The impact of trust in the developing sector of microinsurance in South Africa

Mathithibane, Mpho Steve

University of Kwazulu-Natal

28 October 2021

The impact of trust in the developing sector of microinsurance in South Africa

Mathithibane, Mpho, Steve
University of Kwazulu-Natal, South Africa

ABSTRACT

The aim of this paper is to investigates the influence of trust on insurance penetration in the developing Microinsurance sector of South Africa. Legacy issues and deeply rooted structural and institutional frailties have resulted in substandard levels of financial inclusion for low-income earners in the country. This segment of consumers is highly vulnerable to social, economic and as the covid-19 pandemic has proved, health shocks. Microinsurance has often been touted as a solution to improve resilience and turn the tide of significant adverse economic outcomes for the low-income segment. This paper explores the role of trust as a key construct for business success in the microinsurance sector. The study findings indicate that creation of trust and reassurance that claims will be honored when liability occurs are the main elements valued by prospective and existing microinsurance consumers. These findings contribute to advancing knowledge within the microinsurance segment, in particular, key traits needed in constructing a successful insurance programme as well as the messaging and serving element that needs to be placed at the forefront of product design and marketing in order to build trust.

Keywords: *Microinsurance, low-income market, South Africa.*

INTRODUCTION

In a developing country like South Africa, financial exclusion is a challenge in the financial sector as too many South Africans in the low-income bracket remain excluded from formal financial services which has a negative impact social and economic activity (National Treasury, 2020). For this reason, the National Treasury of South Africa has prioritised access to financial services as an important objective in the sector’s reform. The challenge of inclusion is proving to be more difficult in the insurance sector, more specifically, in the low-income insurance sector. Hence, the promotion for Microinsurance as a solution. Microinsurance is a bedrock of developmental policy and inclusivity (Chummun, 2017). It refers to insurance that is accessed by the low-income population commonly known as the mass market. It is typically provided by a number of different providers and managed in accordance with generally accepted insurance practices. It forms part of the broader insurance market framework, distinguished by particular low-market market segment focus (National Treasury, 2011). In efforts to promote microinsurance penetration, the Insurance Act, No.18 of 2017 introduced microinsurance as a class of insurance business in South Africa with the view of promoting distinct product design and enhanced distribution channels (National Treasury, 2020). The legislation is strongly pro-consumer and has extensive benefits and protection to safeguard the interests of the end-user (Huneberg, 2021).

This legislation is driven by a widening insurance gap, especially in the life and disability insurance segment. Insurance gap is defined as the difference between insurance need and actual cover required to uphold and maintain the pre-loss event standards of living. According to the Association for Savings and Investment South Africa Insurance Gap Study (ASISA, 2019), the actual insurance need of South African low-income earners is collectively assessed to be 34.7 trillion compared to R28.8 trillion in 2015. This means the gap grew by 6.4% a year. The average South African earner needs R1.6 million of death cover and R2.3 million of disability protection. However, actual cover is estimated to have a R1 million shortfall and a R1.2 million gap for death and disability respectively.

As a result of large insurance gap identified, National Treasury with other state financial sector agencies encourage insurers though an enabling policy environment to offer microinsurance products and expand the low-income market to reduce the insurance gap. However, a number of challenges have been identified when offering microinsurance products and services; premiums are perceived as being too low and transaction costs too high to reach the low-income market and to maintain a profitable relationship (ASISA, 2013). Poor technological infrastructure to reach the mass market in rural areas, while lack of awareness and demand is also an issue (Chummun, 2017). In addition, role players face pressure on profitability and the continued development in the low-income insurance is uncertain (Chummun & Bisschoff, 2014), especially in light of high unemployment rate and low economic growth prospects. However, uncertainties also exist in defining business success and how to measure it in the microinsurance industry of South Africa. The emergence of expanding the low-income market has led to a growing interest of microinsurance and some studies on microinsurance. However, there is limited research done in identifying trust as one of the important business success influences in the microinsurance sector of South Africa. When the Life Offices Association of

South Africa in 2007 together with the Financial Sector Charter under the Financial Services Board introduced the first microinsurance funeral cover, it was reported that lack of take-up of the microinsurance cover was mainly low because of the lack of trust in the product according to the Association for Savings and Investments in South Africa. As a result, the construct of trust has been considered as a critical factor in fostering optimal relationships between a provider and its low-income niche target in the microinsurance market in South Africa. The paper therefore investigates the influence of trust in the microinsurance industry of South Africa.

