



GORDON INSTITUTE  
OF BUSINESS SCIENCE

University of Pretoria

# **The role of consumer behaviour in South Africa's short term microinsurance**

Sibusiso Ntuli

11357712

A research project submitted to the Gordon Institute of Business Science,  
University of Pretoria, in partial fulfillment of the requirements  
for the degree of Master of Business Administration.

**7 November 2012**

## **Abstract**

This research is concerned with understanding the role of consumer behaviour in microinsurance. There are notable factors such as premium flexibility, household income and marital status which serve as demand determinants of microinsurance; however the ultimate challenge is to influence consumer behaviour enabling growth of this insurance product. An established microinsurance sector results in the financial inclusion of low income consumers currently situated at the Bottom of the Pyramid, this is followed by economic development and subsequently economic growth for the broader society.

Data was collected using a questionnaire from participants residing in East Bank, Alexandra, a South African township with a significant number of households in the LSM 1-4. The questionnaire collected data relating to basic financial services, characteristics of the Bottom of the Pyramid, as well as short term microinsurance demand.

The findings show an immediate need towards the understanding of consumer behaviour by microinsurance stakeholders, including government and the private sector. It is only through innovation, partnership and low income consumer understanding that the desired levels of microinsurance demand will be attained.

## **Keywords**

Short term microinsurance, consumer behaviour, Bottom of the Pyramid, collectivism, financial inclusion

## Declaration

I declare that this research project is my own work. It is submitted in partial fulfillment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

---

**Sibusiso Ntuli**

**7 November 2012**

## Acknowledgements

I would like to convey my sincere appreciation to the following:

Dr Clive Corder – Thank you for guiding me through this challenging process, without your support, insight and time I would not have arrived at this milestone.

Gordon Institute of Business Science – To the faculty and all staff that instilled knowledge in the last two years, without you pointing in the appropriate direction I would still be lost.

Simon Baker - Your support and interest throughout this process has been beyond amazing.

General Family – Every one of you played a role, the constant words of encouragement will forever be cherished as well as you constant prayers to the Almighty.

Owethu Ntuli - What a journey and we made it! I am forever indebted and will watch every rugby game, school concert, to try and make it up to you.

Tlalane Ntuli and – It didn't quite turn out the way we thought when we discussed enrollment. The MBA has been a painful yet rewarding journey of discovery and I could not have been blessed with a better person to travel this road with, your support and input has been invaluable. Words are simply not enough to describe the appreciation I have for allowing us to take this path. In return I promise to sleep in on "some" weekends!

## TABLE OF CONTENTS

<b>Abstract</b> .....	i
<b>Keywords</b> .....	i
<b>Declaration</b> .....	ii
<b>Acknowledgements</b> .....	iii
<b>Table of Contents</b> .....	iv
<b>Chapter 1 – Introduction to Research Problem</b> .....	1
1.1 Definition of Problem and Purpose .....	1
1.2 Background .....	1
1.3 Insurance Industry Regulation .....	2
1.4 Industry Overview and Outlook.....	3
1.5 Relevance of Topic to South African Business .....	4
1.6 Research Scope.....	5
<b>Chapter 2 – Literature Review</b> .....	6
2.1 Microinsurance and Economic Growth .....	6
2.1.1 Introduction .....	6
2.1.2 Financial Inclusion .....	7
2.1.3 Defining Microinsurance.....	8
2.1.4 Major Participants within Microinsurance .....	9
2.1.5 Economic Growth.....	10
2.2 Bottom of the Pyramid .....	11
2.2.1 Defining the Bottom of the Pyramid.....	11
2.2.2 Collectivism.....	13
2.2.3 Poverty Alleviation at the Bottom of the Pyramid.....	14
2.3 Demand for Microinsurance.....	15
2.3.1 Theory of Insurance Demand.....	15
2.3.2 Determinants of Demand .....	16

2.4 Consumer Behaviour .....	17
2.4.1 Evolution of Behaviour in Pursuit of Survival .....	17
2.4.2 Theory of Planned Behaviour .....	18
2.4.3 Decision Making .....	20
2.5 Conclusion .....	22
<b>Chapter 3 - Research Propositions .....</b>	<b>23</b>
3.1 Proposition One - Awareness .....	23
3.2 Proposition Two - Access .....	23
3.3 Proposition Three - Availability .....	24
3.4 Proposition Four - Affordability .....	24
3.5 Proposition Five - Collectivism.....	25
3.6 Proposition Six - Premium Flexibility.....	25
3.7 Proposition Seven - Level of Income .....	25
3.8 Proposition Eight - Marital Status.....	26
<b>Chapter 4 - Research Methodology .....</b>	<b>27</b>
4.1 Research Design .....	27
4.2 Population .....	28
4.3 Unit of Analysis.....	29
4.4 Sampling Method and Size.....	29
4.5 Questionnaire Design .....	30
4.6 Data Collection Process .....	32
4.7 Analysis Approach.....	33
4.8 Research Limitations .....	34
<b>Chapter 5 – Results .....</b>	<b>35</b>
5.1 Sample Characteristics.....	35
5.2 Basic Financial Services.....	35
5.3 Collectivism .....	46
5.4 Short Term Microinsurance Demand .....	49
5.5 Household Income .....	53
5.6 Marital Status .....	56

<b>Chapter 6 – Discussion of Results</b> .....	58
6.1 Proposition One - Awareness .....	58
6.2 Proposition Two - Access .....	59
6.3 Proposition Three - Availability .....	60
6.4 Proposition Four - Affordability .....	61
6.5 Proposition Five - Collectivism.....	63
6.6 Proposition Six - Premium Flexibility.....	64
6.7 Proposition Seven - Level of Income .....	65
6.8 Proposition Eight - Marital Status.....	66
<b>Chapter 7 – Conclusion</b> .....	68
7.1 Key Findings .....	68
7.2 Potential Future Research.....	72
7.3 Conclusion .....	72
<b>References</b> .....	74
<b>Appendices</b> .....	81

## CHAPTER 1: INTRODUCTION TO RESEARCH PROBLEM

### 1.1 Definition of Problem and Purpose

The South African insurance industry and the country's government have made a concerted effort towards increasing the participation of low income consumers in short term insurance, yet penetration in this market remains at less than 1.5% of those within the Living Standards Measure 1-5 (Smith, Chamberlain, Hougaard, Smit, & Carlman, 2010, p. 3). The objective of this research is to review the role of consumer behaviour in microinsurance and how this contributes to the decision of whether or not to purchase available short term insurance products. "There are very few micro-level studies on the purchasing behavior of the poor" (Karnani, 2007, p. 98). In South Africa 75% of the country's population is accounted for at the Bottom of the Pyramid, this same cluster is worth an estimated income of \$44 billion (Meyer & Vazirani, 2012, p. 7). By understanding the role of consumer behaviour within microinsurance, organisations and institutions targeting the Bottom of the Pyramid will be better positioned in their efforts to convert potential consumers into actual clients.

### 1.2 Background

Since the introduction of the Millennium Development Goals and the focus on microcredit by the United Nations there has been a notable change in efforts aimed at including and increasing participation by the poor within the global economy. Various organisations and institutions have dedicated resources to the development of products specifically suited to the needs of those who "have been described as unwanted, abnormal, blemished, defective, faulty and deficient, flawed consumers, and non consumers" (Hamilton, 2009, p. 255). One of the areas currently being developed within the financial services sector is microinsurance, this being insurance targeted at low income consumers (Churchill, 2006, p. 13).

In South Africa there has been a collaborative effort to increase access to insurance products, this is as a result of the positive impact that insurance has in securing long term socio-economic stability (Chamberlain, Chelwa, Ncube & Smit, 2011, p. vi). Despite these efforts the uptake of microinsurance is relatively low. In 2011 only 1.5% of those accounted for in the Living Standards Measure 1-5 had purchased policies against a target set in 2006 of 6%, meaning a potential improvement of socio-economic factors remains elusive for some (Chamberlain et al., 2011, p. 11). Essentially this is the reason behind the



selection of this problem; broader society needs to be aware of the potential impact that microinsurance can have towards improving the lives of low income earners. These members of society are severely impacted by disasters and catastrophes which often leave them destitute and trapped in an endless cycle of poverty; this need not be the case if microinsurance is taken up (Kar, 2007, p. 11). At the same time less of a burden would be placed on the state if such risks are transferred to the insurance market.

### **1.3 Insurance Industry Regulation**

There has been robust debate on the South African National Treasury's proposed amendments aimed at increasing consumer participation and protection in the insurance sector. One of the National Treasury's concerns is that "the importance of insurance for personal risk reduction is understood, but not necessarily translated into behaviour" (Republic of South Africa Department of National Treasury, 2011). Whilst the existing and potential providers of microinsurance concur with the National Treasury there are fundamental differences in the preferred approach to arriving at the required level of insurance consumers.

In a business publication article a professor of Finance and Insurance at the University of the Witwatersrand's School of Economic and Business Sciences indicated that "proposals to interfere with insurance contract terms and conditions will dramatically reduce competition, stifle innovation, inhibit new product trials and undermine the sustainability of the SA industry" (Vivian, 2012, p.18). Vivian (2012) concluded by stating that the South African insurance industry has earned global respect for its innovation, market penetration and price reducing developments. Taking into consideration the present usage of short term insurance by low income consumers results in the questioning of Vivian's conclusions on market penetration and innovation. It must however be stated that "three quarters of insurers said that regulation was reducing risk appetite and stifling growth and that regulation was slowing down the pace of expansion" (Cranston, 2012, p. 52).

The National Treasury, through its Deputy Director General, responded to Vivian's comments noting that the department's approach takes into consideration that conduct needs to be enhanced in order to attract additional participants to the insurance industry. "Poor disclosure practices in the insurance sector result in consumers finding it difficult to determine exactly what they are covered for. Competition in insurance markets is limited when consumers cannot compare products" (Momoniat, 2012, p. 16).

Undoubtedly there is an element of merit in the National Treasury's response when looking at the Bottom of the Pyramid, similarly with the industry's concern on the extent of regulation being promulgated. All parties involved must have an informed view of the market which they seek to serve; this will be partly be achieved by considering "historical, cultural and political features" that have shaped South Africa's landscape, including the development of microinsurance to date (Gibson, 2011, p. 26). Other features include financial education and clear communication, especially when functioning in a market consisting of "low-educated and illiterate individuals" (Dercon, Kirchberger, Gunning, & Platteau, 2008, p. 10). Ultimately there must be a balance between regulation and the creation of an environment suitable for short term insurance providers. Whilst the regulators and industry stakeholders debate policy it is the poor that continue to remain vulnerable. It is therefore essential that the regulation process runs parallel to that of understanding the low income consumer enabling the drafting of innovative legislation agreeable with industry requirements.

#### **1.4 Industry Overview and Outlook**

Market analysts have projected a positive outlook for South Africa's short term insurance industry, including microinsurance. "The number of short term clients will increase by a third to 12.7 million and full time employees will increase by 9% to 17 300 by 2015" (Cranston, 2012, p. 52). The short term insurance industry is stable and sustainable according to ratings agency Standard & Poors, with microinsurance destined to be a significant product in the opinion of Pricewaterhouse Coopers (PWC), a professional services firm focusing on assurance and advisory services (Cranston, 2012, p. 53).

Despite the optimistic viewpoint the short term insurance industry still needs to adopt a different approach in order to capitalise on the positive outlook outlined above. Service providers who elect to enter the microinsurance market need to "open their mind and prepare themselves for an entirely new business paradigm. The willingness to question past experience, and the recognition that attributes that have contributed to their success may be irrelevant or even an impediment in this new context, are uncomfortable but necessary steps" (Meyer & Vazirani, 2012, p. 11). What is required to seize and exploit the existing opportunities is a form of frugal engineering, this being inclusive of a thorough understanding of consumer behaviour. Microinsurance suppliers must "realise that increasing demand and creating a culture of insurance in vulnerable communities will

require changes in attitudes and beliefs, which can be a slow process” (Dalal & Morduch, 2009, p. 2).

### **1.5 Relevance of Topic to South African Business**

The South African short term insurance market is a fairly mature industry which is heavily reliant on revenue generated through the organic growth of existing clients. The low income segment, which up until now has been ignored by mainstream commercial insurers, presents an opportunity for additional revenue as well as fulfillment of social responsibility required of all good corporate entities. “Many global carriers believe it is unnecessary to explore the poorly charted waters of microinsurance. Those who have embraced microinsurance retort that-in addition to its own potential-it is proving to be a sound investment in the future of its more up-market products” (Meyer & Vazirani, 2012, p. 8).

Meyer and Vazarani bring to light an import point, in order for insurers to be openly accepted in the markets in which they operate they must engage with state institutions, social enterprises, and non-governmental organisations, hereby immersing themselves in their operating environment and gaining trust. Through alignment with the above organisations the insurance market will be assisting in the development of the economy as well as its members, “by helping their alliance partners achieve their socio-economic goals insurers are earning the right to pursue theirs” (Meyer & Vazirani, 2012, p. 8).

It is through nurturing the development and advancement of the poor that microinsurance will in turn contribute to the growth of other sectors and the broader economy (Hussels, Ward & Zurbruegg, 2005, p. 257). The key however is for South African business to begin investing in resources that will enable an improved understanding of the microinsurance consumer, this includes understanding how they make decisions, the context under which low income consumer households operate and importantly being able to evaluate factors that prevent the purchasing of microinsurance (Dalal & Morduch, 2009, p. 2). “To understand the impact of insurance initiatives, it is imperative to put it in the context of how risk shapes behaviour and outcomes of the poor” (Dercon et al., 2008, p. 2). Business also needs to acknowledge and accept the role of behavioural economics, this will enable changes in the design of products and marketing which in due course will make a difference in how and whether microinsurance products are purchased (Dalal & Morduch, 2009, p. xiii).

## 1.6 Research Scope

The scope of this research will be limited to the areas of short term microinsurance, the Bottom of the Pyramid and consumer behaviour. The aforementioned terms can be described through the following definitions:-

- The South African Short Term Insurance Act's definition of a short term policy incorporates a motor policy, property policy or a contract comprising a combination of the identified policies and is a contract that is renewed or varies annually (Short Term Insurance Act of 1998). In the context of the proposed research a short term insurance policy is simplified to mean cover for household contents, motor vehicles and the physical dwelling in which household members reside.
- "Microinsurance refers to insurance that is accessed by the low-income population, provided by a variety of different providers and managed in accordance with generally accepted insurance practice. It forms part of the broader insurance market, distinguished by its particular focus on the low-income market" (Republic of South Africa Department of National Treasury, 2011).
- The Bottom of the Pyramid are "individuals with a personal income of \$8 per day (with a 21 working month) and all adults with a household income of \$13 a day" (Chipp & Corder, 2009, p. 6). These are also people who fall within the All Media and Products Study's (AMPS) LSM 1-4.
- Consumer behaviour is "the study of individuals, groups, or organizations and the processes they use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society" (Perner, 2008, p. 1).

## **CHAPTER 2: LITERATURE REVIEW**

The objective of the literature review as contained in this section is to provide an overview and enhance the general understanding of microinsurance. Microinsurance is considered an imperative in the quest for increased financial participation and economic development, specifically for those currently excluded from the financial system. The literature on the Bottom of the Pyramid (BOP) adds further insight and provides guidance on interactions with the world's poor. It is through understanding the determinants of microinsurance demand and importantly the behaviours associated with the target customer that society will be able to grow the microinsurance sector and achieve the desired economic outcomes.

### **2.1 Microinsurance and Economic Growth**

#### **2.1.1 Introduction**

During the year 2000 the United Nations outlined and adopted the Millennium Development Goals, these were to provide the world body with quantifiable measures to assess progress “toward global economic and social development by 2015” (Churchill, 2006, p. 14). As we live in a world of uncertainty one of the options available to ensure that any gains made towards development are not lost or disrupted is insurance, this is especially important for vulnerable households who may be severely impacted by a loss or crisis. The 2003 World Bank Report revealed that only 20% of funds committed by governments and international bodies to assisting disaster victims in fact reached the intended recipients (Kar, 2007, p. 11). Essentially this means that the victims are forced to make alternative arrangements to supplement the lost funding including incurring additional debt, as well as selling assets in order to deal with immediate loss caused by a disaster, leading to a continuous cycle of poverty (Kar, 2007, p. 11). Whilst insurance is able to play a contributory role towards the achievement of the Millennium Development Goals it must be noted that it cannot eradicate poverty on its own (Churchill, 2006, pp. 14-15).

