such a policy" (Africa, 1998).
Liability	This means "a contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically contemplated in another definition in this section, occurs and includes a reinsurance policy in respect of such a policy" (Africa, 1998).
Miscellaneous	This means a "contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to any matter not otherwise defined in this section, occurs and includes a reinsurance policy in respect of such a policy" (Africa, 1998).
Motor	This means a "contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle, occurs and includes a reinsurance policy in respect of such a policy" (Africa, 1998).
Accident and Health	This means a "contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if a- (a) disability event; (b) health event or (c) death event occurs" (Africa, 1998).
Property	This means a "contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk other than a risk more specifically contemplated in another definition in this section relating to the use, ownership, loss of or damage to movable or immovable property occurs and includes a reinsurance policy in respect of such a policy" (Africa, 1998).
Transportation	This means a "contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed, occurs and includes a reinsurance policy in respect of such a policy" (Africa, 1998).

Source: Short-term insurance Act No. 53 of 1998

In 2016, South Africa held a significant share of the insurance market with USD 42 billion in total premiums written. This accounted for approximately 0.89% of the global market. Figure 2 displays the top ten African markets based on their premiums written.

Figure 2: The top 10 African insurance markets of 2016, ranked by the total volume of

Country	World Ranking	Premium volume (in million of US$)		Change (in %) 2016		Share of world market 2016 (in %)	Insurance penetration: premiums as % of GDP in 2016	Gross Domestic Product Real change (in%)	Population (millions)
		2016	2015	Nominal (in US$)	Inflation adjusted		Total Insurance Business	2016	2016
South Africa	19	41,962	45,491	-7.8	0.1	0.89	14.27	0.3	55.0
Morocco	49	3,561	3,104	14.7	13.8	0.08	3.48	1.0	34.8
Egypt	57	2,130	2,104	1.2	1.8	0.05	0.64	4.3	93.3
Kenya	59	1,915	1,757	9.0	6.0	0.04	2.80	5.9	47.3
Algeria	69	1,209	1,278	-5.4	-3.5	0.03	0.80	3.2	40.3
Nigeria	71	1,159	1,504	-22.9	-11.4	0.02	0.27	-1.7	187.1
Tunisia	78	824	848	-2.8	na.	0.02	1.97	1.2	11.4
Angola	83	788	831	-5.1	na.	0.02	0.81	-0.1	25.9
Namibia	84	783	850	-7.9	-0.5	0.02	6.87	1.9	2.5
Mauritius	86	776	748	3.8	na.	0.02	6.40	3.7	1.3
Other countries		5,602	5,428			0.12			
Total		**60,709**	**63,942**	**-5.1**	**0.8**	**1.28**	**2.77**	**1.8**	**1 203.3**

Life and Non-Life premium in USD. Source: PWC (2020)

Insurance coverage is notably insufficient throughout most of Africa (PWC, 2020). South Africa reigns supreme as the leading player, while other notable countries like Nigeria show a vast underutilization of these services. This highlights an essentially untapped market that awaits further exploration in African regions lacking penetration by insurance firms. To successfully appeal to uninsured or inadequately insured individuals within such areas, established insurers must embrace creativity and novel distribution strategies - all at lower operating costs; after all, customers come with diverse expectations and needs.

According to Catlin & Lorenz (2017), insurers face challenges from two trends: 1) a shift towards risk prevention instead of solely relying on insurance, and 2) companies that have ownership over data analysis. Pollari (2016) cautions that InsurTech poses a threat in both areas as they possess the ability to gather vast amounts of granular data which can be used for more comprehensive analytics, product pricing strategies, claims management systems and effective risk mitigation techniques (Puschmann, 2017).

An InsurTech company has the ability to revolutionize service provision and data collection, improving risk identification, pricing, claims processes and mitigation measures. InsurTech business models play a direct role in connecting insurers with their customers according Lee & Shin (2018). FinTech firms specializing in data analytics can use innovative tools to combine customer profiles based on their risks providing personalized products that streamline operations within the insurance value chain. This the researcher describes as being a key element that will make the dual product very affordable for SMEs.

Figure 3: Strengths and weaknesses of the industry. Source: PWC (2020)

South Africa

Strengths	Weaknesses	Main developments
A well developed and financially sound market	The risk of overregulation	Significant regulatory changes
Level of competition	A number of inefficient legacy systems	Technology and the digitisation of the insurance market
Diversified multi-channel distribution models	Slow to engage in transformation programmes to address inequality	Social changes and the evolution of customer expectations

4.2 The Lifeblood of South Africa's Economy

A significant decline in demand has already been felt by numerous SMEs. According to a McKinsey Consumer Pulse Survey conducted at the end of March 2020, over 80 percent of survey takers aimed to reduce spending throughout various retail categories and more than 70 percent sought cutbacks on transportation or travel-related expenses. The sectors hit hardest are services (such as private accounting and legal firms), tourism, hospitality, and retail - all among some of the fastest-growing SME industries in the nation; however, most businesses within these fields were unable to operate during lockdown for roughly a month's time frame with their activities continually limited amid level three- and four-restricted measures. It is unsurprising that SMEs are experiencing a significant decrease in revenue and profitability as evidenced by the disruptions to their business. Additionally, there has been a decline in business confidence. Several common challenges experienced across the different SMEs include the following:

- The restriction of affordable funding options is hindering the expansion of businesses.
- Despite the availability of funding, SMEs still encounter significant obstacles to accessing necessary support due to insufficient knowledge regarding opportunities and financial matters.
- The decreasing demand has resulted in SMEs restricting their growth strategies and exploring substitute avenues to market their products.
- The management of liquidity and cashflow is restricted.

The magnifying glass is specifically on business with a turnover of more than R15m and less than R500m (Rajagopaul, 2020). These businesses are considered as being the lifeline of South African societies because they employ a large workforce of close of 80% (BusinessDay, 2023). These businesses are said to range from being informal to formal – some being run as home-based operations and others being conducted as corporate enterprises. The National Small Business Amendment ACt of 29 of 2004 defines a small business as a separate and distintc bsuiness entity, which includes corporates and non-governmental entities. Fubah and Moos (2022) recent research revealed that the biggest challenge leading to SMEs closing their business operations especially during Covid – 19 lockdowns was limited access to finance and credit for many SMEs. South African Banks are known for not willingly providing capital especially to SMEs that are not thriving in their business operations or ones that have recently sarted operations.

Fubah and Moos (2022) on their qualitative research revealing some of the challenges faced by SMEs as a result of Covid-19 revealed that many business were unable to commit to their rent payment arrangments. Many landlords were not open to negotiating rent payments for businesses that were renting out the spaces, may business citing that they had to let staff go so that they can downsize and be able to run their operations from home. With this came reduction in income with some business stating that they had no income coming in and were left with no option but to close down their business operations.

Iwu (2022) from chapter 4 of his book titled Covid-19 Lessons for Mitigation and Future SME Prospects highlights that business sustainability risks are intertwined with the economy, social factors and climate change which are all linked to uncertainty. He further highlights until the recent Covid-19 pandemic that no study had tackled how a business can manoeuvre a pandemic such as Covid-19. He states that the reason was heavily driven by the fact that such as virus was taboo from an African perspective and more prominent pendemics existed in Africa which were off more concern such as Ebola, HIV and TB. The health of SMEs need to be in constant monitoring as studies have showed that it's SMEs which have the potential of curbing the alarming figures of unemployment and extremely low standards of living in South Africa.

Sustainability is the name of the game when it comes to surving the business landscape in South Africa and that is why the business venture proposal is putting forward a new product that will support growth of SMEs in South Africa. Although highlighting challenges that led to some of SMEs closing down their operations following Covid-19, these are not new. Scholars such as Iwu (2022) have highlighted that although lack of access to credit was one of the main caused of businesses closing down operations, this has existed before Covid-19 – the lack of government support and lack of support from the private sector has always been challenges that existed before the pandemic.

4.3 THE NATIONAL DEVELOPMENT PLAN 2030 (NDP)

The National Development Plan highlights the critical survival of SMEs especially in terms of curbing South Africa's unemployment rate. The plan stipulates that it is this sector that will be responsible in creating new jobs and improving the country's economy. The plan stipulates that in order for this to be achieved then a new and revived partnership needs to flourish between the public and private sector which will allow these small business to have increased access to debt and equity finance. In addition to this, government needs to come up with ways on simplifying the regulatory environment in order to support initiatives that promise to shift the dial when it comes to the country's economic growth.

Besides the obvious benefit of SMEs contributing to job creation, the NDP also points out that the success of this sector will contribute to the increased opportunities for BBBEE and also be able to reduce the levels of economic concertation in certain cities. Below are some of the recommendations as stipulated in the NDP to try and support SMEs:

1. There needs to be a deliberate approach in relation to simplifying the regulatory environment in which SMEs operate in. This needs to be taken far as to even

have an expert panel be appointed in order to map out some of the red tap faced that stipples growth in this sector.

4.4 IS LEGISLATION HINDERING PRODUCT INNOVATION IN THE SHORT-TERM INSURANCE INDUSTRY?

The Twin Peaks regulatory system was first signed into law on 21 August 2017 with a big drive into promoting treating customers fairly and increasing financial inclusion. This is a system that is set out to increase transparency within the insurance industry, strengthen market integrity and that the end customer is always protected. Under the system, there are two coordinated regulators that are responsible for specific tasks but are equal in command. It is the Prudential Authority (PA) that has a main responsibility of prudential regulation and the Financial Sector Conduct Authority (FSCA) is mainly tasked with ensuring that authorised financial entities conduct themselves appropriately when selling their product/services.

Insurance regulation in South Africa has been a double edged sword, on one hand it is great that the consumers are getting more and more protection for being treated unfairly but the increased rules and regulations has been overwhelming to many players within the industry (Reuters, 2023). The Insurance Act is responsible in regulating the existence of all insurers and reinsurers who conduct their business in South Africa. It is mostly responsible of regulating the following:

- Validity of licensing and issuing of licenses for companies to operate in the South African landscape. Companies applying for a licence need to adhere to certain requirements before being issued with a license.
- The prudential requirements which ensures that the company is financially sound by holding sufficient capital and liquidity.
- There are certain key persons and roles that the company needs in order to be operating as a supplier for insurance.
- Certain governance procedures need to be adhered to on an ongoing basis. Any bridge in terms of what is required from a governance perspective can prop the regulator to investigate.

- Due diligence needs to be followed when it comes to the type of reporting the company does which includes the public disclosures that they are required to publish.

In addition to the insurance regulation, you have the Financial Markets Act 19 of 2012 that is aimed at promoting efficient and transparent financial markets in South Africa, it's said to assist in boosting market activity and protect authorised financial entities. The list carries on with the Financial Intelligence Centre Act 38 of 2001 which serves to be able to identify any unlawful proceedings related to money laundering and the funding of terrorist related activities. There are still countless other acts not mentioned above and these are set out to promote efficiency, improve fairness and the list goes on (Athenia Bongani Sibindi, 2015).

It is evident that due to the increase in inflation, interest rest, cost of food and cost of energy, more and more SMEs are finding themselves running out of cashflow and having to drastically change the way they do things. This inevitably leads a reduction in revenue which in turn means that many SMEs cannot afford to pay their insurance premium.

The changes and restrictions imposed by the regulator over the past have not all been doom and gloom, there is a great story to tell and attest to as some of the changes have contributed rather positively within the insurance industry. These changes have played a direct role in ensuring that the regulator is able to closely monitor the adherence of capital requirements of insurers to ensure that their solvency is what it should be in order for the business to be sustainable long term. Constant monitoring of capital requirement will not ensure that insurance companies not only grow stronger but this plays a great role in boosting job creation and increasing the credibility of what insurance companies are and what they stand for. The only way that insurers can increase their penetration rates is by being deliberate in building trust between then and the consumer and create strong brands with integrity. When it comes to non-life insurance, many players have a large footprint locally and because of the changes which have strengthen regulation – more and more of the small players are being brought by the traditional players in order to ensure that they meet the required capital requirement.

In addition to some to the key laws stated above, one still has to review the key laws/regulatory authorities that govern investments within South Africa – these include the following:

- Protection of Investment Act 22 of 2015
- Companies Act 71 of 2008 (Companies Act)
- Broad-Based Black Economic Empowerment Act 53 of 2003
- The Constitution

Sibindi and Zingwevu (2015) have acknowledged that the link that is exist between financial regulation and innovation is a conflicting one. The biggest challenge is the “red tape” that comes into launching a new product as this has to first tick the box as to which act it belongs to. As highlighted above, there are a number of these and with the proposed product having to tick both laws under the short-term insurance industry and investments – this could be curtailing into getting the necessary legislation approval. Sibindi and Zingwevu (2015) further highlight that the cost of compliance for any entity can be a heavy bill. As an example, they have estimated that the average cost of sitting for regulatory exams in South Africa was close to R100 million during the period of 2012 – this is money that can be put to great use in ensuring SMEs pay less premium. This is just one of the cost saving examples, there are many others that exist.