LITERATURE REVIEW

According to Microinsurance Network (2010), the typical microinsurance customer believes that premiums paid are wasted if he/she does not lodge a claim and receive payouts. In addition, the market often perceives insurers as quick to take their money, but slow to settle the claim. A worrying aspect is that, due to low literacy levels, the low-income market is often susceptible to fraudulent schemes, and resultantly undermining the credibility of legitimate insurers. Moreover, insurance policies are renowned for being cumbersome, generally one-sided in favour of the insurer (Huneberg, 2021).

Morsink (2012) after conducting her fields work on microinsurance in India, Kenya, the Philippines and Ethiopia further adds that people's confidence in insurance as a product is key to inducing them to take out a policy, and that microinsurance can actually help reduce poverty. Therefore, engaging trust has been central to efforts by the financial services industry especially the insurance sector to win products for their markets (Matul at al., 2013). Cole, Stein and Tobacman (2011) highlighted evidence to show that building trust enhances the take up of an insurance product. Further, Dong, De Allegri, Gnawali, Souares and Sauerborn (2009) identified trust in the management of the community health scheme as an important factor influencing households' probability of enrolling.

Unlike the case in credit, where the micro-entrepreneur borrows the money and takes up the responsibility of returning it, insurance reverses the responsibility of risk (Microinsurance Network, 2010). In micro lending, the provider puts up the capital and trusts the customer to pay it back; in insurance, the policyholder pays up front and hopes the provider keeps its promise to make a payment in accordance with the contractual terms. For a tranche of society that probably has never used insurance products, trust is the element that should be created between the microinsurer and the prospective customer.

Trust, according to Six (2007), has been widely studied as one of the key constructs characterizing business relationships. Trust is considered as a critical factor in fostering optimal relationships between a firm and its customers. Before a relationship can exist, both parties must mutually perceive that the relationship exists. Relationships therefore comprise a series of transactions which build an awareness regarding a shared relationship through trust. Higher levels of trust and commitment in turn are associated with higher levels of customer retention, and this leads to increased organisational profitability (Read, 2009; Morgan & Hunt, 1994). Trust is therefore a primary determinant of relationship commitment (Cacares & Paparoidamis, 2007). Benamati, Fuller, Serva and Baroudi (2009) stated that "trust is the willingness of a party to be vulnerable to or dependent on the actions of another party in situations of risk". The trusting relationship between a customer and an organisation is associated with overall positive outcomes, and trust in the organisation should increase the benefit derived from transacting with the organisation (Botha & van Rensburg, 2010). Nguyen and Mutum (2012) concur by stating that if an organisation delivers on its promises, it becomes trusted by the client. The customer will then be more likely to utilise the organisation's services again, as the customer knows what he/she can expect from the organisation.

OBJECTIVES

The main aim of the paper is to investigate trust on business success in the microinsurance industry of South Africa.

Following that, the secondary objectives are to:

- Validate trust as a measure of microinsurance business success;
- Assess the sampling adequacy of trust;
- Test the applicability of the data for multivariate statistical analysis (such as an exploratory factor analysis);
- Determine the importance of trust as a measure of the business success influences; and

RESEARCH METHODOLOGY

Trust as an independent variable has also been individually researched on business success from the literature search. This research identified the measuring criteria pertaining to the independent variable. These criteria form the basis of the measuring instrument of the independent variables that is the questionnaire distributed to 400 employees from four prominent microinsurers, Old Mutual South Africa, Sanlam, Safrican and Metropolitan insurance firms in Durban, Cape Town, and Johannesburg.

DATA ANALYSIS

The Statistical Package for the Social Sciences Incorporated (SPSS) was used to statistically analyse the data collected in the survey. The following statistical applications and choice criteria are applied in this research study.

- Exploratory factor analysis. Only factor loadings of 0.4 and higher (Field 2007) were considered.
- The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was utilized to ensure that the samples used were adequate. The KMO provides an index (between 0 and 1) of the proportion of variance among the variables that might be common variance (Darlington, 2005). A value close to 1 indicates that patterns of correlations are relatively compact and so factor analysis should yield distinct and reliable factors. A KMO value of 0.6 should be present before factor analysis is considered (Matlab, 2010). Values between 0.5 and 0.7 are mediocre and values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are superb (Field, 2007)

RESULTS

The analysis for the term trust as a component of microinsurance was not suitable for an exploratory factor analysis, as there were no KMO measure and the Bartlett test found ultimately. This is because this section has a “negative correlation matrix” and then KMO and Bartlett test of Sphericity cannot be calculated. A negative correlation matrix implies that if one set of data increases, the other set of data decreases. The factor analysis extracted two factors as shown by table 1 below.

Table 1: Factor loadings: Trust

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

Factor 1: Creation of Trust

Items B5.2, B5.3, B5.4, B5.1 and B5.7, loaded heavily on factor. All the items B5.2, B5.3, B5.4, B5.1 and B5.7 are related to the creation of trust between the insurer and the low-income households, i.e. the customer and vice- versa. The creation of a strong element of trust between the insurer and the low-income households is highly valued by the prospective and the existing customers. All factor loadings are above 0.7 which shows good reliability and consistency.