The United Nations subsequently declared 2005 the International Year of Microcredit (Annan, 2005). This provided a platform and impetus for the acceptance of microfinance as a poverty alleviating instrument and included within microfinance is microinsurance. Policymakers, mainly in developing countries, had now been presented with alternative

financial backing able to reduce the effects of catastrophic and unforeseen events which previously could result in long term consequences for the poor. Whilst 30% of households in developed countries had elected to purchase catastrophe insurance only 1% to 3% had made this choice in the low income countries (Kar, 2007, pp. 11-12).

Stakeholder support is considered critical towards making the purchase of insurance a reality within the low income market. One of the deterrents for potential consumers is the possibility that “individuals have to pay a high premium, often more than their long term expected loss” (Kar, 2007, p. 12). It is therefore critical that insurance contracts factor in an appropriate reward for individuals that embark on and practice risk reducing behaviour. Similarly, “at the same time, given moral hazard, insurance may affect behaviours in more negative ways reducing the potential benefits, such as being careful with property” (Dercon et al., 2008, p. 4). A reward system will ensure affordability and ultimately increase potential uptake of microinsurance, this being in line with the objectives of the United Nations’ poverty reduction strategy (Kar, 2007, p. 11).

### **2.1.2 Financial Inclusion**

Having introduced the potential of microinsurance to contribute to global development a broader perspective needs to be obtained on financial participation. Bihari (2011, p. 6) defines financial inclusion as “the process of making basic financial services available to the vast sections of the disadvantaged and the low income groups at an affordable cost”. Globally almost three billion people are excluded from participating in financial services (Bihari, 2011, p. 5). Focus on Africa revealed that only 20 million people against a target of 413 million had in fact engaged in microfinance activity (Mendoza & Vick, 2010, p. 547). Financial exclusion has impacted the economic development of low income individuals as they have not been able to borrow against potential future earnings. Appropriate use of borrowings enables investment in future sustaining activities hereby uplifting the poor from poverty (Mendoza & Vick, 2010, pp. 545-546).

With financial exclusion seemingly driving the poor towards seeking assistance from money lenders who charge exorbitant rates, greater attention needs to be given to understanding and alleviating the barriers that hinder their full participation in financial services (Bihari, 2011, p. 7). One of the reasons for financial exclusion outlined by Bihari (2011) is the higher cost of finance levied by institutions on the poor, who in turn are left with no alternative but to spend a significant portion of their earnings repaying debt. In

addition to finance costs low income earners are severely impacted by transaction costs, “to open a checking account in Cameroon the minimum deposit requirement is over 700 dollars, an amount higher than the average GDP per capita of that country” (Bihari, 2011, p. 7). Further barriers identified by Bihari (2011) are access to formal identification documentation which is required by financial institutions prior to transacting with customers as well as general discomfort of the poor when engaging with formalised financial services. Ultimately there is empirical evidence that has been collated over the last decade which demonstrates that there is a positive relationship between effective financial systems and inclusive growth (Bihari, 2011, p. 6).

### **2.1.3 Defining Microinsurance**

The definition of microinsurance is closely related to the topic of financial inclusion, this is a type of insurance aimed at persons who are not the focal point for “mainstream commercial and social insurance schemes” (Churchill, 2006, p. 13). Microinsurance provides protection for low income individuals against specified perils and in exchange for offering protection the risk bearing parties agree to receive regular premiums. Low income earners are often faced with the challenge of living in risky environments making them more vulnerable to a variety of risks including loss of property. At the same time low income earners are the least able to cope with fortuitous situations when compared to the rest of the general population as a result of financial constraints (Churchill, 2007, p. 401). “In the absence of effective safety nets, poor people become trapped in chronic poverty due to the recurrent damage caused by natural disasters” (Akter, 2012, p. 263).

Churchill (2007) makes an important distinction by outlining that there are two types of microinsurance, the first type is intended as social protection for the low income market, this being in the absence of state schemes. The second type of microinsurance involves the development of a suitable business model which results in the poor being a sustainable and profitable market for mainstream commercial insurers. The distinction between the two types is important in the robust debate on microinsurance’s contribution to economic growth which has largely focused on the poor as a market of missed opportunity. In the midst of the economic growth debate the fact that there is a social element is largely ignored. Consideration must be given to the fact that some of the institutions deemed not profitable were in fact created to function as non-profit organisations. Profit through microinsurance must be viewed in the context of organisational objectives, for some this is not a business imperative.



A pivotal component of microinsurance is premium affordability, in other words can the poor afford to remit the required regular premiums bearing in mind their constraint of low income per capita (Kar, 2007, p. 13). The low premiums generated from a relatively small asset base have serious implications for insurance companies intending to operate in the microinsurance sphere. These companies are forced to contend with low premium per capita which in turn affects their capitalisation, resulting in undercapitalisation (Kar, 2007, p. 13). Once again this brings into question the contribution of microinsurance to economic growth. If the potential insurers within the microinsurance realm are not adequately capitalised how can they be expected to roll out products suitable to the poor who in turn may struggle with regular premium payment, this being one of the pillars of being able to provide insurance.

#### **2.1.4 Major Participants within Microinsurance**

Prior to entering the economic growth debate it is worthwhile providing an overview of the role players involved in microinsurance, other than the poor. The carriers of risk are made up of various organisations and institutions; these include “small-community based schemes, mutuals and cooperatives, as well as joint stock companies and government-owned insurers” (Churchill, 2007, p. 403).

In order to have an effective reach to the poor the role of the private sector is largely dependent on innovation, this entails introducing new products which are supported by appropriate processes, organisational structures, and technology. The core focus of the above initiatives is cost reduction which should result in a microinsurance offering acceptable to the end consumer. Importantly, literature supports the notion that satisfied customers should enhance demand for microinsurance which in turn will translate to greater profits for the private sector (Mendoza & Vick, 2010, p. 547).

Whilst government can also participate as a risk carrier its core focus should remain on policy formulation. Policymakers are responsible for the creation of an enabling environment that enhances consumer access to microinsurance, as well as nurtures the growth of financial markets (Mendoza & Vick, 2010, p. 547). During policy formulation policymakers must take into consideration that complex reporting requirements can contribute towards making microinsurance prohibitively expensive especially for the small microinsurance operators (Churchill, 2007, p. 409). In order to execute effective operations within the microinsurance space various stakeholders have made extensive use of



partnerships and collaboration, with such agreements being key for the sustainability of this niche product.

### **2.1.5 Economic Growth**

Having presented a broad overview of the industry it is opportune to introduce the debate of microinsurance and economic growth. In the quest to understanding the microinsurance consumer it is appropriate to interrogate the perceived reason for promoting this type of insurance, namely the furthering of economic growth amongst and through the poor.

Traditional neoclassical growth theory places emphasis on developing technology, this is considered a requirement if exponential growth is the objective as opposed to steady growth (Hussels et al., 2005, p. 257). This aligns with the literature which indicates that innovation is required from the private sector in order to grow microinsurance. The endogenous growth theorists on the other hand present an alternative view noting that investment and growth in dedicated sectors of the economy is what in fact contributes to the growth of other sectors.

One of the areas identified by researchers as capable of ensuring positive externalities is financial services, which encompasses the insurance sector (Hussels et al., 2005, p. 257). Hussels, Ward and Zurbruegg (2005) confirm the contributory role of insurance institutions in generating economic growth, with this being facilitated “through risk transfer and financial intermediation” to name few instruments (Horng, Chang & Wu, 2012, p. 107). On the other hand there is theory which opposes this view and in fact suggests that economic growth is the driver of insurance demand (Horng et al., 2012, p. 107). The opposing views have serious implications for stakeholders who elect to adopt microinsurance in the hope that it will stimulate economic growth when in fact growth should precede insurance development. Tom and Selvam (2010) raised an important issue when they outlined that for microinsurance providers to claim that their efforts fostered growth there must be evidence of suitable products tailored to respond to the requirements of the poor and importantly the providers should be commercially viable. Perhaps the impact of microinsurance on economic growth is best encapsulated by Omar and Owusu-Frimpong who point out that “by identifying the determinants that encourage insurance demand, policy makers are able to aid economic-development, thereby positively influencing economic growth” (Omar & Owusu-Frimpong, 2007, p. 965).

Based on research carried out in India's Vellore district Tom and Selvam (2010) found a significant improvement in the standard of living as well as reduced poverty for rural people that elected to take up microinsurance. Whilst microinsurance may have alleviated poverty it must be taken into consideration that out of 7000 microfinance institutions surveyed less than 100 were financially self sufficient (Karnani, 2006, p. 107). Based on this evidence and the fact that microinsurance is still in its infancy it would be plausible to conclude that microinsurance, at this point in time, mainly meets social objectives as driven through social organisations. In order for the product to grow there needs to be appropriate economic development which assists the poor improve their financial capacity enabling them to participate meaningfully within the financial services sector.

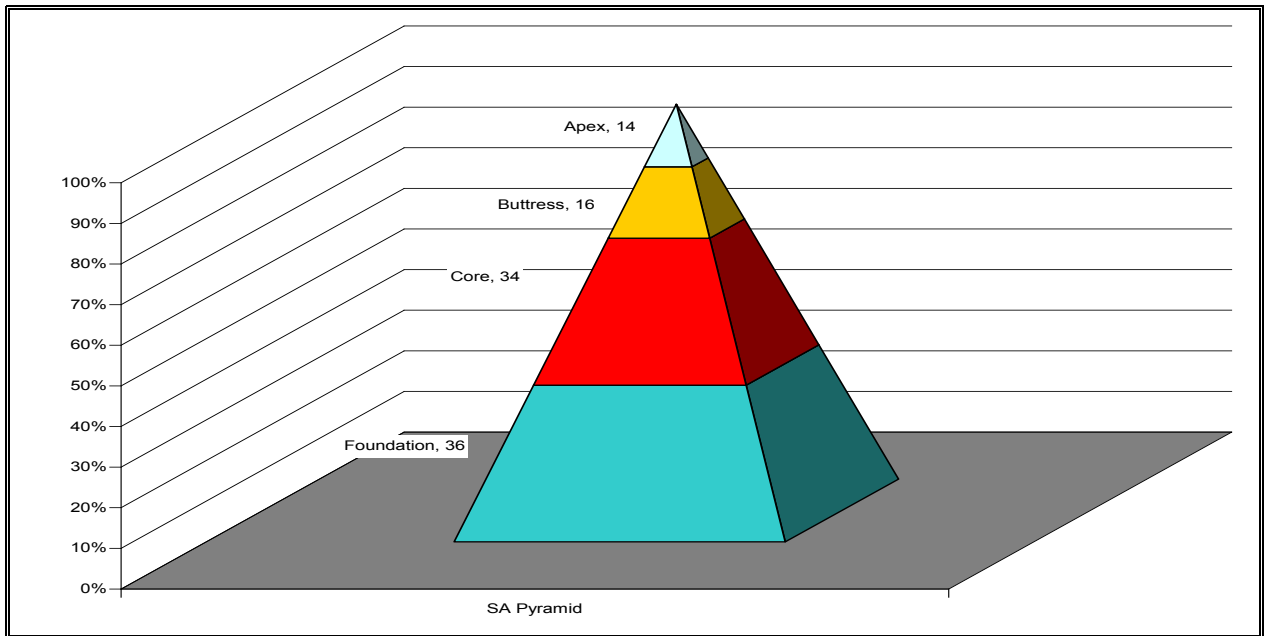
## **2.2 Bottom of the Pyramid**

Taking into consideration that the focus of this research is the low income segment it is befitting that literature reflecting on the Bottom of the Pyramid be reviewed as it provides detailed insight into the poor.

### **2.2.1 Defining the Bottom of the Pyramid**

Chipp and Corder (2009, p. 6) defined the Bottom of the Pyramid as "individuals with a personal income of \$8 per day (with a 21 working month) and all adults with a household income of \$13 a day". The South African Pyramid is unique in that it takes into consideration the South African Advertising Research Foundation's Living Standards Measure, which is an instrument designed to classify South African adults regardless of their ethnicity (Chipp & Corder, 2009, p. 3). Figure 2.1 below provides an illustration of the South African Pyramid which is divided into four clusters, Foundation, Core, Buttress and Apex. Details and characteristics associated with each cluster have been summarised in Table 2.1, including the size of the adult population falling within each cluster.

**Figure 2.1 The South African Pyramid**



Source: (Chipp & Corder, 2009, p. 18)

**Table 2.1 The South African Pyramid Clusters**

The South African Pyramid	TOTAL	
	'000	%
Adult Population ('000)	31,305	100
The Apex of the Pyramid (Group A - LSM <sup>®</sup> s 9 & 10.)	4,463	14.3
The Buttress of the Pyramid (Group B - LSM <sup>®</sup> s 7 & 8)	5,105	16.3
The Core of the Pyramid (Group C - LSM <sup>®</sup> s 5 & 6)	10,534	33.6
The Foundation of the Pyramid (Group F - LSM <sup>®</sup> s 1-4)	11,194	35.8

Source: SAARF (2009c). AMPS<sup>®</sup> 2008B (Chipp & Corder, 2009, p. 18)

Having defined the Bottom of the Pyramid Chipp, Corder and Kapelianis (2012) provide a summary of average personal and household income in respect of each pyramid cluster; this is reflected within Table 2.2 below. It must be noted that the average income recorded for South Africa is slightly higher than that reported in other literature, for ease of reference \$5.50 per day was indicated by Prahalad and Hammond (2002), as well as \$5 per day by Rangan, Chu and Petkoski (2011). Chipp et al (2012) attribute this to the fact that 12 million people in South Africa are beneficiaries of social income grants and “these grants impact households rather than individuals” (Chipp, Corder & Kapelianis, 2012, pp. 24-25).

**Table 2.2 The South African Pyramid Average Incomes**

Income measure	Pyramid group			
	Foundation	Core	Buttress	Apex
Average personal income per month	R 1 312.00 (\$ 187.43)	R 2 642.70 (\$ 377.53)	R 6 071.52 (\$ 867.36)	R 11 159.02 (\$ 1 594.15)
Average personal income per day	R 43.73 (\$ 6.25)	R 88.09 (\$ 12.58)	R 202.38 (\$ 28.91)	R 371.97 (\$ 53.14)
Average household income per month	R 2 069.60 (\$ 295.66)	R 4 664.16 (\$ 666.31)	R 12 125.90 (\$ 1 732.27)	R 23 562.60 (\$ 3 366.09)
Average household income per day	R 68.99 (\$ 9.86)	R 155.47 (\$ 22.21)	R 404.20 (\$ 57.74)	R 785.42 (\$ 112.20)
Household income / personal income	1.58	1.76	2.00	2.11

Source data: South African Advertising Research Foundation (2009a)

In the absence of a universally agreed definition of the Bottom of the Pyramid, Karnani (2006, p. 100) provides an interesting summary of a proposition tabled by Prahalad (2005), which places the subject into context and seems to be generally accepted by those in agreement with Prahalad (2005):

*There is much untapped purchasing power at the bottom of the pyramid. Private companies can make significant profits by selling to the poor. By selling to the poor, private companies can bring prosperity to the poor, and thus can help eradicate poverty. Large multinational companies (MNCs) should play the leading role in this process of selling to the poor". (p. 100)*

It must be stated that the proposal tabled by Prahalad (2005) incites robust debate from a number of parties with a vested interest in the subject matter including Karnani (2006); this will be brought to the fore in further literature on the Bottom of the Pyramid.

### **2.2.2 Collectivism**

The South African Bottom of the Pyramid perspective aligns with Triandis (1995 & 2001) in that individuals are considered to form part of a collective. Collectivism prioritises the household as opposed to individual measures (Chipp & Corder, 2009, p. 1). McGadney-Douglass and Douglass (2008, p. 147) provide insight on collectivism within the familial context which ensures "access to experience, information, resources, and sound decision

making during times of dealing with consequences of poverty”. Through collectivism the family resources are utilised to the advantage of the whole, this is in contrast to structures that emphasize individual competition and indirectly encourage poor economic and social development (McGadney-Douglass & Douglass, 2008, p. 157). The literature on collectivism is particularly useful for the proposed research in that the income earned by potential and existing microinsurance consumers constitutes a portion of the overall household income, and whilst there will potentially be a Chief Financial Decision Maker in the household it is unlikely that their management of income will be individualistic (Chipp & Corder, 2009, p. 3).