4.5 AN INTRODUCTION TO BUSINESS MODELS

The fundamental concept of a business model entails outlining the methods by which an organization generates, delivers, captures and translates customer value into profit (Teece, 2010). At the foundation of any successful enterprise is its explicit or implicit definition of a business model that outlines how it creates value (Teece, 2010). Business models have acquired considerable attention from scholars as well as management practitioners because they are associated with technology, innovation and strategy (Sosna, 2015).

In recent years, the business model has become a popular area of focus in academic research. This can be seen through an increase in publications on the subject matter since 2010 (Baden-Fuller & Haefliger, 2013). Palo and Tahinten (2011) discovered that this growth was primarily due to the "internet boom". Teece (2020) suggests that advancements in internet technology have given customers access to more data than they previously had. With the rise in access to information, consumers are altering their preferences and expressing a diverse range of needs in the marketplace; this shift has resulted in greater transparency regarding available options (Teece, 2010). Many academics are highlighting the fact that the internet now represents a revolutionary catalyst for change rather than simply an extension of modern business practices.

New business models arise alongside the emergence of novel value configurations. Consequently, fresh analytical frameworks that highlight corporate resources - including knowledge and core procedures – are required to demonstrate how decisions affect value generation. It is vital for both analysts and managers to acknowledge that business models consist of portfolios comprising diverse assets and not limited entirely by physical or financial holdings alone. Each company must create a unique, bespoke model linking its particular combination of activities & resources with values creation accordingly.

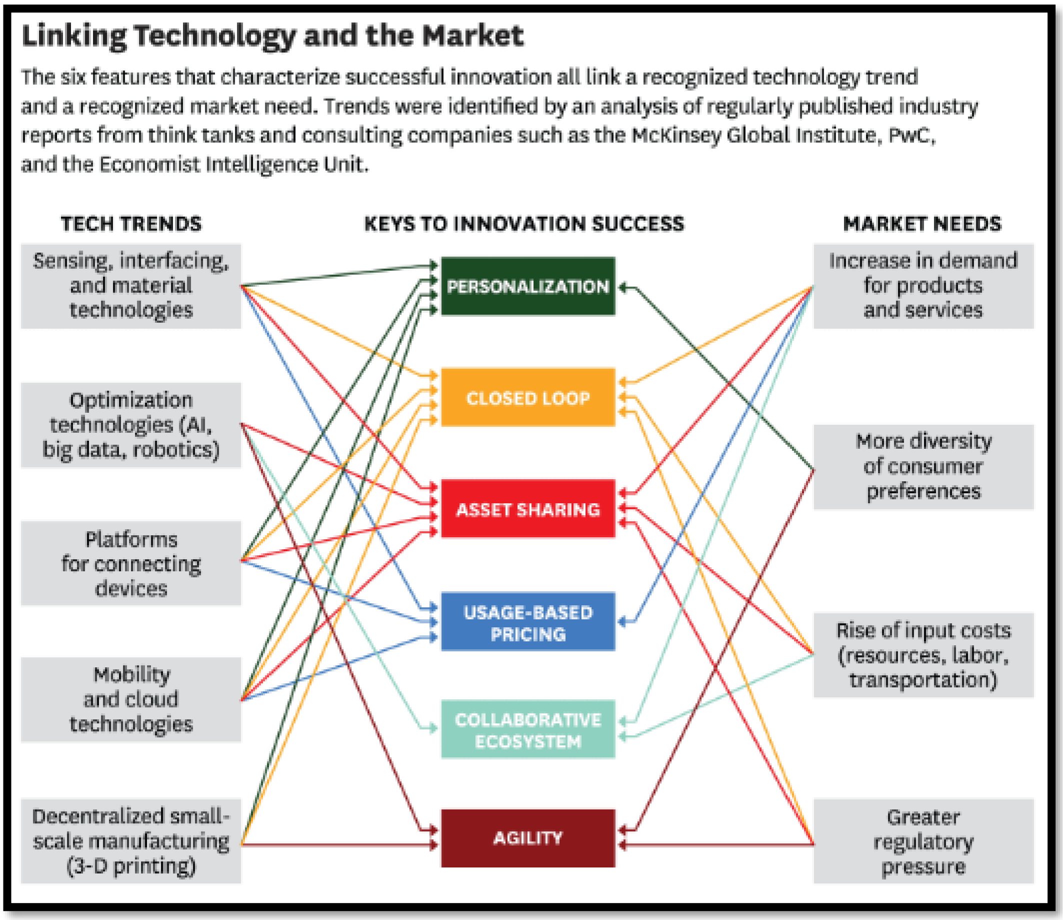
4.6 DEFINING A TRANSFORMATIVE BUSINESS MODEL

Over time, a dominant business model typically emerges within any industry and reflects the most efficient means of resource allocation and organization when market distortions are absent (Kavadias, 2024). While attempts to introduce new models usually fail, occasionally one will succeed in overthrowing the prevailing standard by utilizing an innovative technology. When newcomers use this alternative model to displace established players or competitors adopt it themselves, transformation occurs within the industry. The interface between technology capabilities and market demand is facilitated by the novel business model. The only constant is change and businesses need to be regularly be scanning the environment in which they operate in to ensure that they remain relevant. The Harvard Business Review published an article in 2024 that outlines the distinguishing characteristics of a transformative business model. These include:

- An increasingly **customized product or service** is available in the market. Several new models present options that suit consumers' unique and urgent demands better than prevalent paradigms. Companies utilize technology to provide these products at competitive prices.

- Numerous models adopt a **closed loop approach** that involves the recycling of used products as opposed to a linear consumption process where items are produced, consumed and discarded. This shift results in decreased resource expenditure overall.
- Innovations that facilitate the **sharing of expensive assets** have proven to be successful. For example, Airbnb provides homeowners with a platform to share their homes with travelers while Uber allows car owners to do the same. Occasionally, supply chains employ asset sharing too. This occurs through two-sided online marketplaces that benefit both parties involved: renters get paid for leasing their space out and tenants can find affordable lodging in nicer locations than traditional options may offer. Moreover, facilitating asset-sharing lowers entry barriers for new businesses since it eliminates the requirement of owning these costly resources directly; serving as an intermediary is sufficient enough to participate in many industries now if one chooses so.
- **Instead of making customers purchase a product upfront**, certain models opt to charge them for actual usage. This mutually benefits both the company and its clientele- while the latter only spends when worthwhile results are generated, the former is likely to attract an increasing number of users.

Figure 4: Important Links when it comes to Technology and the Market. Source: Kavadias (2024)



4.7 A Framework for Understanding and Describing a Business Model

A graphic presentation of various factors that depict an organization's values is known as the Business Model Canvas (BMC) model. It serves as a potent strategy tool for building new businesses and assessing existing ones. Developed by A.Osterwalder and Y.Pigneur, BMC equips authors with tools to enhance performance in established organizations. The visual representation helps identify all aspects of the business quickly while facilitating customized changes based on individual categories to improve value proposition & overall strategy. The template covers areas such as:

1. **Customer Segments**: Since organizations frequently offer services to multiple customer groups, it's sensible to categorize them into distinct segments. Essential inquiries include identifying customers and examining their thoughts, perceptions, emotions and behaviors. It's important to determine which classes

the business is providing value for as well as who holds the most significance among its clientele.

2. The Value Proposition: The essence of a company's justification for existence lies in its value proposition, which satisfies the needs of customers. To assess this proposition, consider: What makes it appealing? Why do people purchase and use your product or service? Which essential values are you relentlessly delivering to satisfy their requirements?
3. Distribution channels: There are five stages involved in channels to customers, which include the awareness of a product or service, making a purchase, delivery procedures, evaluation process as well as achieving satisfaction and addressing after-sales concerns. To make these propositions successful companies need to ask vital questions such as how their products can be promoted efficiently while ensuring sales targets are met and quality is maintained during deliveries. Organizations also have to determine if customer expectations align with what they offer for advertisement by assessing through which channels clients want information delivered at minimal costs that provide optimum results.
4. Customer Relationships: This describes the connections that a company forms with clients while presenting value propositions. Important inquiries to consider are: What methods of communication do you utilize during each stage of the customer's journey? Which type of relationship does your intended audience anticipate from your brand?
5. Revenue Streams: The different avenues of revenue, such as subscription fees, leasing income and advertising expenses can increase operational costs. It is essential for businesses to consider how they generate revenue from their value propositions, what motivates customers in making payments and their preferred mode of payment. Additionally, it's key to evaluate each stream's contributions towards the overall earnings.
6. Key Activities: A comprehensive understanding of a company's core operations can lead to an appreciation for its value proposition. To gain insight into this, it is essential to ask key questions such as: What strategic advantages does the organization have in delivering its offering? Which activities are critical in fulfilling your value proposition requirements across distribution channels, revenue streams and customer relationships?

7. Key Resources: To deliver the optimal value to its customers, a company must furnish them with both tangible and intangible resources. It is imperative to ponder upon two essential questions: Firstly, what are the distinctive strategic assets that give your business an edge over competitors? Secondly, which key resources does your value proposition necessitate for success?
8. Key Partnerships: To enable the company to concentrate on its essential operations, what activities should it avoid? Important inquiries include identifying key partners/suppliers and understanding the driving forces behind these partnerships.
9. Cost Structure: The pricing model takes into account scale efficiencies, fixed and variable expenditures. Important inquiries include: What are the primary cost drivers for the organization? And how do they relate to generated income?

The application of the Business Model Canvas provides a foundation to analyze and understand the reasoning behind a company's decision-making process in order to maintain its competitive edge within an industry. There is no particular designated starting point or sequence for this analysis, but instead it encourages examining connections between each of the nine building blocks that make up said model. The proposed approach by Osterwalder (2010) involves utilizing this canvas as means to describe current organizational structure, highlight areas of strength and improvement opportunities while evaluating potential innovations through SWOT-like techniques. This ultimately results in improved comprehension regarding what sets apart specific companies from their competitors along with how they fulfill customer needs accordingly.

Below is how the business model canvas would be during the initial stages of the proposed product mentioned in this paper:

Table 2: Business Model showing the elements that will make up the proposed commercial insurance product

<table>
<tr>
<td rowspan="2">KEY PARTNERS

Insurtech startups

Content curators and Influencers.

Thought leaders and world-class brands.

Media companies</td>
<td>KEY ACTIVITIES

Underwiring and issuing insurance policies. Marketing and customer acquisition and customer service.

Claims settlement, Technology innovation and financial management and investment of premiums.</td>
<td rowspan="2">VALUE PROPOSITION

Making commercial insurance accessible for SMEs using the latest technology which will allow for affordable premiums while being able to invest a portion of those premiums for the company to use to safe guide it’s business operations.</td>
<td>CUSTOMER RELATIONSHIP

Personalized relationships, proactive communication, social media engagement and customer service and support.

User friendly mobile app, referral programs, events, and forum.</td>
<td rowspan="2">CUSTOMER SEGMENTS

Small and Medium-Sized Enterprises (SMEs) - focus is on businesses with a turnover of more than R15m and less than R500m</td>
</tr>
<tr>
<td>KEY RESOURCES

Technology platform, insurance licenses and regulatory approvals.

Intellectual property, such as patents and trademarks and experienced management team.</td>
<td>CHANNELS

Website platform, social media, and referral programs.

Partnerships, events, advertising, and email marketing</td>
</tr>
<tr>
<td colspan="3">COST STRUCTURE

Salaries, claim processing cost and customer support cost.

Technology development cost.

Partnerships and advertisement</td>
<td colspan="2">REVENUE STREAM(S)

Sales of insurance policies

Investments</td>
</tr>
</table>

A radical change in the current business model in order for insurance companies to start experiment with embedded insurance product such as the one explained in this paper. A recent paper published by Munich (2022), explains that offering more than one product/policy such as being able to offer car insurance coupled with an extended warranty plan is just one of the new and upcoming embedded products used to add much needed value to the consumer. This new approach in selling insurance is referred to B2B2C business model as it requires the insurance company and the insured to be very clued up when it comes to tech-savvy products. Insurers need to have the capabilities of owning evolutionary IT system/application that can easily be integrated into any existing systems or be altered using latest technology features.

Embedded insurance is slowly gaining attached and has the grate potential of growing into a trillion-dollar market (Thormählen, 2023). There are risks that come associated with this new and developing market and these include the following:

- The initial set up of the distribution model comes at a cost and insurance companies will need to anticipate running at a loss for a while before starting to see profits of these products
- Insurance companies will either need to partner with an Insurtech start-up or upgrade to the latest evolutionary architecture IT
- Not all SMEs have the knowledge of using the latest technology platforms and therefore there might be a need to invest in continuous training

4.8 Evolution Theory of Economic Change and Product Development Framework

In the field of economics, Schumpeter (1911) explains that great entrepreneurs are constantly in an invention process and this is best explained by key concepts form evolutionary economics (Franco Malerba, 2018). An invention process in any organization is one that has a potential of creating disruptiveness in the market, creating an opportunity for a new offering that addresses a desperate need which could result the business growing. Other scholars such as Granovetter (1985) and Nelson (1998) further explain that economic actions are never considered in isolation, meaning that these are forever embedded in other macro environments. To further elaborate, when businesses need to make economic decisions, such as introducing a brand new product or improving an existing one – it is critical to consider macro environmental factors such as demographics, technological, political, natural and cultural environments. According to Alvarez and Brney (2007), evolution theory of economic change is dependent on the knowledge gained through experience and education (informal or formal) of the entrepreneur or company. Meaning that the information and knowledge gained in the insurance industry in general will be very vital for the survival and great performance of the business.