In view of the fact that low-income households perceive insurance firms are quick to take out premiums and slow to pay out in an event of claim, the element of trust should be created by the firms in the low-income households. It can be deduced that the variance for the factor 1 is the highest and amount to 67.092%.

Factor 2: Reassurance

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

Both factors returned a cumulative variance of 83.132% which obviously exceeds 60% - regarded to be a good fit data (Field, 2007). The reliability analysis of the above appears in the table 2 below.

Table 2: Reliability Statistics: Trust

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

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

CONCLUSION

All objectives set to validate the model that measure business success of microinsurance have been addressed. As a result, it can be concluded that the study is a valid and reliable one. Key among the outcomes is that trust is an important measure of microinsurance business success and should be prioritised in designing and marketing appropriate insurance solutions for the mass market. This can be achieved through tailored educational programmes about the products, related features, and unique benefits.

REFERENCES

ASISA. (2019). The South African insurance gap (2019): Quantifying the insurance gap by considering the financial impact on South African households of the death or disability of an earner in the household - Final Report. Johannesburg: Association for Savings and Investment South Africa.

ASISA. (2013). The South African insurance gap (2013): Quantifying the insurance gap by reference to the financial impact on South African households of the death or disability of an active earner in the household. Johannesburg: Association for Savings and Investment South Africa.

Benamati, J, Fuller, M.A, Serva, A, & Baroudi, J. (2009). Clarifying the integration of trust and TAM in E-commerce environments: implications for systems design and management. *IEEE Transactions on Engineering Management.*

Botha, G.J, & Van Rensburg, A.C. (2010). Proposed business process improvement model with integrated customer experience management. *South African Journal of Industrial Engineering*, 2(1): 45-57.

Caceres, R.C., & Paparoidamis, N.G. (2007). Service quality, relationship satisfaction, trust, commitment and business-to-business loyalty. *European Journal of Marketing,* 41(7/8): 836-867.

Chummun, B. Z. (2017). Mobile microinsurance and financial inclusion: the case of developing African countries. *Africagrowth Agenda*, *2017*(3), 12-16.

Chummun, B. Z., & Bisschoff, C. A. (2014). A perspective of microinsurance (MI): The case of South Africa. *Mediterranean Journal of Social Sciences*, *5*(23), 63-63.

Cole, S., Stein, D., & Tobacman, J. (2011). What is a rainfall index insurance worth? A comparison of valuation techniques. Mimeo Darlington, 2005:58

Dong, H., De Allegri, M., & Gnawali, D., Souares, A., & Sauerborn, R. (2009). Drop-out analysis of community-based health Insurance membership at Nouna, Berkina Faso. *Health Policy,* 92: 174-179.

Field, A. (2007). *Discovering Statistics Using SPSS*. 2nd Edition London: Sage.

Huneberg, S. (2021) What can the insurance distribution directive "offer" the South African microinsurance model?. In: Marano P., Noussia K. (eds) Insurance Distribution Directive. AIDA Europe Research Series on Insurance Law and Regulation, vol 3. Springer, Cham. https://doi.org/10.1007/978-3-030-52738-9_10.

Matlab, (2010). Kaiser-Meyer-Olkin Measure of Sampling Adequacy. Matlab statistics Toolbox. Release 14.From http://webscripts.softpedia.com/script/Scientific-Engineering-Ruby/Sistics-and-probabilty/matlab-kmo-35929.thml (Retrieved February 13, 2013).

Microinsurance Network. (2010). *Organisational Development.*

Morgan, R.M. & Hunt, S.D. (1994). The Commitment-Trust Theory of Relationship Marketing. *Journal of Marketing,* 58: 20-38.

Morsink, K. (2012). Confidence among the poor vital for success of microinsurance. Twente: University of Twente.

National Treasury of South Africa. (2011). The South African microinsurance regulatory framework. Pretoria: Department: National Treasury Republic of South Africa.

National Treasury. (2020). An inclusive financial sector for all. Draft for consultation. Pretoria: Department: National Treasury Republic of South Africa.

Nguyen. B., & Mutum, D.S. (2012). A review of Customer Relationship Management: successes, advances, pitfalls and futures. *Business Process Management Journal*, 18(3): 400-419.

Read, B. (2009). Top tips to build and keep customer loyalty with CRM. *Customer Interaction Solutions.* 27(9): 26-28.

Santos, J.R.A (1999). Cronbach's Alpha: A tool for assessing the reliability of scales. *Journal of Extension*, 37(2): 1-15.