### **2.2.3 Poverty Alleviation at the Bottom of the Pyramid**

Prahalad (2008), supported by Martinez and Carbonell (2007), was adamant that the poor should not be treated as a burden. Through doing business with the poor by procuring products and services as opposed to purely focusing on providing them with goods and services the global community can contribute to poverty alleviation at the Bottom of the Pyramid. Anderson and Billou (2007) argue that serving the world’s poor can bring about a combination of good profits and enable corporations to achieve social good. In order to achieve sustainable business social action companies can adopt a value based model which advocates that social benefits should be voluntary, unrestricted, aligned with the overall company strategy, liberal, magnanimous, constant, unobscured, transparent, and extendable to other environments (Martinez & Carbonell, 2007, p. 53).

In the advancement of the debate on the Bottom of the Pyramid and poverty alleviation Landrum (2007) argues that virtually all critiques agree that the examples provided and suggested by Prahalad (2005) do not adequately support the claim of poverty alleviation. In fact Karnani (2007, p. 100) points out that in order to alleviate poverty at the Bottom of the Pyramid the poor should be viewed as producers with the global economy buying from them as opposed to selling to them. As the poor cannot afford to consume more organisations should rather “invest in upgrading the skills and productivity of the poor to help create employment opportunities” (Karnani, 2006, pp. 109-110). This will help increase the real income of the poor and boost spending power of which 80% is currently dedicated to food, clothing and fuel (Karnani, 2006, p. 101). Chipp et al (2012) concur with Karnani (2006), “the key concern is the inherent subsistence problem; thus there is hardly any income for discretionary expenditures after accounting for these three categories” (Chipp et al, 2012, p. 19).

Through engaging the Bottom of the Pyramid organisations also benefit in that they are able to discover new organisational competencies. Organisations must however take into consideration that some of the principles advocated by Prahalad are not transferable and are therefore territory specific (Landrum, 2007, p. 2). The key to poverty alleviation and profit generation lies with the 4As approach which promotes availability, affordability, acceptability and awareness (Anderson & Billou, 2007, p. 15). Using this approach organisations ensure that the products and services that are created for low income consumers are adapted to their unique requirements and that these align with budgetary constraints of the poor. Furthermore consumers should be made aware of the existence of such products and services, with these being readily accessible when required (Anderson & Billou, 2007, p. 15). The elements of the 4As are key areas of focus in any market and can be applied globally across various industries in the pursuit of success.

### **2.3 Demand for Microinsurance**

With the increased focus on the poor and microinsurance there has been more attention dedicated to the demand determinants of microinsurance. Whilst the research undertaken to date has managed to identify some of the determinants of demand not all decisions of whether or not to purchase microinsurance can be determined through these. As such other literature needs to be explored including the theory of insurance demand, the value of time and consumer behaviour.

#### **2.3.1 Theory of Insurance Demand**

Consumers spend a notable amount of money on insurance; Cather (2010) indicates that as much as 8% of the world's GDP is spent on insurance products. Worthy of mention is the fact that not many consumers appear to have an understanding of the factors that impact their demand as far as insurance is concerned (Cather, 2010, p. 127). For an extended period of time, "almost half a century", the theory on insurance demand attributed risk aversion behaviour as a key factor in determining the need for insurance (Schwarcz, 2010, p. 557). "Risk aversion refers to the tendency to prefer to pay a defined sum of money that is known with certainty instead of being exposed to the risk of suffering a larger and uncertain financial loss in the future" (Cather, 2010, p. 128). Schwarcz (2010) substantiates that the theory of risk aversion lacks empirical foundation and is a poor explanation in attempting to clarify how and why individuals buy insurance. The absence of insurance purchases when appropriate has resulted in this alternative view presented by Schwarcz (2010). Previously the absence of insurance was considered an anomaly,

however the frequency with which it is occurring has left observers more convinced that this “may actually reflect sophisticated and informed choice” by consumers (Schwarcz, 2010, p. 558).

### **2.3.2 Determinants of Demand**

At a macro level the determinants of demand can be classified within three broad areas, “economic, political/legal and social” (Omar & Owusu-Frimpong, 2007, p. 965). The role of insurance and the growth of this sector within an economy is likely to depend on economic development. As the rate of economic growth increases so does the consumption of insurance products, this means that “the demand for insurance is positively correlated with income” (Omar & Owusu-Frimpong, 2007, p. 965). Omar and Owusu-Frimpong (2007) indicate that Ward and Zurbruegg (2002) investigated the impact of the political and legal systems on insurance, it was discovered that favorable systems had a significant and positive effect on the demand for insurance. On the social front, “the level of insurance within an economy depends on the national culture and the willingness of individuals to use insurance as means of dealing with risk” (Omar & Owusu-Frimpong, 2007, p. 965).

Akotey, Osei and Gemegah (2011) identified a number of demand determinants at the micro level following research carried out in Ghana on the demand for microinsurance. The demand determinants identified were premium flexibility, the level of income, insurance knowledge, the extent and level of formal education, consumer expectations, marital status as well as nodal agency which refers to any civil society association such as a community based organisation or non-governmental organisation (Akotey, Osei & Gemegah, 2011, pp. 188-190). The determinants identified were concurred by research carried out in South Korea (Lee, Kwon & Chung, 2010, p. 88).

An important consideration often omitted by microinsurance literature within the subject of demand is the value of time, this being the time that would need to be invested by low income consumers in order to understand the benefits of microinsurance. It is a necessity that low income consumers have appreciation of what they are purchasing and this can only be achieved through appropriate financial education, which in turn requires an investment of time in order to understand the microinsurance product of interest. Lin and Bei (2008) in their article ‘The Perceived Value of Time in a Transaction’ highlight that “searching and purchasing a product or service costs consumers time”, microinsurance is by no means exempt from this concept (Lin & Bin, 2008, p. 720).



Whilst the determinants identified above have a role to play in microinsurance research there lies a gap between what is within the control of the consumer and what is independent of their actions. It is therefore important to understand the role consumer behaviour within this specialised area of insurance. A legal system for illustrative purposes is determined through the legislative framework by the regulators whilst and premium flexibility requires consent and buy in from product providers, making these determinants beyond the control of the consumer.

## **2.4 Consumer Behaviour**

Behaviour as an academic subject originated and developed in the sphere of psychology. Whilst considered to be a complex area of study, understanding behaviour has become an imperative for those beyond this specialised discipline, specifically in efforts to enhance consumer engagement.

Essentially the pursuit of new markets and opportunities requires that organisations come to terms with consumer behaviour and microinsurance is no exception in this regard. Bearing in mind that the study of psychology and behaviour has been in existence for an extensive period of time it was appropriate to refer to historic and classical theory in reviewing this subject.

### **2.4.1 Evolution of Behaviour in Pursuit of Survival**

Over an extensive period of time institutionalists and neoclassical economics have advocated that behaviour was determined by habits, routines as well as customs. These determinants were what ultimately enabled economic actors to make decisions. Adherence to institutional rules in turn resulted in behaviour certainty, making this complex area more predictable (Pressman, 2006, p. 501).

Pressman (2006) provides a contrary view to that of predictable behaviour; according to him behaviour has evolved during the course of human history to the point where survival has become a dominant factor in decision making. In the pursuit of survival humans still behave rationally however rationality in this context “is the force compelling people to efficiently use resources and satisfy their wants to the greatest extent possible” (Pressman, 2006, p. 501).



It would be rational to expect low income consumers to purchase microinsurance taking into consideration their vulnerability to external events, however bearing in mind their limited financial resources one begins to have context of their decision making not to purchase insurance. Low income consumers are survivalists and any expenditure that they incur must be aligned with this objective and realised immediately as opposed to a time in the future as would be the case with microinsurance.

#### **2.4.2 Theory of Planned Behaviour**

The Theory of Planned Behaviour was conceived by Ajzen and Fishbein (1969) in their effort to create a model for predicting intentions and behaviour. The model developed by Ajzen and Fishbein (1969) provided insight on the key variables associated with determining behaviour which have been succinctly captured and clarified by Omar and Owusu-Frimpong (2007).

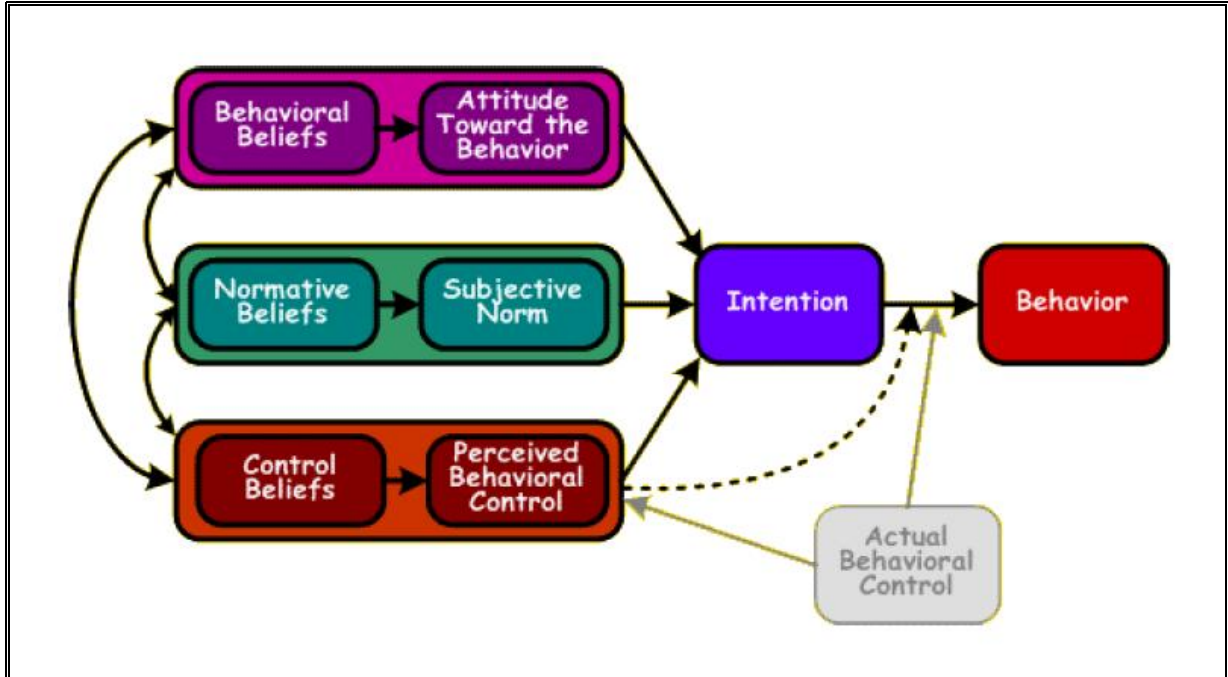
*An individual's intentions to perform a specific act, with respect to a given stimulus object, in a given situation, is a function of the following:*

- (i) the individual's beliefs about the consequences of performing a particular behaviour (in a given situation), that is, the probability that the behaviour will lead to some consequences*
- (ii) the individual's evaluations of those beliefs, that is, the person's evaluation of multiple consequences*
- (iii) normative belief, that is, what the person believes others think he should do in this situation; and*
- (iv) the individual's motivation to comply with what others think should be done.*

*In sum, the theory suggests that a person's behavioural intention is a product of attitude towards the act and subjective norm. (Omar & Owusu-Frimpong, 2007, p. 966).*

For illustrative purposes the Theory of Planned Behaviour model is depicted in Figure 2 below.

**Figure 2. Theory of Planned Behaviour**



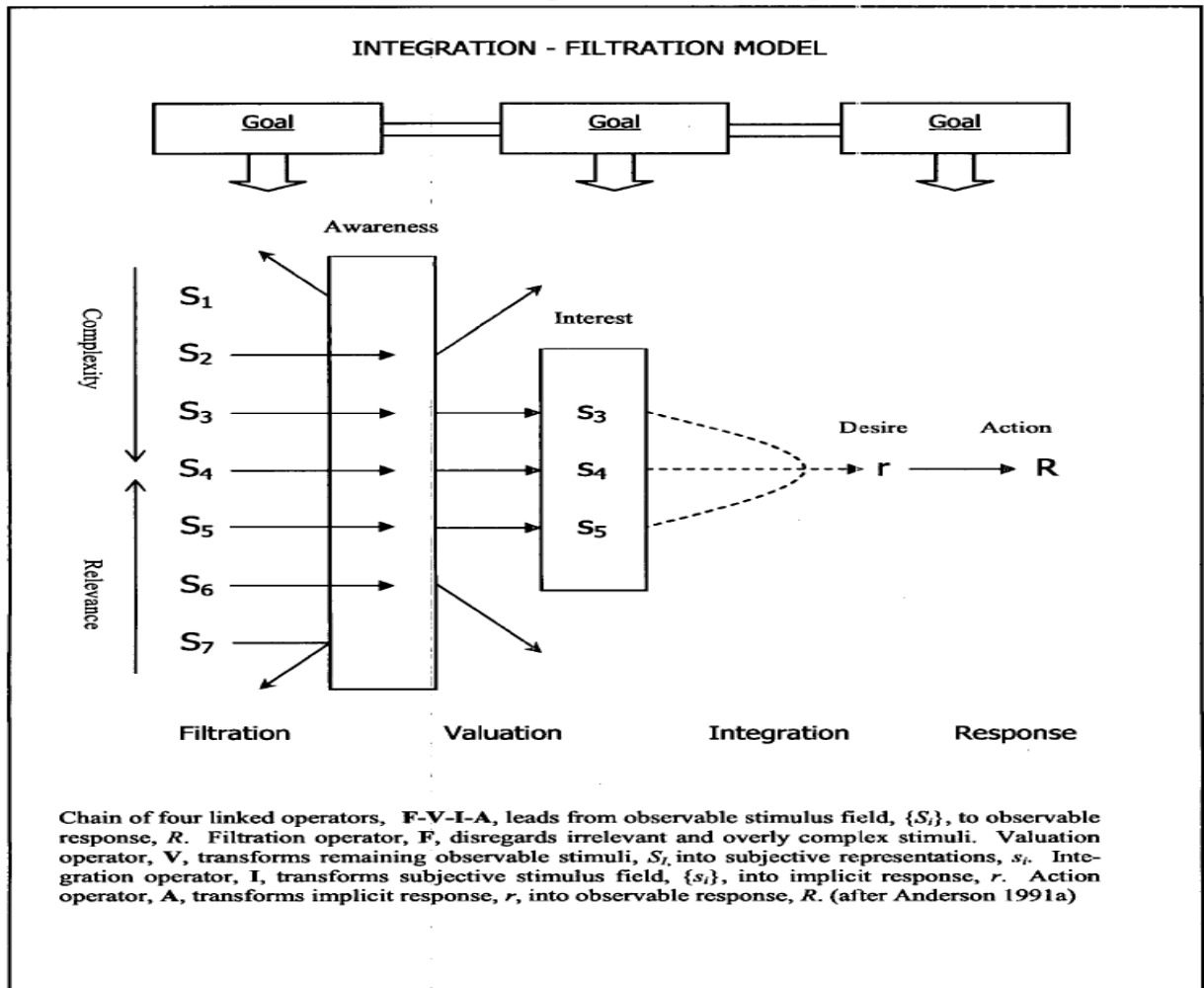
Source: Organization Behavior and Human Decision Processes (Ajzen, 1991, p 170-211)

Models used for predicting behaviour have not escaped criticism, the main issue being “poor predictive validity of attitudes and traits” (Ajzen, 1991, p. 180). The model created by Ajzen and Fishbein has been proven to provide “extremely accurate behavioral predictions” (Ajzen & Fishbein, 1969, p. 415). The ability of the model to predict behaviour is further supported by Sheppard, Hartwick and Warsaw (1988) who concluded that “the Fishbein and Ajzen model has strong predictive utility even when used to investigate situations and activities that do not fall within the boundary conditions originally specified for the model” (Sheppard, Hartwick & Warshaw, 1988, p. 338). Having identified some of the insurance demand determinants the Theory of Planned Behaviour provides a useful framework and an opportunity to assess the role of consumer behaviour amongst low income consumers.