Great scholars such as Dawkins (1983) and Nelson (2006) explain that the concept of evolution theory of economic change is one that provides insights into the survival of the fittest phenomena (selection) and variation. The success of an economy is heavily dependent on the implementation of the evolution theory of economic change through creation of different opportunities in the market and being able to adapt to the needs of your current/potential markets (Franco Malerba, 2018). The evolutionary theory further highlights the important of co-evolution which involves the sharing and merging of different organizations and industries in order to provide relevant products/services to the ever-changing industry (Gruyter, 2018).

For the purposes of this business venture proposal, the viewpoint of Malerba et al. (2018) is actually the most comprehensive approach use when it comes to the evolution theory of economic change as this definition is most recent and looks at the added element of technological change in organizations. This recent relook of the definition also considered the importance of co-evolution across different industries and business in joining forces to fight the forces of change.

A direct link to the evolution theory of economic change is the product development theory framework which calls for businesses to have the right processes in place when it comes to the identifying and analyzing the factors that are key to launching a new product. Development of new products needs to be a core activity for any industry especially one that is becoming highly competitive such as the insurance industry. There is also additional pressure of ensuring that there is efficiency with the product and that the new product delivers according to the expectation of the client (Tran et al., 2011).

According to Keiser and Garner (2012) product development involves a structured strategic plan of initiating a new product/service to address a need of a new market or existing market involving creativity, technical abilities, production and distribution. Many scholars support the notion that the product development theory involves a process that requires participants who have the necessary knowledge of the industry and a specific set of skills is required to establish a product that will enhance a company's competitive advantage (Parker-Strak, 2020). With the increase in use of technology especially pertaining to artificial intelligence so does the increased need for knowledge and expertise in developing new and complex products.

A recent article published by Deloitte (2023) highlights the fact that when it comes to product development, the insurance industry has been lagging behind when considering the pace at which technology is changing. In this article they further expend on the primary elements that comprise the product development framework/theory and this adapted from research don by Roussel et al. 1991. Wheelwright and Clark 1992, Cooper et al. 1998. Some of these elements include the following:

- Components of modern product development: - this specifically refers to the technology used which should support efficiency and effectiveness when the product is launched to market. Using technology that is agile and promotes innovation and sustainability of business operations.
- Current landscape of existing product: - spefically refers to the many issues that are caused by the current legacy systems and infrastructure. Different business functions working in a siloed approach which negatively contributes to the customer experience.
- Target state which represents the experience driven product:- this refers to having a streamlined product lifecycle where everything is in place and works to provide a personalized and tailor made product for the customer. The distribution of the product is simple and easy to follow, putting the power back to the consumer by allowing them to dictate the specific covers that they need for their business.
- Putting the customer first:- customer centricity with your product, ensuring that the product development is done with the customer in mind. Being able to put yourselves in the customer's shoes and design a product that is simple and easy for the customer to learn to use. Constructing a product that is delivered in a modular format making it easy for customization based on the ongoing input done by the customer. Product having the digital capabilities to be used everywhere, any time in any channel as required by the customer.

4.9 Is a No Claims Bonus a viable insurance solution to SMEs?

The broad definition is when one doesn't lodge a claim against their insurance policy for a certain period of time. The insurance company then rewards the insured by giving them back a portion of the premiums that they have paid over time. This incentive is normally provided to the insured as cash and sometimes it is given as a reduction in premium for future payments. The time it takes for a no claims bonus to mature differs from insurance company to insurance company. The premium charged is calculated by taking into consideration the risk exposure of the client and also the previous loss history. A good underwriter from an insurance company will by all means do their due diligence in determining the correct premium needed to be charge according to the material factors pertaining to the risk.

Hollard Insures offering of the NCR (Hollard, 2023) is said to be geared for responsible citizen who do not claim regularly on their home contents, building and car insurance. They go on further to highlight that if a policy holder has purchased the offering and they do not have any uninterrupted insurance coverage of over more than five year then they will pay part of the premium that they have received back to the policy holder in case. They currently have three kinds of offering for the NCR:

1) General NCR

This applies to all types of non-life insurance cover you have with Hollard except for buildings and home contents policies. The policyholder then gets 10% of their premiums back after the initial three years of the policy and if there has been no claims logged against the policy

2) Home Contents NCR

This offering only applies if the policyholder has comprehensive car insurance cover with Hollard as well and they also get 10% of their home contents premium back in cash after every two years that they are claim free.

3) Buildings Insurance NCR

Again this offering only is applicable if the policyholder has comprehensive car cover with Hollard and they stand to get 100% of their insurance for their building back after every six years of uninterrupted cover with no claims.

Important to also consider the fine print, Hollard Insure's NCR benefit does not come for free. There is a required joining fee that client's need to subscribe to and this is said to be paid over to Hollard on a monthly basis and this is in additional to the premium that the policyholder is paying. The NCR fee is not a flat fee but it is dependent on the items/assets you want to insure and the premium that the policyholder is paying. The benefit only kicks in if there are no claims for that stipulated time period for when the NCR is effective meaning that the minute there is a claim then the policyholder loses the benefit entirely.

OUTsurance (Outsurance, 2023) also has a very similar benefit to Hollard also they do not refer to it as NCR, they call it the OUTbonus. The clear differences between OUTsurance and Hollard is the fact that OUTsurance does not have the three different offers but only has one offer which is getting 10% back of your premiums if you don't claims for more than three years with no break in insurance coverage. If the policyholder does claim, they do forfeit their NCR for that specific three year cycle but the brand-new cycle starts immediately after the claim. The OUTbonus also does not come as a freebee it comes at a cost and the client needs to indicate that they want to sign up for it.

4.9.1 Important to read the fine print of NCR

The misconception about the NCR is the fact that this is free and that it is automatic. The additional benefit comes at a cost and it is not an add on that guarantees pay-out to the policyholder. On paper the idea of getting back money for not claiming over three years sounds very enticing but this is always short-lived as when there is a claim most insurers either cancel the offering and some the policyholder can get to reinstate the benefit and start the three year cycle all over again. Insurance companies have to disclose to potential policyholders the terms and conditions of their NCR. This is in line with Treating Customers Fairly (TCF) which is a regulatory framework established by the Financial Sector Conduct Authority (FSCA) and all Financial Services Providers and representatives need to abide by (Masthead, 2023). This TCF framework is built around six outcomes that always need to be top of mind when Financial Services Providers conduct their businesses. The second outcome is one that relates to the fact that Financial Services Providers need to offer products that are designed to meet the needs of the customers and these need to be in line with other market related products.

When looking at the additional fees that policyholders have to pay in order to enjoy the NCR benefit, one can even go as far as to say that when you get the cash – you actually get your own money back because you have been paying an additional amount over and about your premium. That is on the basis that you don't claim because if you do then you lose the benefit and the additional money you have contributed to have the benefit. Sometimes policyholders are better off then paying their normal premium and getting the necessary covers then having to pay for an additional benefit that is dependent on not claiming on your insurance policy.

5 RESEARCH QUESTIONS

In this chapter, the research questions that served as the foundation of this study are introduced. These inquiries emerged from an examination of existing literature presented in Chapter Two and were formulated to assess if it is feasible and viable to create a commercially viable insurance product with an investment policy component designed specifically for small- and medium-scale enterprises (SMEs). The primary objective being assisting SMEs in obtaining essential funding for their business operations at a time when South Africa's economy experiences sluggish growth trends.

5.1.1 Research Question One

Do short-term insurance companies offer products that cater to modern business needs and align with current digital advancements?

The insurance industry more specifically non-life insurance has been slow into adapting to the changing needs of consumers and the use of recent technology advances. The insurance offering has for many years remained traditional with covers that have not changed for a number of years. This is an industry that has been stifled by regulation, product complexity and to a certain extent dominated by a few large insurers who had the largest share when it came to the market. This is changing as new and upcoming Insurtech players are coming in with new and easy to use products that are offered digitally online (McKinsey, 2023). There is no one that can argue that digital technology adds value in an organization, not only does it make business systems become more efficient but it also assists with tailor making the right product for the client. According to a recent insurance article published by KPMG (2022), increase in gross written premium for some of the insurance market leaders has been on a decrease even prior to Covid 19. In 2018 the increase in gross written premium was 8,1% and then in 2019 the percentage increased dropped to 7,6%, then in 2020 there was even a further drop in the increase in gross written premium which was 4,9%. There are various other factors that KPMG highlighted which explains the drop in gross written premium but one of the main themes highlighted in the paper is that SMEs are finding the current products not assisting in the long-term sustainability of their business (factors such as complicated policy wordings and the insurance cost being too high). This evident decrease in businesses when it comes to insurance participation is causing some traditional insurance players to look at their product offering and even the entire business model.

According to an insurance business report published by McKinsey (2022), the potential gain for insurance companies willing to change their business model is in three fold:

1. Satisfied customers/business, meeting the expectation of what businesses require will result in them keeping their policies with the same insurer in the long run. It has been proven time and time again that customers want simplicity such as one click shopping/one click requesting for an Uber – they want 24 hour access to the things they want and insurance should not be an exception.

2. Lower costs, one example highlighted in the report is that automation has the ability to reduce a cost of a claim by as much as 30%. This can result in a large saving for insurance companies allowing them to offer affordable premiums.

3. Higher growth returns, by insurers buying into digitization they can remove many redundant costs across the entire value chain meaning the customer lifetime value can increase. There is a radical shift where businesses are wanting to deal direct with insurers and they no longer want to have an intermediary representing their interest. Increased in digital technology and data collection provides the opportunity for the insurers to underwrite more accurately as they know more about their client. Insurers will be in a better position to identify fraudulent claims and decline these claims before they deploy any more internal resources which will save them more money.

Change is inevitable and insurance companies are coming to terms with designing products that move with the times. They have to consider the change in how people are commuting from place to place how the sharing economy is increasingly gaining traction and the need to tailor make products that fit the individual or business.

5.1.2 Research Question Two

Is it still viable for conventional short-term insurance providers to only rely on historical data in order to meet the current requirements of businesses?

Over complicated product offerings from traditional markets came under fire when insurance wordings were never clear on the coverage of a pandemic on a business insurance policy. As mentioned in chapter one of this proposal, the objective of insurance is to offer a promise of coverage as per the agreed contract between the insurer and insured in the event of a specified loss covered by the contract and this a specified premium is paid by the insured (Boado-Penas, 2022). Looking at the definition of a short-term business insurance contract, one might argue that it may not be aim or duty of the business insurance to protect the future operations of a business from possibly running out of cashflow – it could still contribute to how a business responses to situation where a much needed cash injection is needed. An embedded business product, one which includes an investment product is proposed as a long term solution to South African SMEs. Offering an embedded product might not necessarily mean an increase an overall increase in the product offering, in actual fact, it might be the opposite. For example, offering a fully digitized offering coupled with behavioural science that stipulates that people need incentives to change (meaning to apply better risk management philosophies for how they run their business operations) – this is best explained by Discovery Insure shared-value insurance model (ITC_Europe, 2023).

5.1.3 Research Question Three

The South African Entrepreneurship Magazine (2015) states that a lack of funding or cashflow is one of the main reasons why SMEs in South Africa fail. Could short-term insurance companies help address this issue by providing a commercial insurance product that includes an investment policy, thereby ensuring the sustainability of SMEs?

Scholars such as Bateman and Snell (2019) mention the fact the rate at which SME's fail is the highest when compared to any other form of businesses. As mentioned in the literature review, these business form the lifeline of the South African economy as they not only contribute significantly to the country's GDP but they hire a large workforce (playing an active role in improving South African's unemployment rate). The SME in this case is the customer and considering the positive and significant role that they play in the economy, it is critical that they be preserved and protected at all costs so that they do not fail (Collin and Hussey, 2009). Highest contributing factor that leads to SMEs shutting their doors is attributed to lack of cash flow to continue business operations (Mbohwa, 2019). The high failure rate of SMEs is said to be increasing year on year and an immediate intervention is required. This is an open intervention for insurance companies to partner with other players within the private sector to offer a one of a kind product that will support the sustainability of SMEs in South Africa.

5.1.4 Research Question Four

In terms of the pricing strategy for this product, the concept is to have a single premium divided into three parts: expenses for claims, capital, and any remaining premium designated for investments. Is this approach feasible for insurance companies given that insurance is based on indemnity agreements?

5.2 CONCLUSION OF LITERATURE REVIEW

In this chapter, the fundamental building blocks upon which the dual product is based have been introduced. By introducing the business model canvas framework, a more profound comprehension of how the product will make money for the business. The ensuing chapter outlines the qualitative approach utilized to carry out this investigation.