In order to successfully grow microinsurance using various initiatives it will also be necessary to influence the attitudes of potential consumers. In this regard Carlson and White (2008) provide practical and sound literature, namely Information Integration and

Filtration Theory. The Information Integration and Filtration Theory highlights two important areas, these being the relevance of information to the person to whom it is being presented, as well as the ability of that individual to comprehend and deal with the complexity of the information before them (Carlson & White, 2008, p. 162). Figure 3 below illustrates the above model.

**Figure 3. Integration and Filtration Model**



Source: (Carlson & White, 2008, p. 163)

### 2.4.3 Decision Making

An important component of behaviour is the actual decision that the consumer elects to make, this following review of various options presented for their consideration. Rubinson (2009) indicates that consumers prefer to simplify decision making through the “use of simplifying heuristics” (Rubinson, 2009, p. 260). Rubinson (2009) even goes as far as to

state that the assumption that people make decisions after reviewing all alternatives in order to maximise their satisfaction is in fact incorrect. Instead consumers “consider alternatives in succession and take the first one that meets their needs” (Rubinson, 2009, p. 260). This finding has profound implications for microinsurance as low income consumers will prioritise essentials required for immediate survival bearing in mind microinsurance does not meet their immediate needs.

The manner in which decisions are made in low income families also deserves recognition. Decision making can take one of two forms, consensual or accommodative.

*In consensual decision making there is either agreement about what value is relevant in the decision or no conflict across family members, whereas in accommodative decision making family members realise that priorities and preferences are irreconcilable inciting bargaining and persuasion strategies to reach an acceptable solution. (Hamilton, 2009, p. 253)*

Often low income families will have financial constraints and their barrier to choice being money results in disagreements in their attempt to meet competing needs (Hamilton, 2009, p. 254). It must be stated that there is an oversight in some of the standard decision making models in that they do not incorporate the fact that consumer choices are also dependent on current assets (Tversky & Kahneman, 1991, p. 1039).

The practice of collectivism within the South African Bottom of the Pyramid helps to alleviate further potential conflict in the areas of “who should make the purchase decision, how the decision should be made and who should implement the decision” (Hamilton, 2009, p. 254). This is critical taking into consideration that low income consumers are also faced with limited product availability as is the case with microinsurance. Hamilton (2009) notes that the appointment of a single individual to “assume responsibility for financial budgeting” is one way in which families avoid conflict and for this research this role is fulfilled by the Chief Financial Decision Maker (Hamilton, 2009, p. 258). Finally, Hamilton (2009) concludes by indicating that the presence and “influence of a partner can reduce unnecessary expenditure by challenging the purchase” of non essential items (Hamilton, 2009, p. 259). This requires research on microinsurance to investigate the impact that relationships have in individual households.

## 2.5 Conclusion

The literature provided in Chapter Two has assisted in capturing and contextualising areas that impact the low income consumer. Having defined microinsurance it was necessary to outline the products' stakeholders but importantly begin focusing on the low income consumer themselves using information on the Bottom of the Pyramid. The literature on the Bottom of the Pyramid was abundant with characteristics of the low income consumer, including collectivism which specifically differentiates the South African Bottom of the Pyramid when compared to information available globally.

The next objective was to investigate and outline determinants of microinsurance demand at a macro as well as micro level, taking into consideration the potential impact of this insurance to contribute positively to economic development and growth. Finally and in line with the research topic it was important to venture into the area as psychology, this being the founding discipline on behaviour enabling an understanding of the low income consumer's psyche and decision making process. Whilst previous research identified the demand determinants of microinsurance, it is consumer intentions and behaviour which result in the decision to purchase microinsurance and hence the importance of highlighting the role of consumer behaviour in microinsurance. Ultimately the literature review has resulted in a need to further explore some of the concepts forming the basis of Chapter Two. The areas requiring further attention have been outlined in Chapter Three.

## CHAPTER 3: RESEARCH PROPOSITIONS

Following the literature review undertaken in Chapter Two a number of propositions have been developed. A testable proposition is defined as “an assertion that something is true that can be tested using the data available” (Lewis & Saunders, 2012, p. 191). The propositions forming the basis of this research are outlined in this chapter.

### 3.1 Proposition One

**Awareness of short term microinsurance products and services by low income consumers creates an intention for them to participate in this sector.**

Anderson and Billou (2007) advocate the importance of creating adequate awareness around products and services; this proves more challenging for organisations that target low income consumers “with many BOP customers largely inaccessible to conventional advertising media” (Anderson & Billou, 2007, p. 19). In order for low income consumers to develop an interest as well as intentions to purchase microinsurance there must be adequate awareness created around this specialist product. The purpose of proposition one is thus to ascertain whether adequate awareness is created in respect of microinsurance enabling generation of the desired demand.

### 3.2 Proposition Two

**Access to basic financial services places low income consumers in a better financial position.**

Bihari (2011) makes the point that financial exclusion drives the poor to seek financial assistance from money lenders who charge exorbitant rates. On the other hand if the poor are financially included they become beneficiaries of financial services provided at an affordable cost. Proposition two has been developed in order to test the attitudes of low income consumers on the impact that financial services has had on their financial positioning. Essentially access coupled with acceptability of microinsurance can have a positive impact on economic development and growth (Omar & Owusu-Frimpong, 2007, p. 965). The presence of intention to purchase microinsurance products will potentially enable lost property to be recoverable reducing the need to utilise costly money lenders.

### **3.3 Proposition Three**

**Short term microinsurance products and services are readily available to low income consumers.**

Availability refers to “the extent to which customers are able to readily acquire and use a product or service” (Anderson & Billou, 2007, p. 15). The availability of products in low income markets is often impacted by fragmented or even non-existent distribution channels as stated by Anderson and Billou (2007). Bearing in mind the regulatory developments in the area of microinsurance in South Africa, the perceived availability of products within this area needs to be investigated as this determines the intention to take up insurance.

### **3.4 Proposition Four**

**Affordable short term microinsurance products and services are delivered such that current costs encourage usage even by the poorest consumers.**

The reality of scarce financial resources amongst the poor makes affordability one of the key determinants in the intention and ultimately the decision of whether or not to purchase microinsurance. Taking into consideration the average incomes at the Bottom of the Pyramid as presented by Chipp et al., (2012) “companies need to be able to deliver offerings at a price point that enables consumption by even the poorest consumers” (Anderson & Billou, 2007, p. 15). Akotey et al (2011) identify the level of income as one of the key determinants of demand for microinsurance, this in turn determines affordability. The basis of this proposition is to obtain insight on the perceived affordability of microinsurance and the effect that this has on the intention to make use of the short term insurance products under review.

### 3.5 Proposition Five

**The target consumers for short term microinsurance practice collectivism and when making purchasing decisions the Chief Financial Decision Maker takes into account the potential benefits for the household.**

Collectivism has implications for decision making within poor households as illustrated by Hamilton (2009). At most, if not at all times, the Chief Financial Decision Maker should be making decisions in the interest of all household members and ideally this should include the purchasing of microinsurance as the absence thereof can have serious implications on the household's financial position. Proposition five has been developed to understand the extent of collectivism amongst low income consumers as this has consequences for microinsurance. As pointed out by Chipp et al (2012) the practice of collectivism within the South African Bottom of the Pyramid is unlike the standard and "adopted individualist perspective of the BOP consumer" (Chipp et al., 2012, p. 20).

### 3.6 Proposition Six

**The greater the level of premium flexibility the more likely it is that low income consumers will purchase short term microinsurance.**

Premium flexibility has been identified as one the key determinants of microinsurance demand (Akotey et al., 2011, pp. 188-190). In light of this it is important to obtain data and measure the attitudes of low income consumers in this particular area and hence the inclusion of proposition six.

### 3.7 Proposition Seven

**The higher the level of household income the more likely it is that consumers will purchase short term microinsurance.**

Similar to proposition six the level of household income is regarded as an important variable in determining the demand for microinsurance (Akotey et al., 2011, pp. 188-190). The proposition is also closely aligned to proposition four which examines affordability; with the level of income and affordability not being mutually exclusive.



### **3.8 Proposition Eight**

**It is believed that marital status has an impact on the attitude and intention of low income consumers to purchase short term microinsurance; specifically married consumers are more likely to purchase short term microinsurance than single consumers.**

Hamilton (2009) recognises the role that having a partner has in terms of decision making, the intention and decision of whether or not to purchase microinsurance must thus be impacted by a consumer's relationship status. It is for this reason that proposition eight has been included for investigation.

## CHAPTER 4: RESEARCH METHODOLOGY

The objective of this Chapter is to outline and clarify the research methodology and design, including the provision of details on the population, the unit of analysis, the sampling method and size, as well as details of the data gathering process and analysis. The Chapter concludes by outlining some of the limitations associated with this particular research hereby identifying opportunities for future research.

### 4.1 Research Design

A significant emphasis has been placed on the distinction between qualitative and quantitative research by some of the literature available to date, however due to the complexity associated with research it was important to ensure that the design carefully matched the underlying purpose of the study (Tharenou, Donohue & Cooper, 2007, pp. 16-17). As indicated by Tharenou, Donohue and Cooper (2007) the difference between qualitative and quantitative becomes more evident during the data analysis stage of research.

The research design was an explanatory study, with such a study being defined as “research that focuses on studying a situation or a problem in order to explain the relationship between variables” (Lewis & Saunders, 2012, p. 113). Tharenou et al (2007) also refer to a correlation field study, this being “a study based on survey data, conducted in the field” with the focus once again being relationships between variables. The main objective of this particular study was to explore and explain the relationship between attitudes and consumer behaviour, this being driven by consumer intentions, and the impact that this has on the demand for microinsurance. The reason for selecting this particular design relates to research previously undertaken in microinsurance by Akotey et al. (2011), as well as Lee, Kwon and Chung (2010), which focused primarily on the determinants of demand and did not extend to establish whether behaviour is a variable in making decisions around the purchasing of this type of insurance. The correlation field study thus enabled an assessment of attitudes on the extent of the relationships between variables (Tharenou et al., 2007, p. 46).

Further motivation for the selected research which in turn influenced the design was the fact that “there are very few micro-level studies on the purchasing behaviour of the poor” (Karnani, 2007, p. 98). Correlation field studies “examine real-life settings and use people

facing those situations every day” (Tharenou et al., 2007, p. 47). Another important consideration was the ability of the research design to test the propositions generated from the extensive base of literature whilst assessing the effects of the selected variables (Tharenou et al., 2007, p. 47). It must be stated that the correlation field study is not without its challenges, amongst these Tharenou et al (2007) identified “cross-sectional data (all data being collected at one point in time), common method variance (variables related because they are measured by common methods at the same time)”, the provision of responses considered socially desirable by respondents, as well as acquiescent responding (Tharenou et al., 2007, p. 48).

Bearing in mind that the objective of the research was to explain the relationship between variables, an exploratory study was considered unsuitable as this type of research “aims to seek new heights, ask new questions and assess topics in new light” (Lewis & Saunders, 2012, p. 110). Another alternative would have been a descriptive study which is designed to provide “an accurate representation of persons, events or situations” (Lewis & Saunders, 2012, p. 111). Essentially this eliminated and rendered both types of designs unsuitable for this particular study.

## **4.2 Population**

A population refers to “any precisely defined set of people or collection of items which is under consideration” (Hussey & Hussey, 1997, p. 55). In other words the population is the “complete set of group members” (Lewis & Saunders, 2012, p. 132). The population of this study was the Chief Financial Decision Makers within the households, male or female, within the Living Standards Measure of 1-4 as identified by the South African Pyramid in Chipp and Corder (2009).

In their capacity as the Chief Financial Decision Maker these individuals ultimately make the decision on whether or not to purchase microinsurance within the context of the household. The population was situated in an area considered urban and resided in dwellings constructed of bricks and mortar, specifically within the geographical area of East Bank, Alexandra, a Johannesburg Metropolitan Council township. The reason behind the population identified relates to its suitability as a microinsurance target market, making it complementary to the research objectives and propositions.

### 4.3 Unit of Analysis

The unit of analysis consisted of the Chief Financial Decision Maker within the household and falling within the identified population. “A unit of analysis is the kind of case to which the variables or phenomena under study and the research problem refer, and about which data is collected and analysed” (Hussey & Hussey, 1997, p. 66). The unit of analysis may therefore be individuals whereby each Chief Financial Decision Maker’s response is considered an individual data source (Tharenou et al., 2007, p. 18).

### 4.4 Sampling Method and Size

A sample represents “a subgroup of the whole population” and is studied in order to generalise and make inferences about the population (Lewis & Saunders, 2012, p. 132). External validity, this being the extent to which the findings of a study can be generalised to people beyond the immediate study, is an important aspect of sampling (Tharenou et al., 2007, p. 21). A representative sample enables the application of statistical techniques in order to “demonstrate the likelihood that the characteristics of the sample will also be found in the population” (Hussey & Hussey, 1997, p. 64). In the case of a large population such as the one under review it would have been “time consuming and expensive” to collect data about every Chief Financial Decision Maker and hence the use of a sample (Hussey & Hussey, 1997, pp. 65-66). In essence samples are collected and utilised as it is not always practicable to collect data from the entire population (Lewis & Saunders, 2012, p. 133).

The sampling technique that was utilised was systematic sampling, “a type of probability sampling in which the first sample member is selected from a sampling frame at random, using a random number” (Lewis & Saunders, 2012, p. 136). The balance of the sample members were selected at regular intervals from the sampling frame. “In systematic sampling the population is divided by the required sample size ( $n$ ) and the sample chosen by taking every  $n^{\text{th}}$  subject” (Hussey & Hussey, 1997, p. 146). Other than the selection of every  $n^{\text{th}}$  Chief Financial Decision Maker systematic sampling has similar characteristics to simple random sampling where “each member of the population is selected completely by chance” and as such each member has an equal opportunity of being chosen (Tharenou et al., 2007, p. 54). An advantage brought about by probability sampling was the ability to statistically estimate the characteristics of the population (Lewis & Saunders, 2012, p. 161). In utilising systematic sampling care was taken to ensure that there were no regular patterns in the sampling frame (Lewis and Saunders, 2012, p. 136).

The sample size collected consisted of 104 Chief Financial Decision Makers within the area identified in the population. Hussey and Hussey (1997) acknowledge that the selection of an appropriate sample size is very complex. The literature presented by Albright, Winston and Zappe (2009) indicates that the sampling error tends to decrease as the sample size increases and in turn the desire to reduce error results in the selection of larger sample sizes. Whilst there is temptation, specifically with surveys, to collect as large a sample as possible this is not always necessary. Factors for consideration in the selection of an appropriate sample size include cost, timeous collection of data and nonsampling error (Albright et al., 2009, p. 417). Ultimately the sample size should be dependent on the degree of uncertainty, accuracy and confidence that a researcher is willing to accept as part of their conclusion (Hussey & Hussey, 1997, pp. 148-149). In other words the key focus should be on understanding the relationship between sampling error and sample size (Albright et al., 2009, p. 416).

The systematic sample was created by dividing the number of households available in East Bank, Alexandra, by the required sample of 104 Chief Financial Decision Makers representing the identified households. The number of households indicated by the City of Johannesburg Metropolitan Council's corporate geo-informatics amounted to 1078, with these spread over an estimated area of 706828 m<sup>2</sup>. The above calculation resulted in a figure of 10.36; this was rounded down to 10 in order to select the first random number between one and ten. Twenty six starting points were selected from which four interviews were conducted. The interviews occurred at every third house until 104 houses had been surveyed. In the event of the Chief Financial Decision Maker not being available at a selected house the interviewer proceeded to a neighbouring house. Unfortunately when proceeding to an alternative house the interviewers did not keep a record and as such the substitution rate was not captured. Refer Appendix One for a map and an overview of East Bank, Alexander.

#### **4.5 Questionnaire Design**

Lewis and Saunders (2012, p. 141) define a questionnaire as “all methods of data collection in which each potential respondent is asked to answer the same set of questions in the same order”. In designing the questionnaire the primary focus was to ensure that the data that would be collected answered the research questions and met the desired objectives. In order to achieve the above, the questions in the questionnaire had to be well understood and interpreted by the respondents in a manner appropriate to the research.

As such a significant effort was dedicated to ensuring content and construct validity of the questionnaire (Lewis and Saunders, 2012, p. 142). An example of the questionnaire that was used to gather the data is included as Appendix Two.

The questions were designed based on the theoretical framework established in Chapter Two, with each question having a clear alignment to the propositions development from the theory. An emphasis was placed on closed-ended response category questions (Tharenou et al., 2007, p. 22). As identified by Hussey and Hussey (1997) closed questions are suitable for collecting factual data and assist with the analysis thereof. On the contrary open questions would have been “extremely time-consuming to analyse” (Lewis and Saunders, 2012, p. 144). As the objective was to obtain respondents’ opinions and beliefs a notable number of questions were of a rating type, these allowed participants to provide “more discriminating responses, by providing them with some form of rating scale” (Hussey & Hussey, 1997, p. 171). The rating scale also enabled a numerical value to be assigned to an opinion and for this research a Likert Scale was deemed appropriate. All things considered an important part of the question design process was the TAP procedure as encapsulated by Foddy (1993), with the TAP acronym representing:

- *Topic: The topic should be properly defined so that each respondent clearly understands what is being talked about.*
- *Applicability: The applicability of the question to each responded should be established. Respondents should not be asked to give information that they do not have.*
- *Perspective: The perspective that the respondents should adopt, when answering the question, should be specified so that each responded gives the same kind of answer.*

Hussey and Hussey (1997) highlight the importance of funneling; this ensured that the questions were presented in a logical order, beginning with general and moving on to more specific themes. There is some debate with regards to the location of classification questions; examples used as part of this research include age and the level of education. Some authors indicate that the beginning of the questionnaire is the best location as this gives confidence to the respondent whilst others believe that the end is the appropriate

place as it allows the participant to begin with questions considered more interesting. What became clear however is that questions of a personal and sensitive nature need to be located at the end, this prevented potential deterrence of the responded at the start of the interview, and in this case the question relating to household income was treated in this manner (Hussey & Hussey, 1997, p. 163). Further to the above, it was important that the wording of the questions was consistent throughout the questionnaire (Lewis and Saunders, 2012, p. 146). The use of technical jargon and specialist language was avoided, as were vague and descriptive words. In addition the asking of negative questions was avoided as these are easily misinterpreted by respondents (Hussey & Hussey, 1997, p. 165).

Prior to the questionnaire being administered in East Bank, Alexandra, it was pilot tested amongst work colleagues and a service provider employees who emanate and are in a similar position to the Chief Financial Decision Makers constituting the research sample. As part of the pilot process respondents were asked questions which enabled identification of areas requiring modification or deletion. Such questions included clarity on whether any of the questions made respondents uncomfortable, were disliked and if so what were the reasons for this, as well as any areas that needed to be expanded upon (Foddy, 1993, p. 185).

#### **4.6 Data Collection Process**

The data collection process was undertaken through a questionnaire administered face to face by local interviewers who recorded answers provided by the respondents. A questionnaire was considered a good data gathering method as it enabled the collection of information about the same things from a large number of respondents (Lewis & Saunders, 2012, p. 141). The questionnaire was also the preferred option as it is used for the purpose of determining respondents' thoughts about, and feelings towards issues, events, and behaviours, in this case in respect of microinsurance (Tharenou et al., 2007, p. 21). The face to face interviews were elected as a result of their ability to secure the desired response rate as well as collect comprehensive data in surroundings where the respondent felt comfortable (Hussey & Hussey, 1997, p. 163).

Due care and consideration was taken in the selection of local interviewers, as recommended by Tharenou et al (2007) their reading and interpretation abilities as well as pleasant personality were taken into account. A briefing session was held with the

interviewers wherein the objective of the survey was outlined, as well as how the data would be collected in line with the systematic sample method. Where possible interviewers were requested to contact potential respondents in advance advising of their forthcoming visit.

#### **4.7 Analysis Approach**

The analysis of the data followed the structure proposed by Tharenou et al (2007) as well as Lewis and Saunders (2012). The initial analysis incorporated preliminary tests aimed at reviewing the properties of the data, the assumptions that supported the analysis method, as well as obtaining data describing the sample (Tharenou et al., 2007, pp. 190-191). Essentially this entailed a data matrix which was basically a table format in which data was typed and analysed using Microsoft Office Excel and statistical analysis software namely StatTools (Lewis & Saunders, 2012, p. 168). During this process care was taken towards illegitimate codes and illogical relationships (Lewis & Saunders, 2012, p. 169). The data was then formatted into tables and graphs, including bar graphs, pie charts and histograms, as suggested by Lewis and Saunders (2012). During this process particular attention was paid to utilising tables and graphs that were deemed appropriate and highlight the objectives of the study.

Having completed the initial analysis the data required statistical techniques suited to testing the research propositions. The statistical techniques were carefully selected based on each research proposition (Tharenou et al., 2007, pp. 191). It was not a requirement that all statistical measures be employed in the description of the data. Statistics assisted in various ways; they enabled the examination of variables through association, correlation and difference. Furthermore statistics also allow for explanation and prediction of variables where appropriate (Lewis & Saunders, 2012, p. 179).

Taking into consideration the objective of the study the statistical methods that were explored were correlation, regression and the t-test. Correlation enabled the data collected; this being categorical ranked data, to be analysed using Spearman's rank correlation coefficient in order to ascertain the "strength of the relationship between two variables and the probability of this occurring by chance" (Lewis & Saunders, 2012, p. 180). The regression analysis was used to enhance understanding of the relationship between dependent and independent variables; specifically to determine the extent to which changes in the independent variables are related to the dependent variable (Albright



et al., 2009, p. 573). Finally the t-test investigated the “probability of the differences between values occurring by chance” (Lewis & Saunders, 2012, p. 180).

#### **4.8 Research Limitations**

The nature of research constrains the number of enquiries that can be made during a particular study, resulting in the exclusion of potential areas of investigation. The constraint results in limitations and delimitations. “A limitation identifies potential weaknesses in the research. A delimitation explains how the scope of your study is focused on one particular area” (Hussey & Hussey, 1997, p. 129).

A notable delimitation in terms of the study undertaken was the fact that it was restricted to Chief Financial Decision Makers in urban households located in the area of East Bank, a section of the Alexandra township within the Johannesburg Metropolitan Council. This excluded potential participants who may be beneficiaries of microinsurance but live in other areas or within dwellings constructed of material other than brick and mortar. Importantly the study excluded rural areas as well as other locations beyond that identified within the borders of the Republic of South Africa. It is therefore imperative that the results are not inappropriately generalised beyond the defined universe, a potential limitation of this study.

Further to the above there is always the risk that there may be an inability bias following a misunderstanding of questions contained in the questionnaire, this despite the fact that the interviewers were trained and briefed prior to commencing the actual field work.

## **CHAPTER 5: RESULTS**

The results of the survey undertaken in East Bank, Alexandra, are presented in this section of the research report. The purpose of this chapter is thus to collate the data collected in East Bank in line with the research propositions with limited commentary being provided. Bearing in mind the quantitative research methodology this section also incorporates descriptive statistics.

### **5.1 Sample Characteristics**

In terms of the selected sample of Chief Financial Decision Makers 57% were males, of whom the majority (44%) was in the age band of 35 to 49 years old. Whilst all males had some form of experience with education most (63%) had ended formal schooling following completion of grade 12. The female participants on the other hand were largely in the age band of 25 to 34 years old, with 64% having attained grade 12 as their highest level of education. The total sample consisted mostly of average monthly household income in the ranges of R 2 500 to R 4 999 and R 5 000 to R 9 999, with these ranges making up 54% of the sample in equal proportions. A summary of the sample characteristics has been presented under Appendix Three.

### **5.2 Basic Financial Services**

A review of the basic financial services which are utilised by the participants as well as those that they intend using in the near future was undertaken; these have been summarized per Table 5.3 below and detailed under Appendix Four. A notable percentage of the participants make use of and intend to continue using banking services, specially cheque and savings accounts. One participant indicated that they currently do not use nor do they intend using financial services in the future.

**Table 5.3 Financial services used in the last 12 months (labeled A) and intended for use (labeled B) in the next 12 months (% of survey participants) N = 104**

	Mzansi Bank Account	Cheque/ Savings Account	Credit Card	Homeloan / Mortgage Bond	Vehicle Finance	Short Term Insurance for Motor Vehicle	Short Term Insurance for Household Contents	Short Term Insurance for Dwelling	None
<b>A</b>	24%	89%	37%	16%	17%	22%	17%	15%	1%
<b>B</b>	25%	86%	52%	19%	17%	24%	19%	18%	1%

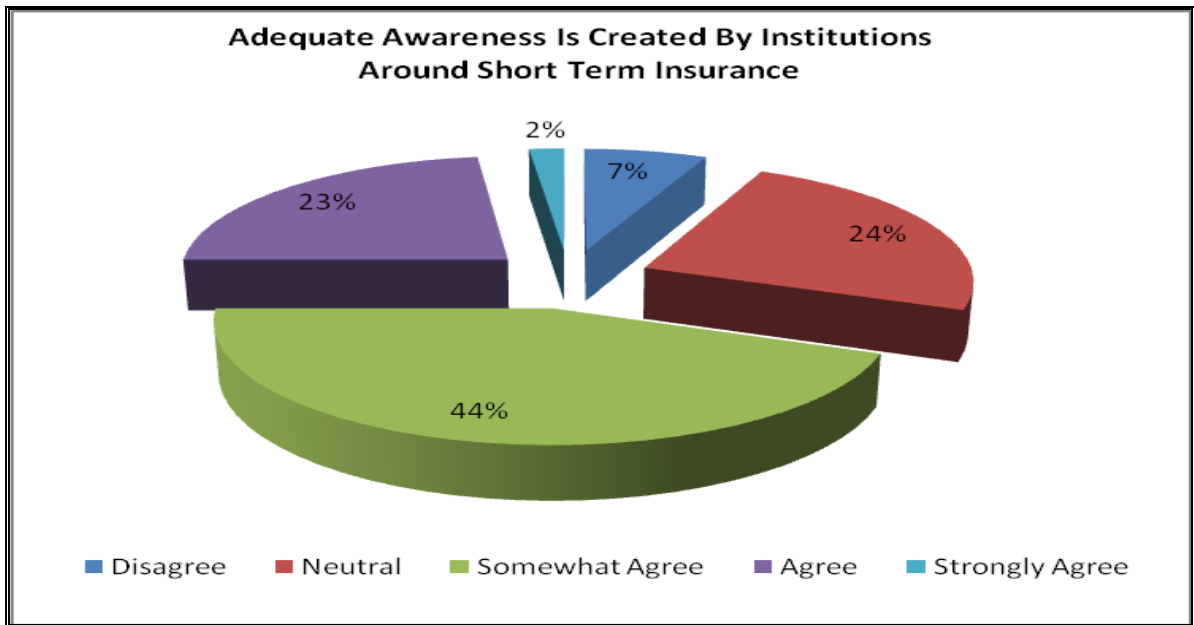
In terms of short term insurance the product most utilised is motor vehicle insurance (22%), followed by household contents (17%), with insurance for dwellings being the least utilised (15%). The order of product usage is maintained when looking at the consumers' intended usage in the next 12 months. The above noted, the product that is likely to experience growth based on intended usage is insurance for dwellings, with this set to grow by 20%. Growth for household contents is expected to be 12%, and motor 9%. Undoubtedly this has implications for product providers in the quest to indentifying products that are likely to yield the desired growth within microinsurance.

### 5.2.1 Proposition One

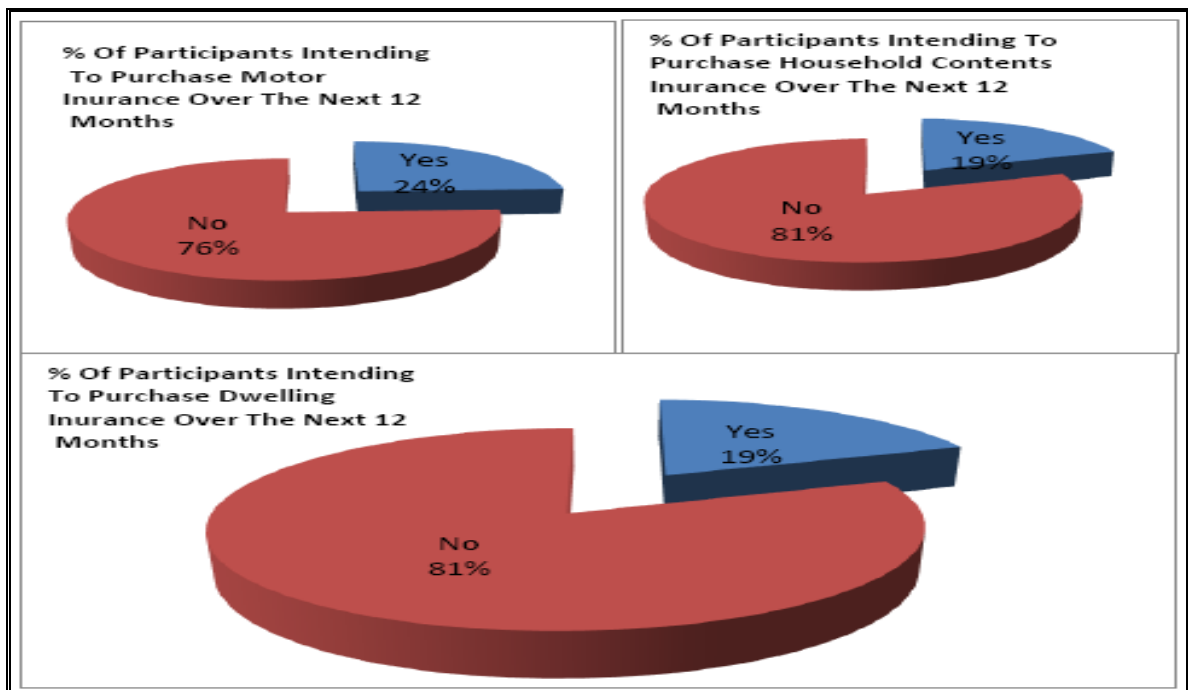
**Awareness of short term microinsurance products and services by low income consumers creates an intention for them to participate in this sector.**

The results contributing to the above proposition were obtained through a Likert Scale and have been summarised in figures 5.8 and 5.9 below. It was noted that 44% of the sample per figure 5.8 somewhat agreed that institutions involved with short term insurance created adequate awareness of their products and services, however the percentage of participants intending to participate in insurance in the next 12 months ranged from 19% to 24% per figure 5.9, depending on the product being considered. The mean score recorded in respect of awareness was 2.8942, this being against a hypothesized mean of 3. Based on the hypothesized mean it would be plausible to surmise that insufficient awareness of short term insurance is created by institutions amongst low income consumers.