6 RESEARCH METHODOLOGY

6.1 RESEARCH METHOD

The following chapter deals with the research methodology of the business venture proposal and contains sections on the research design used, population and sampling used to test for the viability of the business venture. How the data is collected, analyzed and interpreted all contributes to an understanding of how the business venture addresses a potential gap in the market. A systematic literature review was followed in order to analyse the current short-term insurance products that currently exists in the market that serve as an investment tool (meaning resulting in giving some incentive back to the customer/policy holder) while they are paying their premium to insure their specific assets. The business proposal not only introduces a first to market product offering but it is one that promotes sustainability of SMEs in South Africa.

The business proposal utilized qualitative research, which involves exploring and comprehending human experiences, behaviors, and attitudes by collecting and analyzing non-numeric data. The biggest advance of qualitative study is that it is very flexible and to a large extent open ended, with a main focus on understanding the experiences and viewpoints of the participants (Jameel et al., 2018). What is needed are insights into the research problem, not necessarily explicit data. Soliciting expert opinion and consensus was accomplished through the use of the Delphi technique. The RAND Corporation workers developed the Delphi technique in the 1950s as a means of achieving the most dependable collective viewpoint (Rowe, 1991). The key factor for being employed by The Delphi technique is the crucial need for having judgmental abilities in situations or studies where there is no existing historical data. This is a process by which individuals through a series of questionnaires and numerous feedback sessions reach consensus or make decisions. The goal of the Delphi technique is to obtain insights and evaluations from industry participants by means of inquiries and input, with the objective being to achieve agreement or arrive at similar choices. One of the many advantages of using the technique is that respondents are not required to be physically present when providing their views. The other benefit of making use of the Delphi technique, as noted by Okoli and Pawlowski (2006), is that it enables participants to circumvent direct confrontation allowing participants to provide an honest view of the subject in question.

6.2 THE DELPHI TECHNIQUE EXPLAINED.

The Delphi technique involves a cyclical process wherein several questionnaires are sent to a group of selected professionals who possess expertise in the given topic. After each round, responses are synthesized and utilized for formulating subsequent questionnaires with an aim to establish significant agreements among the participating experts.

A Delphi procedure is identified by its key attributes, which encompass anonymity, iteration, deliberate feedback and the statistical compilation of group responses. The reasons for selecting the Delphi technique in this research report are as follows:

1. When it comes to the understanding of short-term business insurance there is a restricted pool of professionals (LDA, 2019).
2. According to literature, a panel for the Delphi technique needs to consists of 10 to 18 individuals (Okoli and Pawlowski, 2006), rendering it an ideal research methodology for this survey.
3. Gupta and Clarke (1996) noted that the Delphi technique is both cost-effective and offers reasonable prediction accuracy across various time frames. In addition, it is

a straightforward process to oversee, making it easily implementable through email correspondence - which proved advantageous given the experts' limited availability.

4. Gupta and Clarke (1996) noted that the Delphi technique is both cost-effective and offers reasonable prediction accuracy across various time frames. In addition, it is a straightforward process to oversee, making it easily implementable through email correspondence - which proved advantageous given the experts' limited availability.
5. According to Webler, Levine, Rakel and Renn (1991), the Delphi technique is beneficial in forecasting future circumstances when a significant decision has incomplete knowledge and uncertainty. This business venture is one where two products are combined in one which is a first especially for the fact that not only does the supplier of the product have to have a short-term licence but also an investment licence preferable a long-term licence as well.

6.3 APPROACH TO COLLECTING DATA

The Delphi Technique and constant comparative method were utilized for collecting and evaluating data. The following outlines the actions taken in employing the Delphi process for this study.

The process of selecting a panel of experts is crucial in preparing for the Delphi method. The quality and accuracy of responses are dependent on the expertise of those involved (Taylor-Powell, 2002). To ensure diversity in perspectives within this discipline, Webler et al. (1991) suggest assembling an expert panel with varied backgrounds and viewpoints. Consequently, the researcher meticulously evaluated potential participants to guarantee sufficient knowledge on underwriting commercial insurance and providing innovative solutions for SMEs when it comes to insurance offering.

Industry experts who were recognized as possessing the necessary knowledge received invitations to join the research panel. The researcher reached out to these individuals via email and provided a concise overview of the proposed process while gauging their willingness to partake. Out of 18 initially dispatched invites, 12 (67%) responded affirmatively.

Table 3: The research panel participants are presented in the below table

Participant Number	Gender	Company	Sector	Number of years of Experience
1	Female	Gen Re	Reinsurer	15
2	Female	Hollard	Insurer	35
3	Female	HDI	Insurer & Reinsurer	10
4	Female	Hollard	Insurer	12
5	Female	Xon Risk	Broker	15
6	Female	Aon Re	Broker	15
7	Female	Hollard	Insurer	10
8	Male	Hollard	Insurer	30
9	Male	Discovery	Insurer	20
10	Male	Hollard	Insurer	15
11	Male	Hollard	Insurer	15
12	Male	Hollard	Insurer	10

6.4 GATHERING THE DATA

To collect the data, three rounds were conducted with each survey having a specified deadline for response return. Participants who failed to meet that target date received follow-up communication from the researcher. The study took place over a span of 10 weeks, during which initial interviews were carried out using Microsoft Teams to gather primary data from individuals working in the insurance sector. The semi-structured interview was designed to align with the research objectives, providing a clear direction. The questions were carefully crafted by referring to literature sources and utilizing theoretical sensitivity (Elliot and Timulak, 2005). By employing qualitative methods using open-ended questioning techniques in accordance with Saunders & Lewis (2012), insightful data that could offer new perspectives on a dual product combining commercial insurance with an investment policy could be collected. This approach allowed themes from each question asked during interviews to emerge naturally while incorporating relevant theory-based concepts resulting in more comprehensive insights being produced.

Simultaneous collection and analysis of data was conducted using the constant comparative method. This involved comparing sets of data obtained from interviews, questionnaires, etc., to summarize responses in order of importance. Researchers who do not aim to build substantive theories often use this approach (Merriam, 1998). Additionally, qualitative research incorporates content analysis as a means of identifying recurring themes and patterns in meaning. Raw data is coded simultaneously with category construction that captures pertinent characteristics within the content itself.

After collecting and saving responses from the initial survey, a total of 80 statements/views were obtained. The data was then categorized based on similar themes and significance as suggested by Hasson et al (2000). When different terms referred to one issue, they were grouped together for universal descriptions. Similar messages also underwent summarization into single statements leading to compilation of answers related to the two aforementioned questions.

In the second stage, respondents were instructed to examine a summary of responses obtained from the research's initial question that refers the challenges that might arise in administering such a product within the short-term industry. From list, they were then asked to choose and rank their top five most impactful statements/views that they agree with in numerical order. All 12 participants responded and provided their views.

For the last survey, the panel was asked to pick their top five viewpoints from a condensed list of how they envisage the specific features of this embedded product to look like. The participants were then instructed to prioritize their selections by ranking them in order of significance. All 12 participants responded and provided their views.

Chapter 5 presents the outcomes of the survey, highlighting the top five concerns when it comes to launching/administering such a product and how they envisage the specific features of this embedded product to look like.

6.5 RESEARCH LIMITATIONS

The aim of this research is to investigate the feasibility and potential for creating a business product that addresses short-term cash flow needs among SMEs by integrating an investment policy solution. The insurance industry, according to INSETA, is typically not viewed as appealing, leading to limited exploration in the field. Lee & Shin (2018) have also observed insufficient scholarly literature on commercial insurance relative to domestic insurance. This limitation presents possibilities for future studies as it may uncover unaddressed areas within current literature.

It is possible that the measurement instrument selected for this study could become a hindrance, as there may be some questions omitted by the researcher which later would emerge crucial in obtaining thorough and complete insights to address the research question/s. This limitation might manifest itself following completion of data collection during analysis. Furthermore, incorporating specific prompts into an interview guide can also have limitations since it carries with it elements biasing or leading toward certain responses from participants.

The study relies mainly on self-reported data from participants which could be challenging to authenticate. The respondents may encounter bias while responding to the researchers' inquiries, hence affecting the validity of this study. However, the researcher strived towards lessening these limitations by scrutinizing inconsistencies in other scholarly works related to this subject matter. Another potential flaw is that interviewees might not have fully disclosed all information during interviews due to secrecy and concealment intentions.

7 RESULTS

The primary aim of these interviews/surveys was to pinpoint significant challenges that arise in administering a dual product (including an investment policy) being offered for SMEs with the idea of helping them should a 'rainy day' occur or for expanding the operations of the business and gather insights on the specific features of how such a product will look like and how it will react in the market. To complete the Delphi process, three rounds were conducted. During the initial round, participants were tasked with generating succinct viewpoints about topics related to the business venture. In round two, respondents reviewed a summary of responses from question one and then chose their top ten important concerns. For the final stage (round three), industry experts were require to provide their insights on the specific features of how such a product will look like and how it will react in the market.

7.1 THE OUTCOMES OF THE INITIAL ROUNDS

The following presents a summary of responses to two of the questions the first one being: participants had to identify major challenges that arise in launching a dual product (including an investment policy) being offered for SMEs with the idea of helping them should a 'rainy day' occur or for expanding the operations of the business. The second question being that the respondents had to outline how they envisage the specific features of this embedded product to look like what the impact would within the short-term insurance industry.

7.1.1 Research Question One

Do short-term insurance providers offer commercial insurance offerings that meet the present needs of SMEs and align with contemporary digital developments?

The objective of this question was to determine whether the existing commercial insurance options are sufficient for SMEs. Appendix C contains interview questions that aimed to identify any significant obstacles with current offerings and assess how well they integrate with technological advancements. The overwhelming consensus among participants was that insurers must prioritize creating products essential for ensuring SME sustainability, rather than solely focusing on profits. This shift could benefit both parties by increasing penetration in the short-term industry while demonstrating commercial insurance's relevance and importance.

The themes that emerged from analysing interview questions one to three are presented in Table 4. The table ranks the top three themes by the number of interviews in which they were discussed.

Table 4: Themes for research question one

Rank	Relevancy	Frequency
1	Digitized offerings should be adopted	12
1	Insurance companies need to assist in contingency plans	12

2	Infrastructure is outdated and legacy systems are still taking front line	10

The table presented indicates that the three primary themes were highly emphasized in each of the twelve semistructured interviews conducted. The frequencies linked to these themes reveal that participants view said challenges as imperative for prevailing insurers to prioritize. Though many conveyed awareness among insurance providers, a considerable number expressed discontent with their refusal to adapt and evolve. However, it is noteworthy how some traditional insurance companies have recognized the importance of modifying their policies according to present-day circumstances. In subsequent sections related to research question one, the following discussions will delve deeply into these aforementioned themes.

7.1.2 Digitized offerings should be adopted

The table below presents an outline of the obstacles that conventional insurance companies faced, as noted by research participants in their struggle to embrace digital commercial insurance products for small and medium-sized enterprises (SMEs).

Table 5: Constructs related to digitized offerings for SMEs

Rank	**Challenges related to adopting digitized offerings**	**Frequency**
1	Skills gap issue and not enough buy in from senior management	12
1	IT systems not equipped for the changing needs of SMEs	12
1	Collaborate with an established Insurtech company to leverage their expertise.	12
2	Pricing products based solely on historical data is inefficient now.	11
3	The relevance of products is declining in response to the rapidly changing business environment.	9

From the interviews conducted, it was evident that established insurers consider incorporating digital offerings into their commercial insurance portfolio as a major hurdle. The participants highlighted far-reaching consequences if these incumbents fail to adapt and support SMEs with digitized products – potentially questioning their relevance in the market. In addition, all respondents acknowledged high overhead expenses incurred by insurance companies which are then passed onto customers through elevated premiums. Meeting the demands of South African SMEs posed difficulties for these providers concerning satisfying needs, generating value and delivering services effectively across this group's unique circumstances.

According to a Senior Underwriter from a reinsurer, SMEs have gained an advantage by having access to information from various sources easily. This has led them to become more knowledgeable about commercial insurance dynamics and adjust their expectations of insurers and insurance product delivery significantly. As such, many SMEs are seeking greater value from their providers; one step toward meeting this demand might be incorporating investment policies that address cashflow issues which some businesses encounter.

Participant Number 9: "…individuals nowadays prefer not to interact in person. They refrain from speaking with a broker or anyone for that matter and instead opt for using an app, the internet or email as means of communication. Personal engagement is something they tend to avoid."

Although the majority of research participants agreed with Participant Number 9, some others opposed this belief by suggesting that insurance cannot completely eliminate the human element. It was found that although consumers' expectations regarding technology are evolving in regards to insurers, they still prefer interacting with their insurers on a personal level under certain circumstances. Additionally, there is difficulty when it comes to commercial insurance and the skills gap could require intermediaries for guidance and advice. From interview data collected, customers seem interested in a combination of technological convenience paired with interpersonal relationships from their insurer- otherwise known as "hybrid offering".