**Figure 5.8 Awareness around short term insurance**



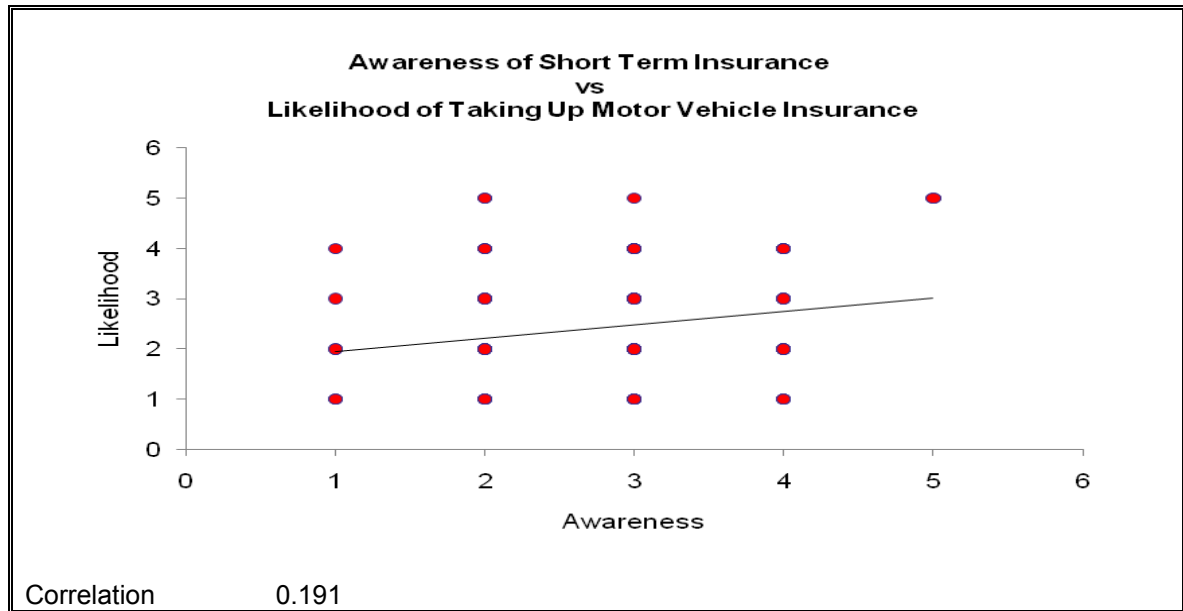
**Figure 5.9 Participants intending to purchase insurance**



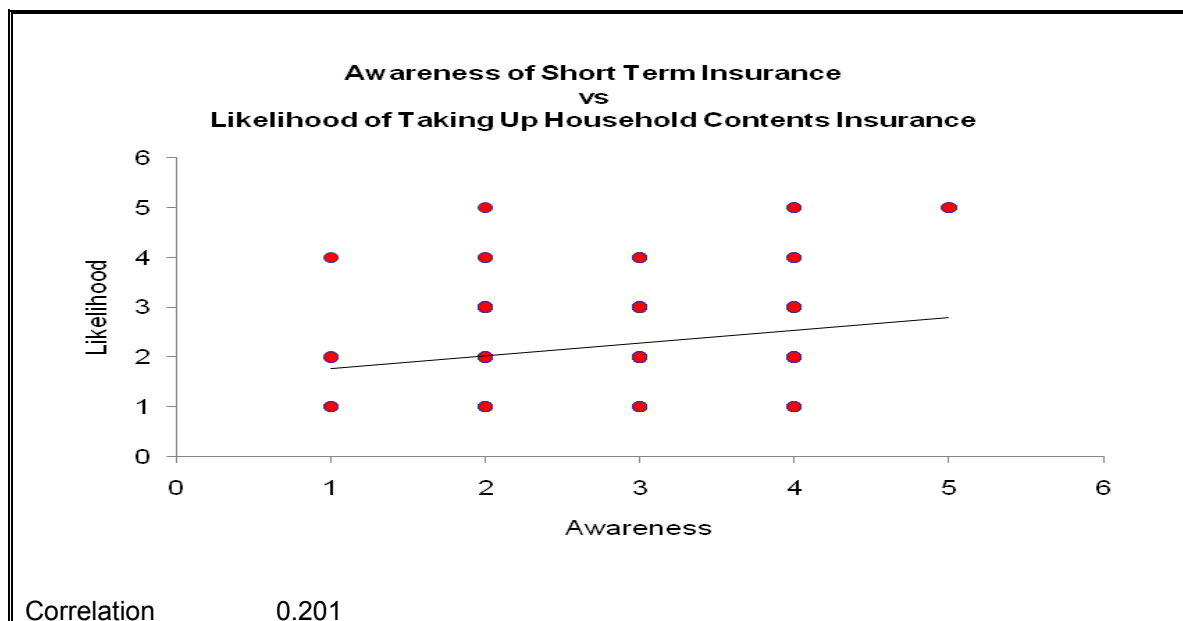
In order to better understand the relationship between awareness and the intention of low income consumers to purchase short term insurance products, measures of association were undertaken. Correlation analysis was utilised on awareness of short term insurance

versus the likelihood of taking up a particular insurance product. Intention was replaced with likelihood due to the measurability of the latter and also taking into consideration that when a consumer declares their likelihood to purchase a product intention has already been established. The results of the correlation analysis can be reviewed under Figures 5.10, 5.11 and 5.12 below.

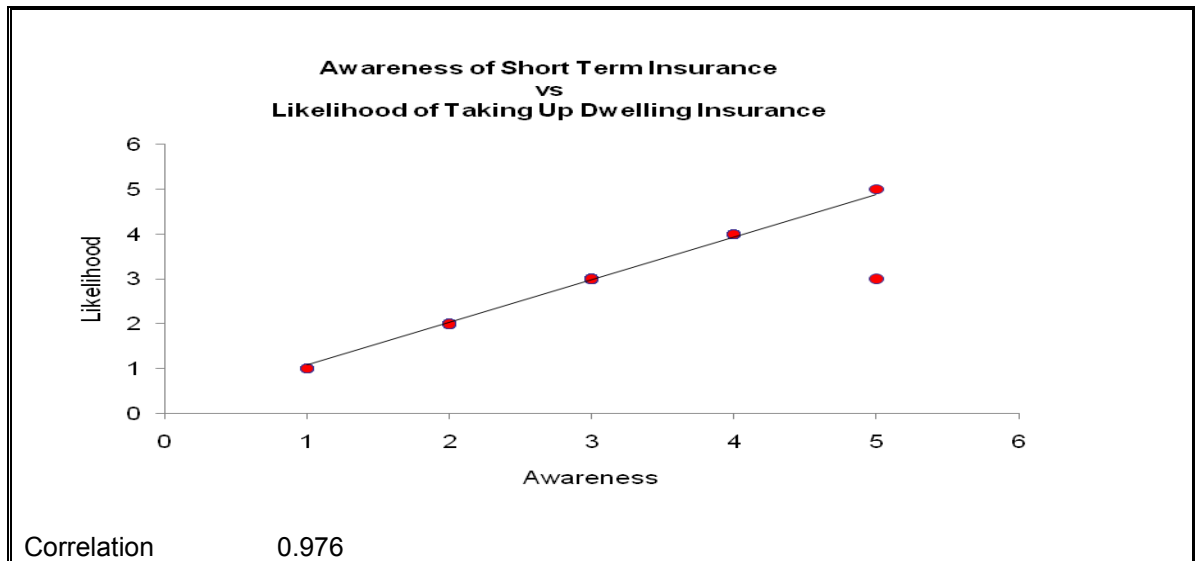
**Figure 5.10 Awareness and likelihood of taking up motor vehicle insurance**



**Figure 5.11 Awareness and likelihood of taking up household contents insurance**



**Figure 5.12 Awareness and likelihood of taking up dwelling insurance**



In all the above cases positive relationships were established between awareness and the likelihood of purchasing a particular insurance product, this being represented by the positive correlation coefficients. The relationship between awareness and motor insurance is relatively weak, as is that between awareness and household contents insurance. However awareness and dwellings insurance have a very strong relationship, further insight on this will be provided in Chapter 6.

In addition to performing a correlation exercise regression analysis was undertaken on awareness and dwelling insurance, the multiple regression model produced the results summarised in Figure 5.13 below. Based on the regression analysis 95% of the variation in the likelihood of purchasing short term insurance for a dwelling can be explained by variations in the level of awareness created by institutions, this being represented by an R-square of .9528.

A one sample two tailed t-test was undertaken in order to investigate Proposition One; the results have been disclosed under Table 5.4 below. The results indicate that awareness around microinsurance is not at an ideal level amongst low income consumers (mean 2.8942) however they also point to the fact that awareness does have an impact as far as intention to participate in microinsurance is concerned (p-value > 0.10).

**Figure 5.13 Multiple Regression results of awareness created by institutions and the intention to purchase insurance for a dwelling**

<i>Summary</i>	Multiple R	R-Square	Adjusted R-Square	StErr of Estimate		
	0.9761	0.9528	0.9523	0.191740		
<i>ANOVA Table</i>	Degrees of Freedom	Sum of Squares	Mean of Squares	F-Ratio	p-Value	
	1	75.625028	75.62502	2057.0165	< 0.0001	
	102	3.7499713	0.036764			
<i>Regression Table</i>	Coefficient	Standard Error	t-Value	p-Value	Confidence Interval 95%	
					Lower	Upper
	Constant	0.12616125	0.06345739	1.9881	0.0495	0.00029381
Awareness	0.949764881	0.02094099	45.3543	< 0.0001	0.908228526	0.991301237

**Table 5.4 One Sample T-test on the awareness of short term microinsurance by low income consumers and the intention this creates for them to participate**

N = 104				Hypothesized Mean = 3		95% Confidence Level		
Mean	Std Dev	Standard Error	Degrees of Freedom	t-Test Statistic	p-Value	Mean Difference	Lower Limit	Upper Limit
2.8942	0.902	0.0885	103	-1.1956	0.2346	0.106	2.7188	3.0697

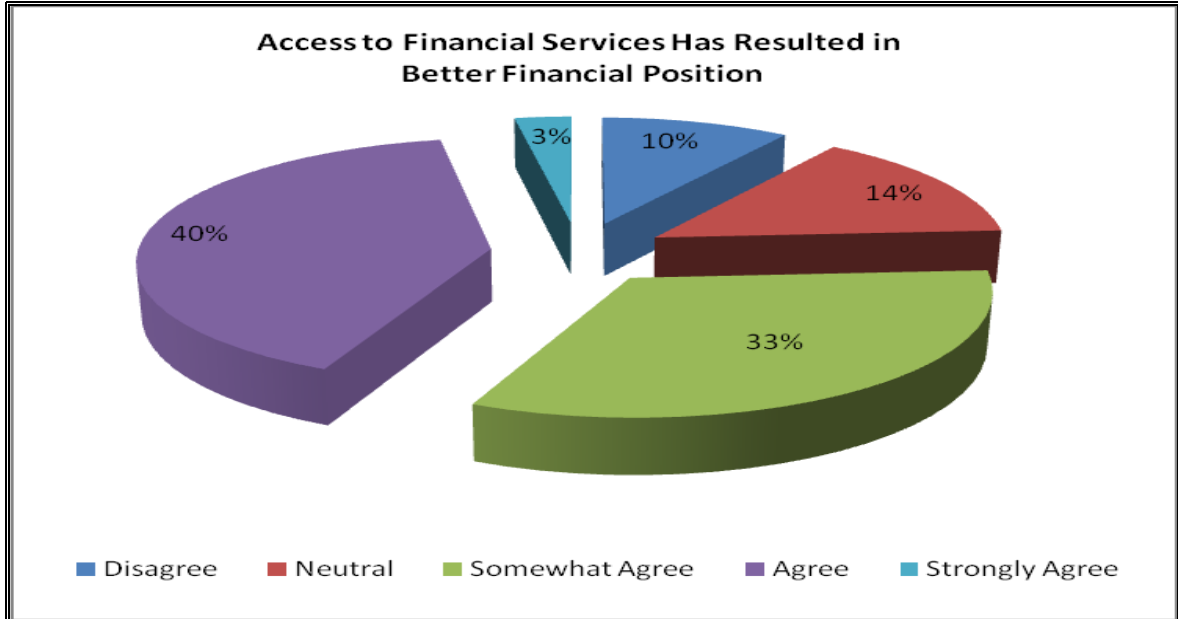
### 5.2.2 Proposition Two

**Access to basic financial services places low income consumers in a better financial position.**

Using a Likert Scale participants were questioned on the extent to which access to financial services had placed them in a better financial position. Forty percent (40%) of those interviewed agreed with Proposition Two and 3% strongly agreed with the same Proposition, with the balance of the responses recorded being reflected in figure 5.14

below. Detailed results on the financial services utilised and intended for use by the low income consumers surveyed have been included as Appendix Four.

**Figure 5.14 Access to financial services and better financial position**



A one sample two tailed t-test was undertaken with the results thereof being summarised within Table 5.5 below. Whilst it was anticipated that access to financial services would result in a better financial position for low income consumers it was also very possible that this would not be the case. The results indicate that there is evidence ( $p\text{-value} > 0.10$ ) which supports the fact that access to financial services results in a better financial position for low income consumers.

**Table 5.5 One Sample T-test on access to financial services resulting in a better financial position**

N = 104				Hypothesized Mean = 3		95% Confidence Level		
Mean	Std Dev	Standard Error	Degrees of Freedom	t-Test Statistic	p-Value	Mean Difference	Lower Limit	Upper Limit
3.125	1.021	0.100	103	1.2485	0.2147	0.125	2.926	3.324

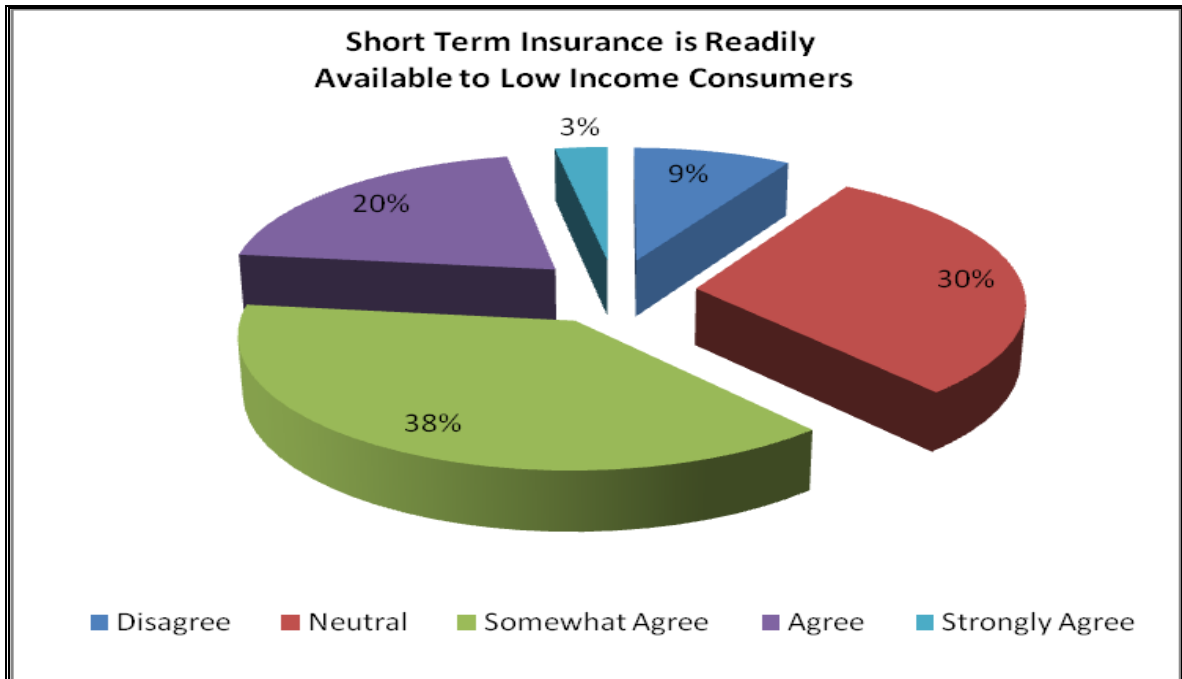


### 5.2.3 Proposition Three

**Short term microinsurance products and services are readily available to low income consumers.**

The majority (38%) of the Chief Financial Decision Makers that were interviewed noted that they somewhat agreed with the fact that short term insurance is readily available to low income consumers. As much as 30% of the participants elected to remain neutral on this particular issue. The responses recorded for the balance of the participants can be reviewed under figure 5.15 below.

**Figure 5.15 Availability of short term microinsurance to low income consumers**



A one sample two tailed t-test was processed in order to investigate Proposition Three; accordingly the results have been displayed under Table 5.6. Bearing in mind that the survey was undertaken amongst low income consumers it was deemed unlikely that microinsurance would be readily available to this particular consumer for reasons to be outlined in Chapter 6. The returned results provide strong evidence ( $p\text{-value} < 0.05$ ) that short term microinsurance products are not readily available to consumers at the Bottom of the Pyramid.