7.1.3 Insurance companies need to assist in contingency plans

Table 6: Constructs related to contingency plans

Rank	**SMEs with the assistance of insurance companies can achieve success by implementing effective planning strategies.**	**Frequency**

1	Access to capital is paramount when it comes survival of SMEs	12
2	Ongoing and consistent training on business development	9
2	Agile commercial insurance aids SME growth.	9

All the interview data indicated that existing insurers' business model is too traditional and no longer applicable to the changing risk landscape of today's business environment. According to Table 5, many research participants cited a lack of innovation in technological aspects as evidence supporting this claim. They noted that current insurance providers are lacking creative technological components necessary for expanding upsell distribution channels, with some attributing complacency within these companies as one possible cause.

Participant Number 5 suggests that the current insurers are advocating for maintaining things as they are since it yields profits; after all, if something isn't flawed, there's no need to repair or rework it.

Participant Number 7 highlights that undeniably, technology is significantly influencing the insurance industry. The emergence of data and aggregators has garnered immense strength in this regard. An intriguing aspect to ponder upon is whether or not insurers will sustain for another 20, or even 30 years because big players like Google possess colossal amounts of data that enable them to compete fiercely with established insurers. Interesting fact and this honest conversation is not yet ready to be tabled by insurers but time is moving at such a rate that this needs to be planned for now.

7.2 RESEARCH QUESTION 2

Is it still viable for conventional short-term insurance providers to only rely on historical data in order to meet the current requirements of businesses?

The aim of this research was to explore how participants perceive historical data as the primary source for insurance underwriting. However, in order to create more effective and valuable underwriting models that support quick decision-making, testing, learning and improvement, insurers need to adopt agile methodologies with short iterative cycles. Through interviews conducted from questions five through seven, researchers gained insights into potential areas for business model innovation among existing insurers according to participant feedback. Table 6 below illustrates the top three themes identified by the number of times they were discussed during interviews.

Table 6: Main themes related to question 2.

Rank	**Data and analytics redefine underwriting excellence in commercial insurance.**	**Frequency**
1	Develop competencies and abilities.	12
1	Use agile systems that engage in active learning by harnessing a wealth of information.	12
1	Attempting different business models and undertaking risks.	12

7.2.1 Develop competencies and abilities.

To attain top-notch underwriting, it's essential to have a team of well-trained and driven professionals. Despite the existence of many assets in today's business environment, insurance executives regard human capital as their most scarce resource. Top insurers prioritize acquiring, developing and retaining talented individuals for their underwriting operations-- an effort that aligns with core business strategies. Investing time towards upskilling current staff is as vital as attracting new talent.

Participant number 7 highlighted that insurers should be creating targeted initiatives and adapting their workforce strategies to attract and educate professionals in analytics, software development, architecture design, data science expertise, agile methodology proficiency, graphic design mastery as well as translation capabilities. These staff members will then possess a strong grasp of advanced analytic methods that constitute trends; they can competently implement these techniques for optimal performance results. They will excel in innovation through analytical skills while delivering customer-focused solutions derived from business requirements by interacting on collaborative levels with other users interchangeably. This allows them as well to never miss an opportunity to close a gap such as introducing an investment policy to help with the sustainable growth of SMEs.

According to a brokerage's Managing Director, leaders of organizations can easily set up an advanced digital structure and prepare the groundwork for exceptional underwriting when their teams are fully dedicated to implementing new processes. This includes integrating innovative technology into an analytical workspace that boasts advanced tools for managing, organizing, modeling, visualizing and simulating data.

7.2.2 Use agile systems that engage in active learning by harnessing a wealth of information.

SMEs are seeking insurance solutions that specifically match their individual risk profiles, as well as cater to their specialized assets and unique operating models and geographic footprints. They desire lowered exposures through garnered insights on risks and prefer access to real-time data where feasible - all while receiving coverage tailored towards the complexities of modern business practices rather than outdated approaches oriented around physical assets or simple supply chains.

Despite the advantages of personalized and unique plans, such as customized phrasing or extended coverage limits, numerous major organizations have fully embraced self-insurance for protection not offered by insurance providers. If insurers are unable to meet customer needs in terms of capacity and specific coverage requirements, customers will seek alternate placement methods. Insights from all the Participants reiterated the fact that insurance companies must fulfil their role by offering a necessary dual product which guarantees SME asset coverage while providing access to cash.

7.2.3 Attempting different business models and undertaking risks.

Traditionally unconventional participants are progressively exerting pressure on the value chain and hastening the shift to an active trading system by introducing novel products and services. Top captive insurance companies have expanded beyond hedging their own risks as they recognize a promising avenue in marketing their abilities. Underwriting operators and brokers have devised fascinating solutions intertwined with technology-driven advancements, spanning from algorithmic underwriting to risk prevention services powered by AI programs. These establishments no longer aim at being passive players but possess adequate investment (often originating from private equity) for considerably broadening their range of offerings.

7.3 RESEARCH QUESTION THREE

The South African Entrepreneurship Magazine (2015) states that a lack of funding or cashflow is one of the main reasons why SMEs in South Africa fail. Could short-term *insurance companies help address this issue by providing a commercial insurance product that includes an investment policy, thereby ensuring the sustainability of SMEs?*

The aim of this question was to gather insights and perspectives from participants regarding whether current insurance companies can aid in resolving one of the primary reasons why SMEs fail in South Africa, thus leading to a weakening economy. Additionally, practicalities and challenges were identified by these individuals concerning this endeavor. Participants emphasized partnering with InsurTech businesses as the best approach for introducing innovative products due to their proficiency at identifying gaps within existing insurer business models. Table 10 displays three prevalent themes that arose during interview data analysis ranked according to frequency across interviews mentioned therein.

Table 7: Main themes related to question 3.

Rank	Themes	Frequency
1	Lack of funding causes most South African SME failures	12
1	A dual product will be a win win for the insurer and the business	12
1	Value Proposition must align with customer requirements.	12

As shown in Table 7, the top three themes emerged consistently across all twelve interviews. The frequency distribution of these themes clearly indicates that participants believe them to be crucial for promoting sustainable growth among SMEs. Moreover, there exist viable strategies for successfully introducing such products into the market.

Interestingly, some participants pointed out that new players have the potential to expand embedded insurance into the commercial insurance sector. As mobility-as-a-service subscriptions continue to grow and self-driving vehicles become more prevalent, these bundled offerings are expected to gain popularity. Embedded insurance will also extend its reach into insuring business assets in a highly connected market where companies seek intuitive experiences similar to those seen with embedded finance products when protecting valuable intellectual property (IP), patents, and brands. While it presents both opportunities such as increasing profits through white labeling options for traditional carriers and threats like loss of market share, this shift represents a significant development nonetheless.

7.3.1 Lack of funding causes most South African SME failures

Table 8: Constructs related to how the lack of funding issue can be resolved.

Rank	Insurers aid SMEs' growth allowing them to stay opened for future generations	Frequency
1	Lifeblood of the South African economy	25
1	Cash is king	24
2	Partnership needs to go beyond just selling insurance product	12
3	Boost external investment opportunities	7

Insurers can benefit in numerous ways, including attracting top-notch talent and re-establishing the significance of their insurance brands as well as enhancing customer relationships and impeding the trend toward self-insurance by offering ingenious solutions with a distinct purpose that generates significant social value.

In Johannesburg, the leader of a business development team specializing in SME underwriting proposed developing a new product to address the common issue of cash flow for small businesses. Drawing on examples from Discovery Medical Aid and similar services, she suggested creating an investment-based plan in which part of each payment would go toward savings accessible when needed or as annual benefits are used up. This approach could not only improve short-term financial stability but also support long-term growth by incentivizing SMEs to invest more heavily in insurance products tailored to their expanding needs. Overall, this dual offering would deliver substantial benefits that make it a clear win-win solution for all involved parties.

Participant Number 11: "…he essential requirements for this dual product are that it enables SMEs to sustain and expand their business when unforeseen incidents occur. During slower periods, the ability to utilize savings is crucial in fulfilling fixed expenses which may not be attainable through cash flow during such a time frame."

Participant Number 9:"…The dual product must possess essential features such as personalized commercial insurance coverage that caters to the specific requirements of the business, all while maintaining minimal costs."

7.4 SUMMARY OF THE RESULTS

Below is the top five perspectives on how the respondents envisage the specific features of this embedded product to look like what the impact would within the short-term insurance industry. Each statement is accompanied by a clustered column displaying the frequency score distribution.

1. The investment product should be structured in a way that the business will have direct access to cash following the maturity of the policy as cash flow limitation is a big problem for SMEs. This was especially evident when during and after the lockdown as many businesses were unable to stay afloat due to lack of funds to keep them running when their customer base reduced.
2. Insurers will become active players when it comes to IOT technology, this will lead to right pricing capabilities as underwriting will be based on current information received from use of sensors (for maybe reporting major loss events such as water, fire, floods), the GPS data which will allow for the correct location where the risk is based.
3. Data driven product offered on a digital platform will potentially lead to operational improvement and lessen the staff expense costs in the long run. Meaning that this product can be offered at a much affordable price.
4. Insurers who have both the long and short-term insurance licenses and also who have partnered with Insurtech companies will be more successful in launching an innovative product mentioned in this paper.
5. Having insurers provide an on demand digital product can possibly lead to an escalation in the intricacy of business operations and system prerequisites to future fit insurance companies.

7.5 DISCUSSION OF RESULTS

It is essential to keep in mind that the Delphi survey results only establish key areas of importance according to a particular group of participants or experts, and thus agreement among them does not guarantee finding the right answer, opinion or judgment (Hasson et al., 2000). The author acknowledges this fact while analysing and interpreting these findings.

This article presents a discussion of the primary discoveries discovered through the survey, which are subsequently assessed based on research questions and literature review.

Survey revealed significant discoveries.

Overall, there is broad support for backing up a new digitalized embedded product that will be geared on mainly assisting SMEs with cashflow challenges that might arise in the future. According to the responses received on the survey, there are many advantages for insurers who distributing this product and some of these include long-term relationships with their customers and with the real time data received, this enhances the IOT capabilities of the industry, and the possibilities are endless. This could also potentially contribute to the increase in insurance penetration in South Africa especially when it comes to business insurance.

It is quite evident from the respondence that short-term insurers in South Africa operate within a highly regulated financial services industry that differs from product providers of long-term. The sector is constantly changing, influenced by factors such as economic shifts and uncertainty in weather patterns. Respondents of the survey are also highlighting the fact that in order to remain relevant to the insured (whose needs are constantly evolving), traditional insurance companies must compete with Insurtech start-ups using emerging technologies like the internet of thins (IoT and analytics to disrupt their value propositions).

Although technology and data have significant effects on innovation, success is still mainly determined by people, talent, and culture. Every influential leader in the field acknowledges that creating a workforce proficient in innovative technologies is crucial for maintaining competitiveness and thriving in upcoming times. Programs devised to bring about transformation must foster energy and empowerment among individuals or teams undergoing change which commences with clear communication regarding why organizational modifications are necessary as well as how individual job roles will be impacted.

The results highlight the importance of obtaining leadership support in securing resources for InsurTech-related initiatives and developing innovative business models. Companies must be willing to experiment with trial and error, building their innovation capabilities while still maintaining current levels of effectiveness. These findings confirm previous research by scholars that suggests business model innovations can help businesses overcome shortcomings associated with older models, leading to sustained growth and renewed profitability.

7.6 RECOMMENDATIONS AND CONCLUSION

7.6.1 Recommendations

The subsequent recommendations presented have been formulated upon a thorough analysis and interpretation of the above highlighted research findings. These recommendations are grounded in the empirical evidence derived from the study conducted by the researcher which sheds light on potential solutions or actions to be taken based on the data obtained.

a) Continuous investment in new technologies

   The researcher suggests that these companies should invest in specialized information systems designed specifically for the insurance industry. Hence why the researcher is suggesting that traditional insurance companies must consider partnering with already existing Insurtech startups to leverage the new technology.

b) The FSCA (Financial Sector Conduct Authority) – "the regulator"

   Insurers must respond quickly with innovative solutions to tackle global challenges. Although innovation is not commonly associated with the insurance industry, COVID-19 has demonstrated that insurers can swiftly innovate to aid businesses and individuals in risk management and loss protection. For instance, health insurers promptly included benefits for critical illnesses related to COVID-19 and waived member cost sharing when it comes to diagnostic testing relating from the virus. Alongside this pandemic crisis, other noteworthy developments like technological advancements and healthcare reform have also sparked creativity in insurance products concerning life and health coverage.