**Table 5.6 One Sample T-test on microinsurance being readily available to low income consumers**

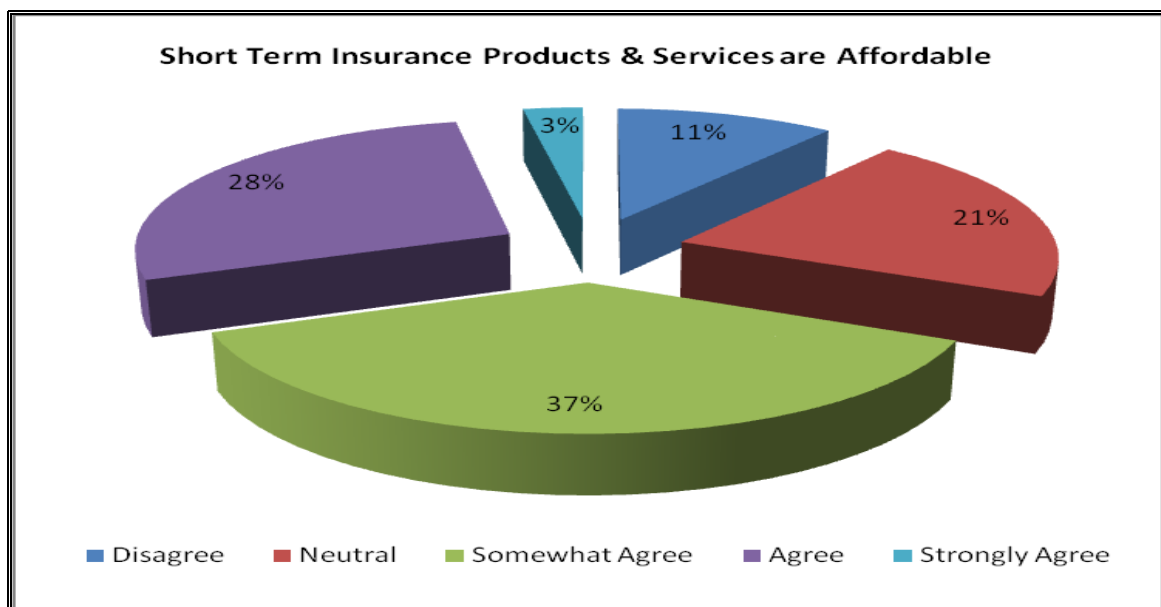
N = 104				Hypothesized Mean = 3		95% Confidence Level		
Mean	Std Dev	Standard Error	Degrees of Freedom	t-Test Statistic	p-Value	Mean Difference	Lower Limit	Upper Limit
2.789	0.962	0.0943	103	-2.2422	0.0271	0.211	2.6014	2.9756

### 5.2.4 Proposition Four

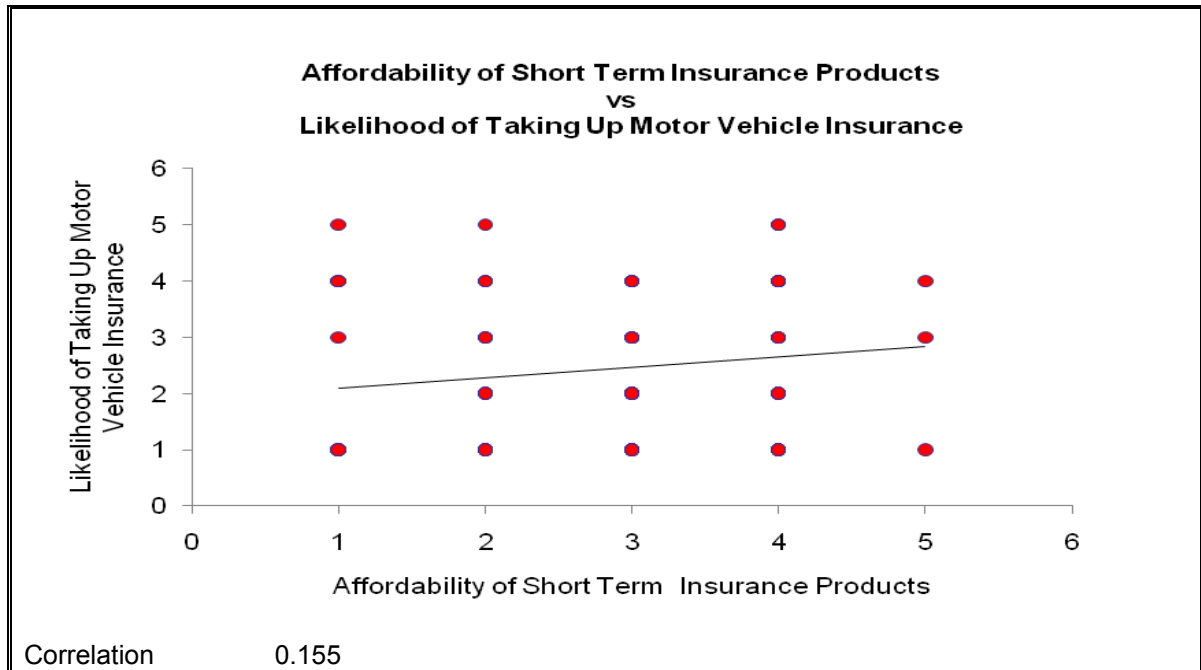
**Affordable short term microinsurance products and services are delivered such that current costs encourage usage even by the poorest consumers.**

The Chief Financial Decision Makers interviewed mostly indicated that they somewhat agreed that short term insurance products are affordable, with 37% of the sample respondents recording this response. A further 28% of those surveyed indicated that short term insurance products are affordable. For ease of reference the full results of the survey responses relating to affordability have been displayed under figure 5.16 below.

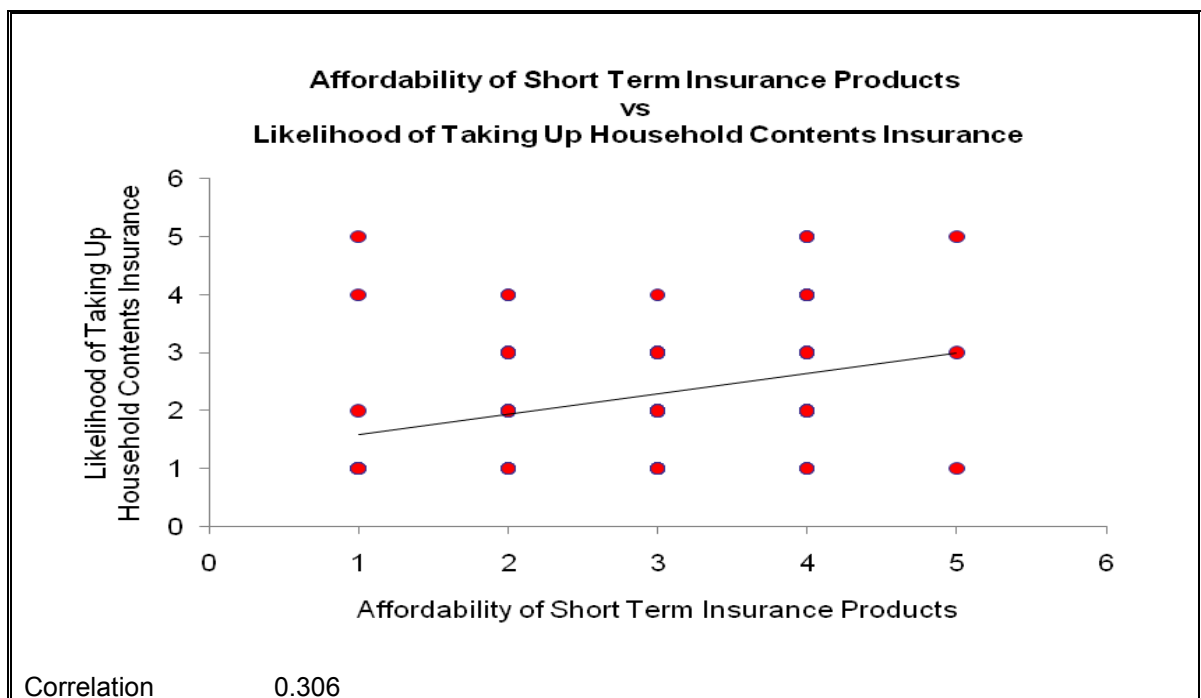
**Figure 5.16 Affordability of short term insurance**



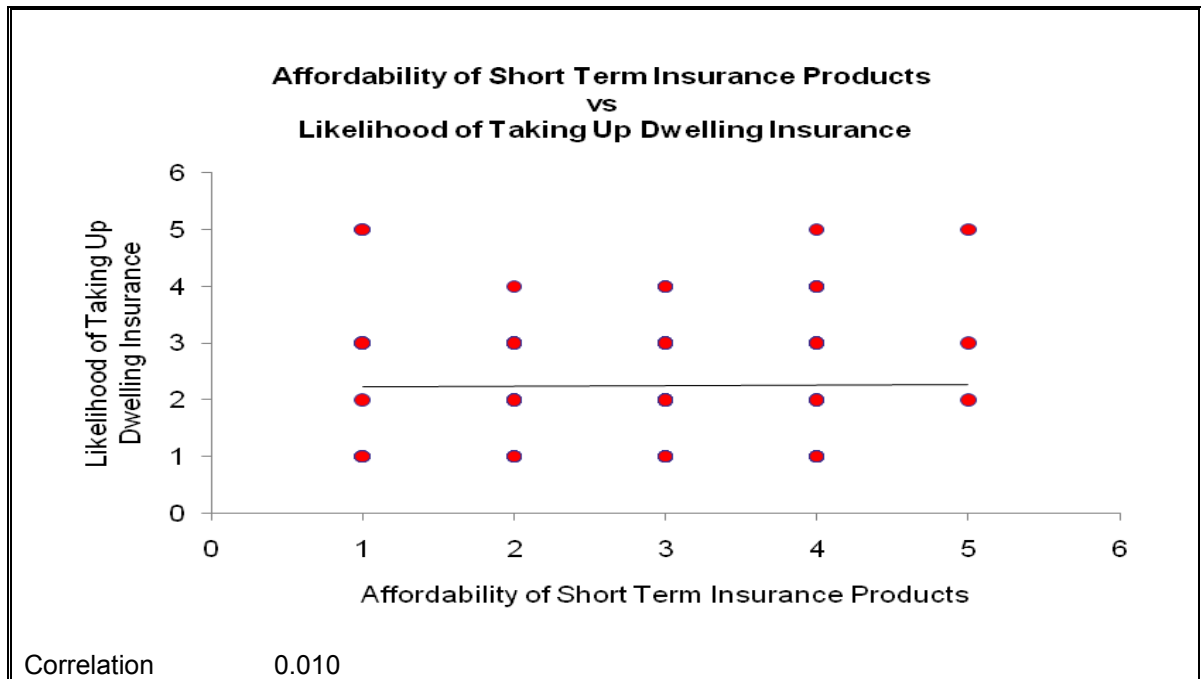
**Figure 5.17 Correlation results of short term insurance affordability and likelihood of taking up motor vehicle insurance**



**Figure 5.18 Correlation results of short term insurance affordability and likelihood of taking up household contents insurance**



**Figure 5.19 Correlation results of short term insurance affordability and likelihood of taking up dwelling insurance**



Correlation analysis was undertaken to determine if there is a relationship between affordability of microinsurance products and the likelihood of taking up and making use of the three products under review. The results of the correlation exercise have been displayed above in Figures 5.17, 5.18 and 5.19. Two of the products, motor vehicle and dwelling insurance, do not display strong relationships with affordability as demonstrated by the low coefficients. Short term insurance for household contents on the other hand has a moderate positive correlation with affordability, detailed insight on this finding will be included in Chapter Six.

Regression analysis was also undertaken in respect of affordability and dwelling insurance; this revealed that 9% of the variation in the likelihood of making use of this type of insurance can be explained through affordability. The full results of the regression analysis are reflected under Figure 5.20 below. A one sample two tailed t-test was also undertaken in order to investigate Proposition Four; the results have been disclosed under Table 5.7 below. The results indicate that microinsurance is perceived to be unaffordable (mean 2.913) however they also point out that affordability does indeed have a role to play as far as usage of microinsurance is concerned (p-value > 0.05).

**Figure 5.20 Regression results of analysis between affordability and likelihood of making use of household contents insurance**

<i>Summary</i>	Multiple R	0.3060	R-Square	0.0936	Adjusted R-Square	0.0848	StErr of Estimate	1.11336			
<i>ANOVA Table</i>	Degrees of Freedom	1	Sum of Squares	13.0629	Mean of Squares	13.0629	F-Ratio	10.5382	p-Value	0.0016	
	Explained	1	13.0629	13.0629	10.5382	0.0016					
	Unexplained	102	126.437	1.23957							
<i>Regression Table</i>	Coefficient	1.22829	Standard Error	0.33312	t-Value	3.6871	p-Value	0.0004	Confidence Interval 95%		
	Constant	1.22829	0.33312	3.6871	0.0004	0.56753	1.88905				
	Affordability of Short Term Insurance Products & Services	0.350683443	0.10802	3.2463	0.0016	0.13641	0.56495				

**Table 5.7 One Sample T-test on the affordability of microinsurance and its encouragement on usage**

N = 104				Hypothesized Mean = 3		95% Confidence Level		
Mean	Std Dev	Standard Error	Degrees of Freedom	t-Test Statistic	p-Value	Mean Difference	Lower Limit	Upper Limit
2.913	1.016	0.100	103	-0.8690	0.3868	0.087	2.716	3.111

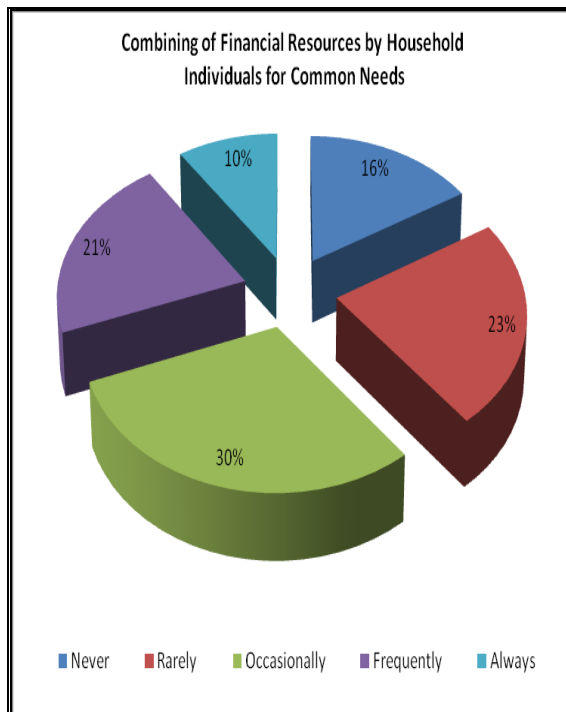
### 5.3 Collectivism

#### 5.3.1 Proposition Five

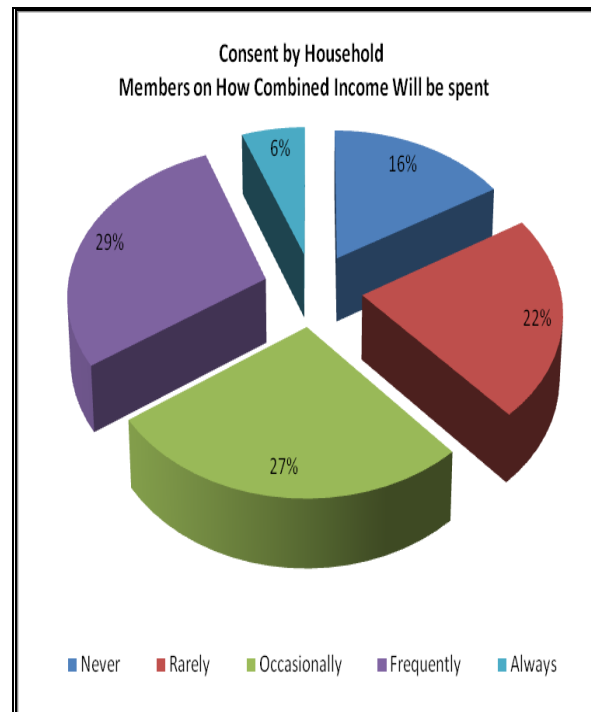
The target consumers for short term microinsurance practice collectivism and when making purchasing decisions the Chief Financial Decision Maker takes into account the potential benefits for the household.