   Insurers can offer unique solutions to meet SME demands and ensure that they are sustainable in their operations through inventive products and services. Nevertheless, the tightly regulated insurance sector may view such innovation as troublesome since untested concepts could pose a risk in safeguarding consumers. Even if regulatory bodies recognize an innovative product or service's potential benefits for policyholders, they might face limitations due to regulations. Since progress happens too fast compared with regulation guidelines, insurers require more adaptable standards allowing prompt release of imaginative products and services into the market.

c) Strengthen partner relationship between insurance company and SME

The research has identified multiple factors affecting the business partnership between SMEs and insurance providers. To enhance this relationship, one of the suggestion is that insurers increase their engagement with small businesses from the initial process of writing the policy all the way through claims stage. Insurance provider can do this by having regular workshops to educate them about product offerings. The other more importance interaction is insurance companies hand holding some of these SMEs in providing them with free business consultation services. Additionally, conducting bi-annual research programs can help identify suitable coverage options at affordable prices for SMEs.

It is no secret that insurance is still widely viewed as a grudge purchase and the research did reveal that in order to change this then the reliability of insurers should be something that is seen and not just insurance companies doing the talk. Therefore, organizing interactive events like roadshows where SMEs can meet and receive information on premiums, claim payouts and as well as the payment of the investment policy should be considered by insurance companies to foster trust-based relationships with their customers.

7.6.2 Conclusion

In light of the burgeoning competition and rising customer demands, it is imperative for insurance firms to take proactive measures in order to overcome these challenges successfully. By doing so, they can reap substantial benefits that accrue from a profitable new business growth along with considerable improvement in underwriting returns. One such pivotal step would be formulating an effective commercial insurance product that extends financial assistance to SMEs aiming at their sustainable evolution while simultaneously rejuvenating South Africa's fragile economy. Although this novel concept seems plausible on paper, it would largely work only for those insurers with enough ambition that are committed towards achieving long-term relationships with SMEs so as to make meaningful contributions towards giving a much-needed positive boost back into the country's economy.

8 BUSINESS VENTURE PROPOSAL

8.1 STRATEGIC REVIEW AND PLAN

8.1.1 Introduction

ULINZI Insurance Partner Solutions emerges as a burgeoning force to be reckoned with in the realm of commercial short-term insurance, positioning itself as a formidable contender poised to make significant waves within the industry. As a nascent entity, ULINZI Insurance Partner Solutions is committed to spearheading innovative solutions tailored to bolster the success and sustainability of SMEs operating within the vibrant economic landscape of South Africa. By leveraging its expertise and resources, ULINZI Insurance Partner endeavors to empower SMEs to flourish and prosper in their daily operations, thereby fostering a climate conducive to growth and prosperity that ultimately augments the overall economic vitality of South Africa. The offering, which encompasses an embedded insurance component, seamlessly integrates the benefits of insurance coverage and an investment strategy within a single package. This comprehensive solution caters specifically to SMEs, offering them a streamlined and efficient method to safeguard their assets while simultaneously providing them with accessible funds during times of financial strain or unforeseen emergencies. This bundled approach at the time of purchase is viewed as a way to enhance insurance availability and promote long-term viability for SMEs.

The business venture aims to launch a digital commercial insurance offering for SMEs that can be easily purchased through a mobile app and website. The use of AI technology will streamline the insurance process, allowing SMEs to quickly purchase and manage their policies with the assurance that they will receive cash injections when their investment policy matures. The product is designed to provide transparent, fair, and hassle-free insurance using innovative technology. It will initially be introduced to the top five insurance companies in order to establish itself in the market. Targeting SMEs primarily in South Africa, the goal is for this product to support businesses in growing sustainably over time. The insurance company generates revenue by selling these policies and can also use data analytics to develop new business models tailored to meet the needs of SMEs.

By 2030, the worldwide market for embedded insurance, which involves selling insurance in conjunction with a product or service purchase, is estimated to reach a value of $5 trillion

(Techforum, 2024). This presents South African insurers and service providers with the chance to explore innovative business strategies.

Embedded insurance allows licensed insurance providers to seamlessly incorporate insurance products into their customer offerings, such as a car manufacturer including insurance in a sale or a bank linking life insurance with a home loan. This not only enhances the customer experience by providing added value, but also boosts revenue for the provider. The upcoming product in the business venture will follow this approach, allowing SMEs to obtain commercial insurance for their assets while simultaneously investing a portion of the premium. What sets embedded insurance apart is its ability to offer relevant coverage exactly when and where businesses need it, eliminating the need for businesses to actively seek out suitable insurance solutions.

Insurance companies should have the option of allowing SMEs to have the option of choosing to go direct or work via a selected broker. In most cases, brokers can be close to the customer, most can add some much needed skills when it comes to risk management and business acumen in general. Some SMEs may trust their broker's judgement in selecting the proper coverage and insurance company to place them in.

8.1.2 Mission

The term ULINZI, originating from the Swahili language, carries with it a profound connotation of safeguarding and shielding. This semantic essence resonates perfectly with the intended purpose of the product, which is geared towards fortifying and ensuring the sustained existence of SMEs in South Africa. The primary objective of the product is to offer competitively priced insurance covers that also deliver top-notch protection, in addition to providing cash investments after a 3-year timeframe.

8.1.3 Vision

To lead the way in offering innovative and advanced commercial short-term insurance solutions by utilizing top-tier, seamlessly integrated technology systems. Additionally, ULINZI will strive to restore confidence in the insurance sector by providing clear and customer-focused insurance products that prioritize transparency and satisfaction for their clients.

8.1.4 Management Team

Siphamandla Mbekezeli Dube, an accomplished individual and visionary entrepreneur, is the founder of ULINZI. Currently serving as the Business Development Manager, he plays a pivotal role in the company's operations by specializing in corporate property underwriting for large commercial businesses across the continent of Africa.

Having obtained a Bachelor's degree in Geology from the University of the Free State and subsequently earning a Post Graduate Diploma in Business Administration from the renowned University of Witwatersrand, Siphamandla possesses a wealth of knowledge and expertise in his field. With over eight years of experience within the insurance industry, he has honed his skills and garnered invaluable insights that have propelled him to identify a significant gap in the market.

Recognizing the need for innovative products and services in the insurance sector, Siphamandla has taken it upon himself to introduce groundbreaking solutions tailored to meet the evolving needs of SMEs.

8.2 The Product

A versatile product that aligns perfectly with the demands of modern businesses in the 21st century. This goes beyond just incorporating advanced technology, but also prioritizes the development and long-term success of SMEs over solely focusing on profits. It addresses a pressing issue of providing financial support while also contributing to a robust economy.

Commercial insurance is commonly understood as a process where businesses pay premiums and submit valid claims. The premiums collected by insurance providers are pooled together to cover the costs of claims, with any leftover funds, known as premium income, being available for the insurance company to use as they see fit. Typically, this money is reinvested or treated as income by traditional insurance companies. This unique product mentioned in the business venture will have a different structure compared to traditional insurance offerings. Instead of relying on unclaimed premiums for profits, it will charge a flat fee (25%) from each premium as profit. The remaining funds will then be invested in a three-year investment plan after covering claims and expenses. Claims expenses for insurance companies typically make up around 60% of their total premium revenue (Kurani, 2024). Finding ways to decrease these costs is extremely beneficial for an insurance company, whether it involves preventing legitimate claims through risk management strategies or detecting and reducing fraudulent claims with improved data analysis techniques.

Approximately 20% of premiums are allocated to operating costs. The main factors driving these costs include claims management, IT infrastructure, sales support, and policy servicing. The new technology being implemented will address each of these areas, such as improving efficiency in claims management with the use of image recognition technology.

How this future fit product will function precisely:

1. The screening process involves evaluating applications based on specific criteria to sort and classify SMEs by their business type. Approved applicants must then install a special dongle that tracks various behaviors related to both vehicles and fire detection systems at the insured location.
2. Determining the highest level of risk exposure – By evaluating the insuree’s past claims, length of time in operation, revenue earned since opening, and other relevant factors, a maximum premium is calculated to assess the potential liability in the event of a claim.
3. After filing an insurance claim, the insured's premium will be used to cover the claim payment. Regardless of whether a claim is made, policyholders still receive benefits from their investment policy over the next three years. This policy returns the invested premium to SMEs and provides professional guidance on business development, helping them utilize the cash injection for growth.

Objectives

1. A cutting-edge product that is poised to rival the top Insurtech insurance companies in South Africa, offering high-quality and competitively priced insurance products with the potential to become a market leader.
2. Make sure the product is approved by the FSCA to provide a better understanding of the policy and regulatory requirements that must be followed. This will give peace of mind and remove any obstacles in business growth.
3. Continually exploring new markets that align with marketing standards by offering products that are appropriate for the economic and social conditions in South Africa.
4. Expansion – expanding the business at a pace that is both demanding and sustainable.

Value Proposition

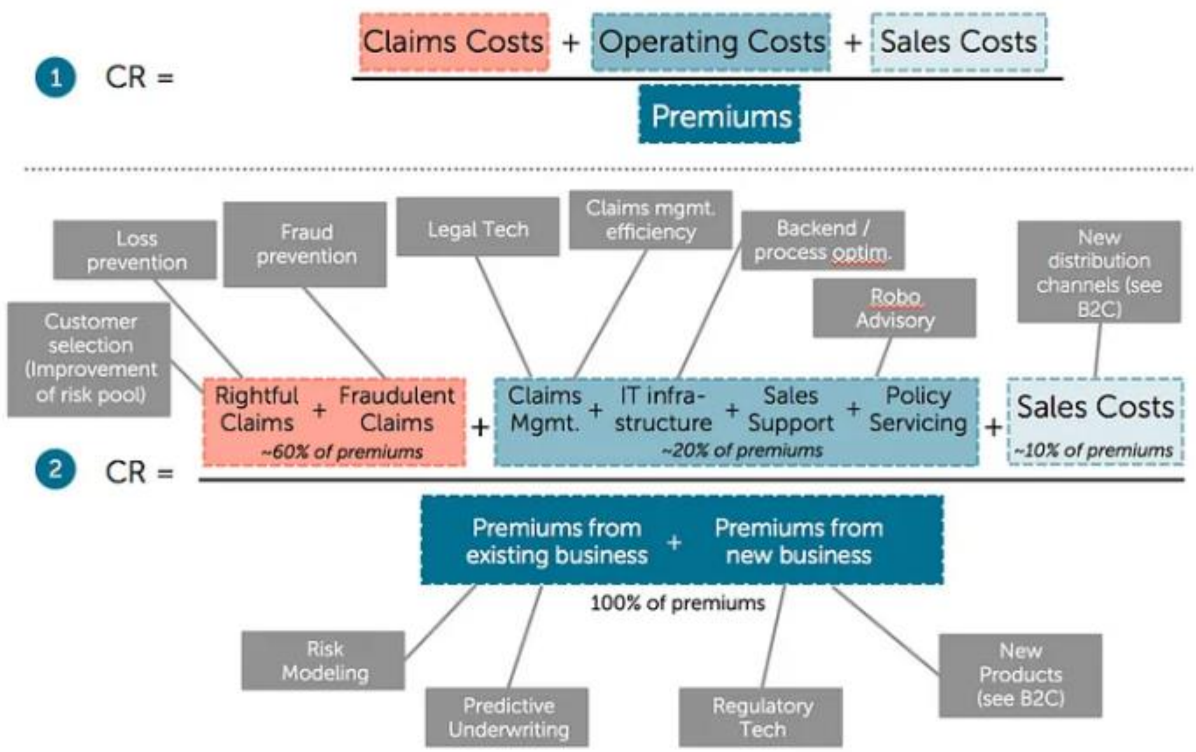
Enjoyable Experience: A new product that places a strong emphasis on enhancing the purchasing and claiming processes by incorporating playful bots and cutting-edge technology.

A rigorous evaluation process that excludes companies with a pattern of frequent claims and significant losses, making them ineligible for insurance coverage.

Excellent prices: Thanks to advanced automated technology, the product will be available at a much lower cost than traditional competitors. Prices could be up to 50% lower, giving it a significant edge in the market.

Continual monitoring of the significant risks that could lead to a major loss for the company. A flexible product that will adapt and evolve based on the changing needs of SMEs in South Africa.

Figure 5: Cost Analysis of Premium. Source: FSCA (2021)



8.3 MARKET AND INDUSTRY OVERVIEW

The trend of embedded insurance has gained worldwide traction in the short-term insurance sector (Hollard, 2024). This concept aims to make buying insurance more appealing, hassle-free and tailor-made for customers as it becomes integrated into their product or service purchasing process. Embedded policies eliminate the need for direct interaction with an insurer by offering consumers a variety of online options like customised travel coverage while booking airfare or personalised automobile protection when choosing a vehicle model – all accessible through that site's app or website interface.

The Global Insurtech market is anticipated to experience noteworthy expansion according to recent research done by the FSCA, with a projected reach of US$39.4 billion by 2027. The surge in the global InsurTech industry's advancement can be attributed to integrating artificial intelligence (AI), machine learning (ML), and cloud computing for better forecasting consumer demand, strategizing and decision-making processes.

As per the InsurTechDigital website (2024), there is no slowing down of the African InsurTech market as start-ups in Africa are securing substantial funding. The total funds raised so far sums up to $744.1m, with notable South African companies like Naked, Pineapple, Nomanini and Inclusivity Solutions bagging a whopping $22.4m jointly.

Major insurance companies are increasingly offering embedded insurance products worldwide through partnerships with InsurTechs (Bizcommunity, 2024). Canada's co-operators recently introduced a new embedded insurance application programming interface (API) called Duuo (PWC, 2023), which allows businesses to integrate their website, app or platform for purchasing insurances. The first product available under this API is the Duoo event coverage plan that assures consumers of protection while booking an occasion venue.

The Covid-19 pandemic has had a significant impact on the local InsurTech market, prompting many insurers to expedite their digital transformation efforts in order to keep up with burgeoning consumer demands for seamless online service and offerings (Bizcommunity, 2024). Consequently, there has been an increase in proactive partnerships between local insurers and InsurTech firms across various strategic alliances like Sanlam Group's partnership with MTN Group (PWC, 2023). Moreover, early-stage investments of R1.4 billion made into South Africa’s tech ecosystem by Naspers Foundry involved injecting funds worth R120 million into Naked Insurance (News24, 2021) - a homegrown AI-driven company specializing in insurance technology services”.

Embedded insurance, fuelled by Insurtech, is becoming a prominent trend in the personal lines space but has yet to make its way into commercial short-term insurance (Writer, 2022). This presents an opportunity for bridging the current gap in insurance provision within South Africa through offering point of sale coverage and enabling consumers to get immediate protection for purchased goods or services. For example, Aura partnered with Hello Group - an integrated consumer and business service provider- back in September 2023 to embed their emergency response services alongside their business-oriented insurance options onto Hello Pay's merchant terminal service platform (Writer, 2022). This option benefited over 200k small businesses across South Africa who regularly utilize these payment platforms as it shields them from economic uncertainty or harm during difficult times like pandemics of natural disasters.

8.4 SERVICE BUSINESS ANALYSIS

Collaborating for Product Innovation: A prevalent form of partnership between Insurtech startups and established insurance firms is collaborating to develop products. By pooling their individual strengths, these entities can create inventive insurance solutions that effectively meet the ever-evolving demands of customers. Insurtech startups are reputed for their advanced data analytics abilities that enable them to acquire and examine extensive real-time customer information. Consequently, in partnership with conventional insurance firms, insurtech companies can offer beneficial prospects as well as prophetic models that help enhance pricing strategies and risk assessment techniques.

Collaborations with insurtech startups can help traditional insurance firms overcome the challenge of accessing younger, digitally-inclined clientele who prefer to engage with their products through online channels. By leveraging on these ventures' digital distribution capabilities and platforms, these companies can broaden their reach and tap into a more diverse customer segment. Insurtech startups have a reputation for their efficient and automated processes, leading to substantial reductions in administrative costs while enhancing operational efficiency. When partnering with established insurance companies, these startups facilitate the modernization of outdated systems and practices existing within traditional businesses so that they can better fit into the digital era.

Therefore, the embedded product will only be launched with conventional insurance firms that have pre-existing partnerships in place with insurtech companies within South Africa. Consequently, this restricts the number of insurance companies capable of piloting the prototype phase and significantly depends on each insurer's collaboration with an insurtech provider for its success.

8.5 POSITIONING

The product being introduced is specifically designed for the vast majority of SMEs in South Africa, totalling about 91% of formalised businesses in South Africa (Association, 2024). These businesses play a crucial role in the economy by providing employment opportunities to approximately 60% of the labour force and contributing significantly to the country's overall economic output, accounting for around 34% of the GDP (Association, 2024).

ULINZI Insurance Partner Solutions is set to revolutionize the market by offering tailor-made commercial short-term insurance solutions at competitive prices. In addition to this, the company will provide a unique feature of a guaranteed cash payment policy that matures in three years. This innovative approach allows businesses to utilize the cash payout to further expand their operations and foster growth within their organization.

By leveraging cutting-edge insurtech platforms, ULINZI Insurance Partner Solutions ensures a seamless and user-friendly experience for its customers. The policy issuance process can be easily completed through a mobile application, while claims can be filed effortlessly as well. This streamlined approach enhances efficiency and convenience for all parties involved, setting a new standard in the insurance industry.

8.6 PROMOTION

The product has been meticulously designed with the specific intention of being adopted by an insurance firm that holds both short-term and long-term insurance licenses. Through strategic partnerships with major insurance companies, the product aims to capitalize on the customer base of these institutions in order to expand its presence within the SME market segment. Hollard Insurance has expressed a strong interest in establishing a partnership with ULUNZI Partner Insurance Solutions. A professional contract would need to be drafted for the pilot phase to commence.

Upon finalizing the partnership agreement, the sales strategy will be initiated, focusing on promoting a limited-time offer of signing up now and receiving the first month free cover. This promotion is tailored specifically for SMEs, emphasizing the value proposition of the product. The outcomes and insights gained from this promotional campaign will inform future enhancements to the product.

Subsequently, a waiting list approach will be implemented, hosted on Hollard's website, to generate a pool of potential customers who are eager to purchase the product as soon as it becomes available. Additionally, this waiting list strategy will also extend to Hollard’s social media platforms to attract their existing audience and drive traffic to the waiting list sign-up page.

8.7 SITUATION ANALYSIS

8.7.1 PESTEL Analysis

Category	Political	Economic	Social	Technological	Legal	Environment
Possible Factors	1. prevalence of corruption, mismanagement, political intolerance, popular protests and violence in the political sphere often hampers economic development and progress. 2. Losing the trust and backing of both the public and investors in face of several political	1. South Africa's mixed economy has led to cost of living increase, causing SMEs to cut spending and prioritize reducing commercial insurance expenses. 2. High corporate income tax could hinders business growth in South Africa for all companies. 3. Lack of investor funds for insurance company to launch this	1. With South Africa’s ever growing population, big threat to the current supply and demand with some business not being able to keep up. 2. High unemployment and ailing health system hinder social mobility & growth due to poor infrastructur	1. Online shopping rise in South Africa, creates opportunities for online retailers. 2. South Africa's tech sector is booming, with startups and established firms. The governme	1. Regulation of Industry 2. Permits and Licenses 3. Safeguarded innovation	4. SA continues to be one of the leading tourists destinations especially with the beautiful climate in the hot summer months. 5. Business are able to capitaliz

	hurdles is a hindrance that poses difficulty for conducting business smoothly.	product	e.	nt invests heavily in technology and innovation through initiatives that promote industries.		e on the rich history that the country has to draw in tourists who are not afraid to spend. 6. environmental challenges confronting the country include water contamination, air pollution, soil erosion and depletion of natural resources

						through deforestation as well as solid waste disposal.

8.7.2 SWOT Analysis

Strengths	Weakness
• Innovative technological platform • Providing a product that solves two most pressing issues that SMEs face which is not having business insurance cover and not having enough cash • Customer centric • Competitive price points in comparison to direct competitors • Unique product that currently is not sold in the market • Good partnerships • Regulatory approval will be key to make this product a success.	• This is a product that needs to be launched with traditional insurer along with an Insurtech company. • The product will only be launched in South Africa • Lack of funding for marketing campaigns • Competitors can build up quite quickly. • Lack of industry experience • A sound IT platform functionality plays a crucial role in the product's success.
Opportunities	**Threats**
• Increasing the national footprint by forming partnerships with other insurance companies. • Expanding to new markets while delivering exclusive solutions. • On demand short-term insurance is rising • Increasing distribution to include other countries on the African continent • This product is founded on the idea of creating opportunities for partnerships. • To combat the continuously rising unemployment rate, there is a prolonged objective of sustaining businesses for an extended period.	• Susceptible to cyber threats and vulnerabilities. • Prominently present is the risk associated with regulation. • Unstable economy in the country can hinder the projected growth of this product. • Some SMEs will be unable to afford the high cost of premiums, resulting in them opting out of insurance coverage. • Changes in consumer preferences • The product category is characterized by a highly competitive environment.

8.8 FINANCIAL PLAN

Assumptions

The premium written is anticipated to experience substantial growth, with an annual increase of approximately 30% during the initial 24 months of operation. This surge in demand can be attributed to the successful marketing strategy that has generated significant hype around the product. However, after this initial period of rapid growth, it is expected that the rate of increase will stabilize and gradually decrease to 10% annually.

This projection is considered to be quite conservative as stated by the researcher, as it is believed that once more SMEs become aware of this exceptional offer, the product will essentially sell itself. The value proposition of how this product can contribute to the sustainability and long-term success of SMEs is expected to resonate strongly with potential customers, further driving demand and ensuring continued growth in premium written over time.

Table 8: High level financial calculations

	FY 25	**FY 26**	**FY 27**	**FY 28**	**FY 29**
ESTIMATED PREMIUM	**R1m**	**R1.3m**	**R1.7m**	**R1.8m**	**R2m**
ESTIMATED COST	**R1,475,757**	-	-	-	-
1 Project Manager (50%) <3 months>	R177,072				
1 Systems Analyst <1 month>	R121,520				
2 Developers <3 months>	R781,200				
2 Testers <2 months>	R243,040				
Direct + Indirect cost (30%)	R102,925				
Training	R50,000				
CASHFLOW	**-R475,757**				
ESTIMATED 1 YEAR ROI	0				
NPV @ 18% DISCOUNT RATE	R22.4m				

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10 APPENDICES

Appendix A: Informed Consent Letter

Dear Participant

I humbly request your support as a participant in my research study. As part of my academic pursuit for the Masters Degree in Business Administration at the University of Witwatersrand, I am conducting an inquiry into a potential business initiative involving the development and viability assessment of a commercial short-term insurance product integrated with an investment policy solution to provide necessary financing options for small-to-medium enterprises (SMEs). This study aims to explore opportunities presented by such products that can help SMEs attain much-needed capitalization critical for their operations.

The objective of my research paper is to comprehensively examine the structural and implementation aspects of a yet-to-be-launched product in an insurance company, while simultaneously ensuring its compliance with pertinent regulatory norms. The proposed offering intends to advance the notion that commercial insurance ought to evolve from a unidirectional value chain model into one characterized by dynamic exchanges between various stakeholders within the industry. Such transformation holds immense potential for facilitative growth through enhancing prospects for success among leading-edge insurers over time.

The proposed methodology for this study entails utilizing a qualitative research approach to effectively attain the necessary research objectives. May I respectfully request 30 minutes of your valuable time next week? The scheduled meeting will be conducted via Microsoft Teams.

If you have any queries relating to the questions appended herewith, please do not hesitate to contact me via message or alternatively, I would be glad to address them during our scheduled virtual session.

Your voluntary participation is appreciated, and you reserve the right to withdraw entirely without incurring any penalties. Be informed that our interview will be audio recorded, with confidentiality remaining a top priority obligation of ours throughout this process. Please note also that all reported data shall remain void of personal identifiers at every given instance.

If you have any concerns regarding this research, please contact me or my supervisor.

Our details are provided below.

Researcher: Siphamandla Dube Supervisor: Dr Emmanuel Quaye

Email: dubesm3@gmail.com Email: emmanuel.quaye@wits.ac.za

Telephone: 084 456 5267

10.1 APPENDIX B: INTERVIEW GUIDE

Name:

Organisation:

Job title:

Date:

Start Time:

End Time:

I would like to express my gratitude for your willingness to participate in the study and meeting with me. Your time and input are greatly appreciated.

Prior to proceeding further, may I kindly request that you complete the provided consent form? Please bear in mind that your participation in this interview is entirely voluntary and at any point within the process, it is permissible for you to terminate or withdraw without experiencing any unfavorable impact. It should also be noted that an audio recording of our conversation will take place solely for data analysis purposes so as to ensure all responses are accurately documented. Rest assured no personal identification details relating yourself nor your company shall be included within my report.

The business venture proposal will make use of qualitative research which is mainly focused on unpacking and understanding human experiences, behaviours, and attitudes through the gathering and analysis of non-numerical data (Otani, 2017). The biggest advance of qualitative study is that it is very flexible and to a large extent open ended, with a main focus on understanding the experiences and viewpoints of the participants (Jameel et al., 2018).

Qualitative research is the best approach for this business venture proposal as it allows for an extensive comprehensive response from the identified ten industry experts that will be interviewed and questioned. The interview will be structured containing ten questions that will allow the respondents to give their educated view of whether the business proposal is one that is viable and practical. The ten questions are as follows:

1. In your opinion do you think that cash flow limitation is a big problem for SMEs in SA and can short-term insurance companies offer practical solutions to ensure sustainability of SMEs by offering embedded insurance products?

2. Let's say the short term insurance industry had a chance to develop a business insurance product to promote sustainability of SME's in South Africa – would you say having an investment product coupled with an on demand business insurance product could be a solution? Why or Why not?

3. What features would you like to see added to this embedded product that will assist SMEs with cash flow limitations in the near future?

4. What are primary needs and wants for SMEs needed this product?

5. Are non-life insurance providers ready to provide such an offering and if so which ones do you think have the necessary capabilities?

6. When it comes to offering this product, do you agree that it will be a digital offering that is offered directly to the consumer? Or is there scope for intermediaries to also offer the solution?

7. When it comes to the overall pricing structure – the idea is that there will be one premium and the premium will be fractioned up into three sections namely costs for claims, capital and the unused premium is that allocated to the investment wallet. Is this practical for insurance companies considering that insurance is a contract of indemnity?

8. According to a recent article published by Financial IT (2023), SMEs represent about 98% of business in the country and with the recent floods in KwaZulu-Natal in April 2022 – this revealed that a large part of businesses falling under this category are ether uninsured or underinsured. Having an automatic investment policy that comes with insurance coverage, do you think that this could be a viable solution to increase insurance penetration amongst SMEs? What are the other benefits that you can share?

9. When it comes to legislation, will a product of this nature be able to pass the required channels and receive the necessary approval from the FSCA?

10. What other ambitious plans and creative action should companies wanting to implement this product embark on in order to keep this product relevant?

10.2 APPENDIX C: ETHICAL CLEARANCE LETTER

UNIVERSITY OF THE
WITWATERSRAND,
JOHANNESBURG

Private Bag 3 Wits, 2050
Fax:
Tel:

Reference: Ms Jennifer Mgolodela
E-mail: jennifer.mgolodela@wits.ac.za

30 January 2024
Person No: 1991090
PAG

Mr SM Dube
22 Oxford Rd (Lionel House)
Parktown
2193
South Africa

Dear Mr Siphamandla Dube

Master of Business Administration: Approval of Title

We have pleasure in advising that your proposal entitled *A business insurance product coupled with an investment policy geared to promote sustainability of South African SMEs* has been approved. Please note that any amendments to this title have to be endorsed by the Faculty's higher degrees committee and formally approved.

Yours sincerely

Mrs Marike Bosman
Faculty Registrar
Faculty of Commerce, Law and Management

10.3 Appendix D: Raw Data

List of responses from the respondents

Cashflow is definitely a big problem for SMEs and anyone in partnership with them in one way or another can play a part in alleviating this burden by offering innovative solutions – in this case Insurance companies.

Yes it would be a solution; I look at the discovery medical aid as an example and others with a similar offering – where part of your premium forms part of a savings that you can use when you have a medical need that is not covered or when you have depleted your annual benefits. Now if in the short term product; this is an investment instead – it will not just help with the cashflow but also with the growth of the business; maybe requiring them to purchase more insurance for their growing business. Its really a win win, whereby the benefits of such a product can be immense in the long run.

The ability to withdraw predetermined portions when an uninsured need arises, to enable the investment to continue – maybe have a minimum amount to keep the investment running.

Being able to continue and grow their business when uninsured events happen. In slower seasons being able to rely on the savings to pay off fixed expenses that they may not be able to meet with cashflow from that period.

I agree that it would be a digital offering offered directly to the consumer.

Yes, its practical; the pricing just need to be done right to make sure that the main purpose "cost for claims" is still met adequately.

Most definitely – if SME's see the benefit of the product there will be buy in. Currently insurance is a an additional expense that does not give you any benefit unless you are unfortunate to be met with an uninsured event. The investment product changes this narrative; especially if portions of the "cost for claims" can be transferred to the investment portion after a certain period of time of no claims – similar to a no claims bonus.

I believe it can – the product crosses the lines; in the sense that it's a long-term product being offered via a short-term offering. This is however something that can be done especially with companies with both licenses.

Educational offerings for the SME's – to understand risk management and insurance in particular this product – highlighting the benefits in the long run – sustainability, longevity and continuity of these businesses being the main ones.

Yes. SMEs like other businesses have ups and downs. There are times when business is not great, they can then leverage profits off their investments

An interest generating investment, where entrepreneurs are able to decide from a pool of products what to invest in. then these investments pay dividends over time

To enable them to secure debt as the investment can be regarded as surety

Should the business be liquidated atleast they will have something that can generate income

To enable SMEs to diversify portfolios

Havent heard of any

Having an intermediary might be better as they can then offer advice to SMEs on which products perform better

I think so

I think it can, but this sounds more lije investment product more than insurance. I think Insurance companies have to research deep to come up with the right insurance product for SMEs, priced right and distributed right

Yes, but might need a different license. We might have to sell it uder our long term license as it allows for investments products

It could be different products for different investments appetite. High risk high return for riskiest, and low risk low return for risk averse. Also it should be a pool of products, maybe 5-10, where the SME can actually choose which ones they like. The products could also be aimed at improving local SMES, e.g. insurance company being a vehicle to invest in agriculture/ small holder farms and selling this as a product to SMEs

Yes, cash flow is a problem that SME's face. I don't think that it would be wise for insurance companies to enter the market to assist with cash when they suffer cash flow issues. I personally think that it would be too big of a financial risk. I would suggest premium holiday for insured's that are not claiming, but with the understanding that if a claim is submitted the premium needs to be paid up to date before handling the claim. It might also help to include a minimum of a year before being able to use this.

Win Win for sure. The investment can offer cash when the insured is suffering cash flow issues whilst also ensuring growth for the insurer.

Premium holidays - with certain terms and conditions obviously

Cash back options for low LR's

Easy to add and remove sections as money becomes available

Comprehensive cover fitted to their individual needs at the lowest possible cost

Yes, Discovery – they are technologically advanced and would make changes easy

There will always be scope for intermediaries especially when it comes to specialized SME's .

It would be beneficial to create a digital product offering for companies that are willing to accept the risk of not involving a financial planner to structure their policy.

I believe it would be practical

Yes it would be. Especially if you can over the investment as a possible buffer to under insurance, cash flow problems

Yes I believe it will

Yes, this was especially evident when during and after the lockdown as many businesses were unable to stay afloat due to lack of funds to keep them running when their customer base reduces.

With the right restrictions and allowances for the investment to grow, it would be a great solution. We would just need to ensure that this is not used as a crutch for poorly managed businesses as it would defeat the purpose of having such a product.

It should have advice from specialists in each of the field that the insureds will be able to use. It should also have an allowance for access to suppliers and the like to help with managing the costs of running the businesses, this would assist with reducing the number of claims or requests to draw from the investment.

Access to the fund during "rainy days."

Due to compliance requirements, non-life insurers are not ready to offer such a product but many such as Hollard and Old Mutual Insure have the capability to offer such due to the life divisions that exist in their business.

I believe there should be an intermediary involved due to the compliance requirements for such products and for the clients to get proper advice before signing on.

Currently this would not be practical, due to the laws that govern life and non-life insurance. The only way it would be possible would be a deposit premium arrangement that investment companies would manage, should the insured be willing to pay on an annual basis.

It has a role to play, although the current short-term insurance offerings already cover this sort of event(floods etc). It would serve as good support/add on for any additional losses as the policies of indemnity have strict restrictions and don`t cover trade risks.

I believe it would, provided that it is strictly limited to business activities and doesn`t eat into an already existing investment market.

They could have cash back schemes, similar to what car insurers do. They could offer specialist assistance to their clients such as marketing as part of value added services.

Rewards which will be directed to the business – access to professional bodies.

Yes, it would cover the risk aspect as well as on demand call account.

Assist in negotiating preferential loans based on credit score and at a lower market rate, for previously disadvantaged individuals.

Insurance cover for risk and access to funds for expansion and emergencies.

The current licensing does not allow the STI to act as both an insurer and banker.

A digital offering would be best suited for this product, cutting out the middleman, would reduce costs and could create better efficiencies.

The idea could be considered as composite insurance crossing short-term (risk, claims), and investment for the (savings) portion and pricing would follow the requirements of both.

It would increase penetrative because it would not only offer cover for risk, but there will be added benefit of the investment and lucrative rewards.

The product would be best placed in a company that has both a short-term and life, investment license (since it crosses the entire financial services spectrum), but the specifics recorded and registered with the

The product should not only focus on SME’s but be adaptable to aspiring entrepreneurs, sole proprietors, looking to expand their businesses.

Insurers would first need to determine how to fulfil the requirements and rules of setting up such a product from the Financial Sector Conduct Authority (FSCA).

System legacy issues might be a big challenge for launching such a product that is heavily dependent on recent technological developments.

There is already a skills gap when it comes to commercial underwriting therefore launching such a product would mean that upskilling will also be a requirement which can come as an additional expense cost for insurers.

Securing consensus across the industry regarding the proposed structure of the product and which product suppliers have the necessary infrastructure to launch it.

Launching such a product can be quote complex and it is intricate and will be prone to misinterpretation of the reasoning behind offering such a product.

Product supplies such as small insurers and UMAs might be excluded from the initial launch of the product because they will encounter licensing issues.

7The FSCA must prove their ability to audit internal models that will be set up to run a new embedded product.

Intermediaries to sell a product are going to be needed because of the compliance requiments.

There is a limited number of non-life actuaries with the necessary training in South Africa to complete the work needed in setting up and configuring the product to the insurer system.

Insurers taking on this embedded product must partner with management consulting firms in order to assist with professional advise and business development in order to add much needed value to the partnership.

Already local insurance providers are bogged down with overregulation and to succeed in the upkeeping of such a product a shift is needed form a compliance orientation to one of eagerness, expectancy, innovation and increased risk taking.

Insurers who have both the long and short-term insurance licenses and also who have partnered with Insurtech companies will be more successful in launching an innovative product mentioned in this paper.

The investment product should be structured in a way that the business will have direct access to cash following the maturity of the policy as cash flow limitation is a big problem for SMEs. This was especially evident when during and after the lockdown as many businesses were unable to stay afloat due to lack of funds to keep them running when their customer base reduces.

Success of this product will ultimately strengthen the industry's resilience against both internal and external disruptions if properly executed.

SMEs will eventually consider insurance companies as partners and become active players in understanding and mitigating risk factors.

Having insurers provide an on demand digital product can possibly lead to an escalation in the intricacy of business operations and system prerequisites to future fit insurance companies.

Offering such a product will notably heighten the need for new Insurtech players who are willing to partner with well established insurers.

Insurers will become active players when it comes to IOT technology, this will lead to right pricing capabilities as underwriting will be based on current information received from use of sensors (for maybe reporting major loss events such as water, fire, floods), the GPS data which will allow for the correct location where the risk is based.

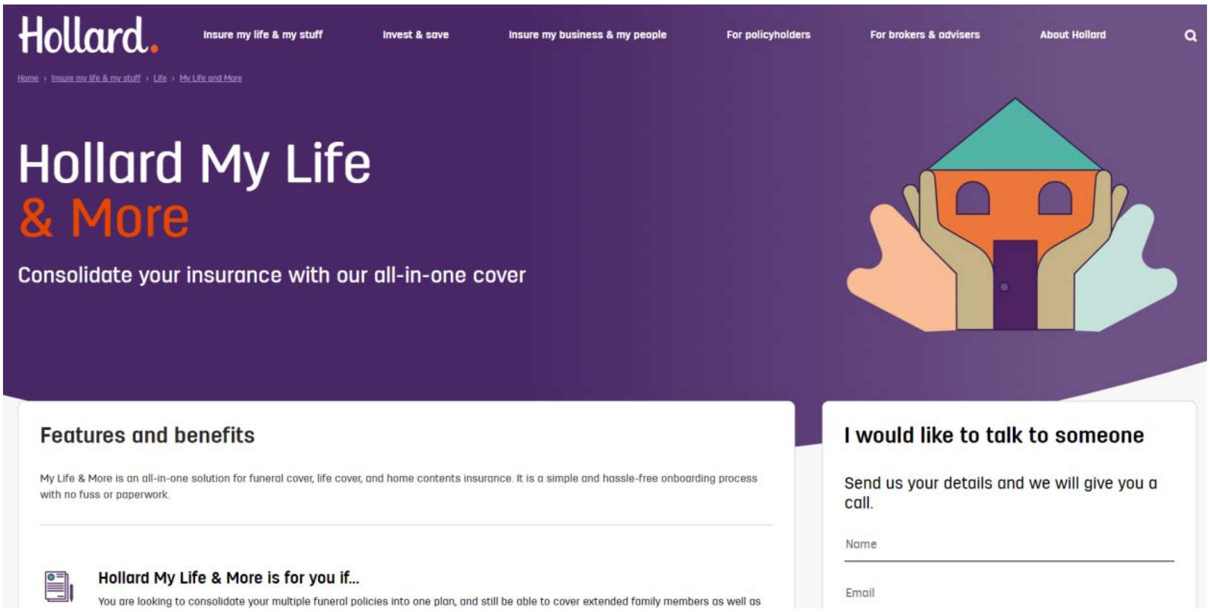
Data driven product offered on a digital platform will potentially lead to operational improvement and lessen the staff expense costs in the long run.

According to a recent article published by KPMG, there is an aggressive investment response for innovators in Africa coming up with new products using the latest technology.

Insurers; reinsurance arrangements will need to have new treaty arrangements in order to ring fence this new embedded product.

Increase in insurance penetration could be on a rise if more and more businesses buy into this new embedded product which creates a new future for SMEs.

10.4 ANNEXURE E – EXAMPLES OF OTHER SIMILAR PRODUCTS IN THE MARKET



Source: https://www.hollard.co.za/life-and-stuff/life/my-life-and-more (accessed 25 February 2024).