The questionnaire presented to the respondents solicited responses relating to collectivism amongst low income consumers of short term insurance. A summary of the results collected during the survey has been incorporated below, these being labeled figures 5.21, 5.22 and 5.23. In terms of the selected sample 30% of the households indicated that they occasionally combined financial resources in order to meet common household needs. As much as 16% of the Chief Financial Decision Makers interviewed noted that individual financial resources were never combined towards common needs in their particular households. The results on the consensus provided by members of the household on how the combined income will be expended have been provided under figure 5.22 below. Further to the above all participants were questioned on the importance of them acting in the best interest of all household members, 46% responded that they frequently made decisions on this basis. The responses received from the balance of the participants have been furnished under figure 5.23.

**Figure 5.21 Combining financial resources for common household needs**



**Figure 5.22 Consent by household on combined income expenditure**



**Figure 5.23 Importance of Chief Financial Decision Maker acting in the best interest of all household members**

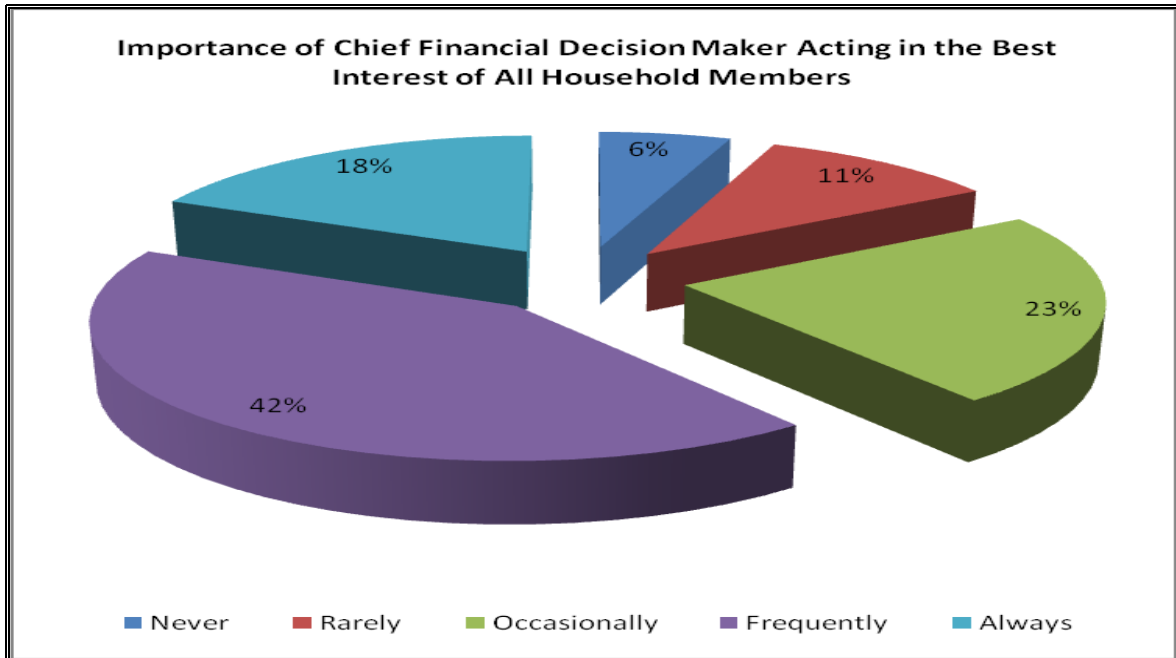


Table 5.8 below provides a summary of the one sample two tailed t-test undertaken on Proposition Five. The literature presented in Chapter Two indicated that collectivism is a characteristic of the South African Bottom of the Pyramid, this evidenced by the sample mean of 3.567 and p-value < 0.0001.

**Table 5.8 One Sample T-test on the importance of the Chief Financial Decision Maker making decision in the best interest of all household members**

N = 104				Hypothesized Mean = 3		95% Confidence Level		
Mean	Std Dev	Standard Error	Degrees of Freedom	t-Test Statistic	p-Value	Mean Difference	Lower Limit	Upper Limit
3.567	1.086	0.107	103	5.3266	<0.0001	0.567	3.356	3.779

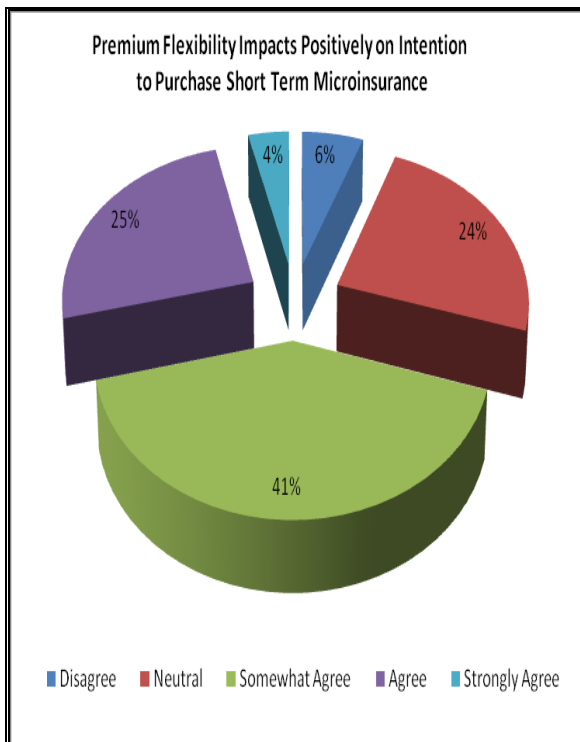
## 5.4 Short Term Microinsurance Demand

### 5.4.1 Proposition Six

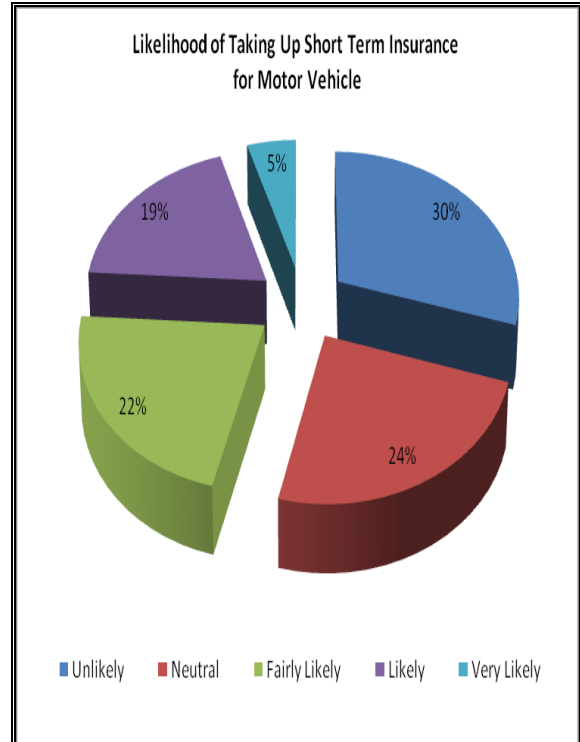
**The greater the level of premium flexibility the more likely it is that low income consumers will purchase short term microinsurance.**

Based on the responses received it was recorded that 41% of those interviewed somewhat agreed that premium flexibility impacts positively on the likelihood of low income consumers purchasing short term insurance. It is of interest to note that 24% of the sample remained neutral on the issue of premium flexibility. The comprehensive responses collated in respect of this question and the related aspects have been displayed under figures 5.24, 5.25, 5.26 and 5.27 below.

**Figure 5.24 Impact of premium flexibility on the purchasing of microinsurance**

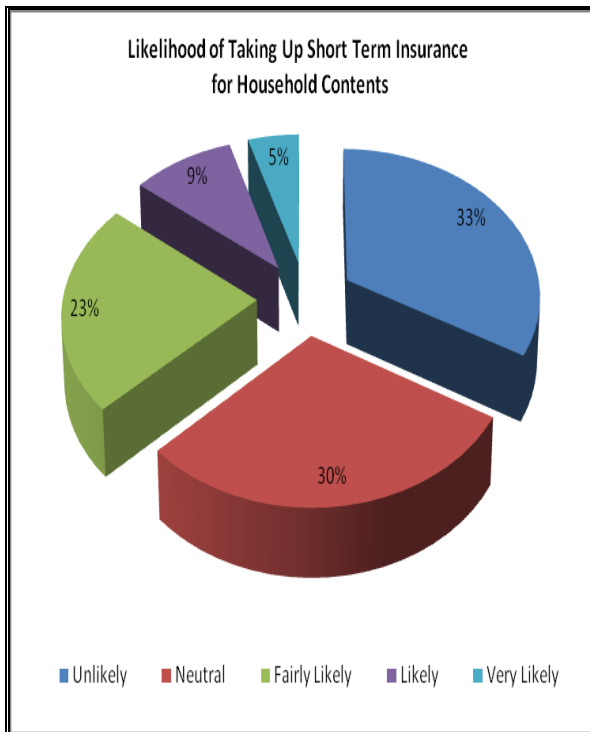


**Figure 5.25 Likelihood of taking up motor vehicle insurance**

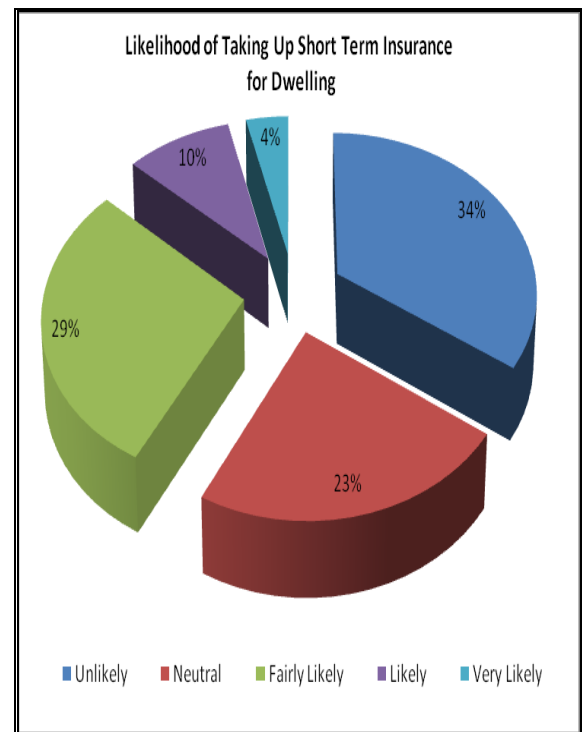




**Figure 5.26 Likelihood of taking up household contents insurance**

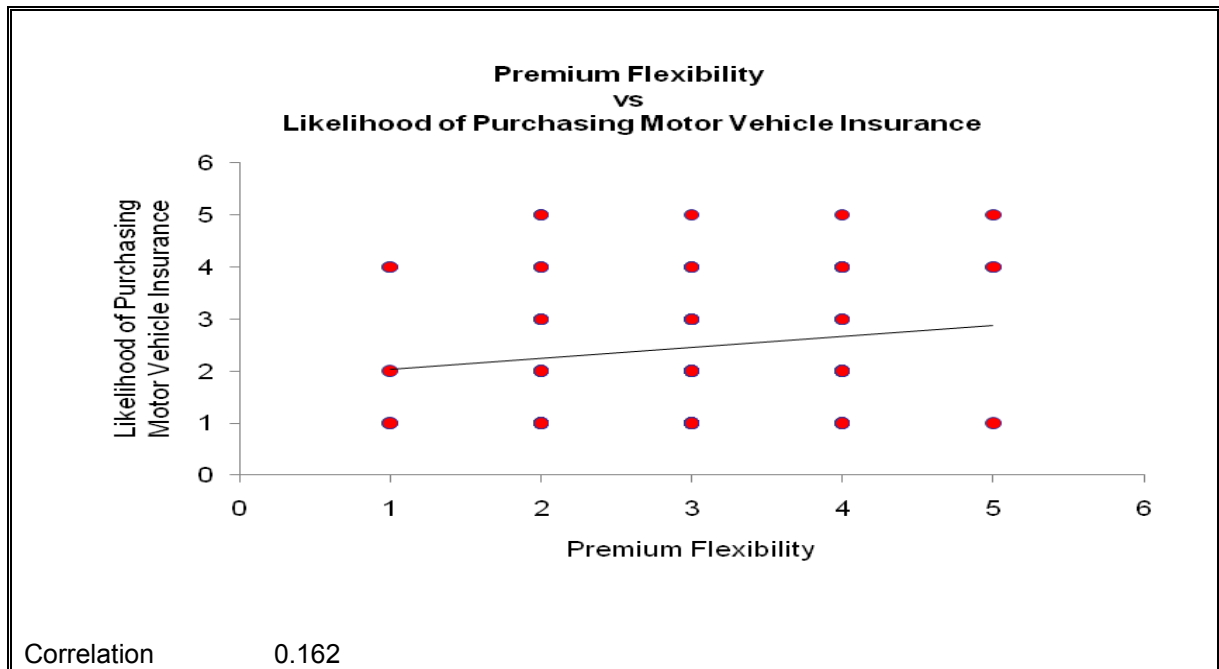


**Figure 5.27 Likelihood of taking up dwelling insurance**

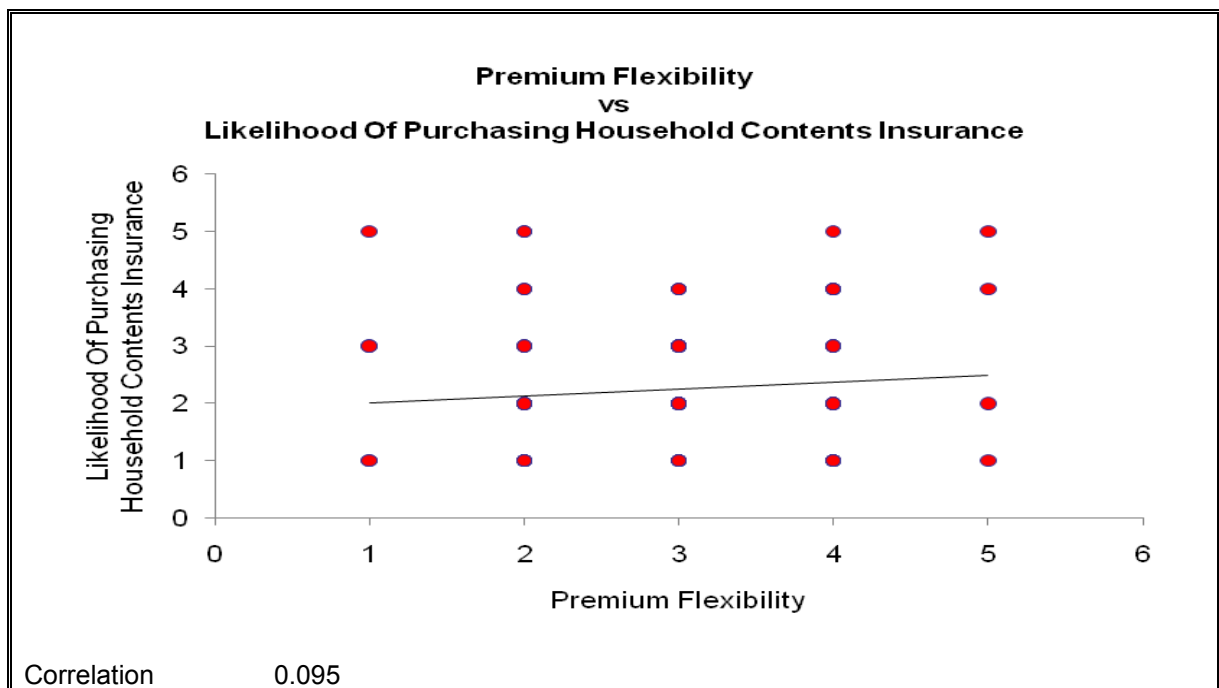


Enabling an understanding of the impact of premium flexibility on the likelihood of purchasing microinsurance correlation analysis was undertaken. The correlation exercise was carried out using premium flexibility and and likelihood of purchasing each of the insurance products under review. The results of the correlation analysis have been displayed as Figures 5.28, 5.29 and 5.30 below. There is clearly a positive relation between premium flexibility and the likelihood of purchasing motor vehicle insurance and household contents insurance, albeit not very strong. On the contrary there is a negative relationship between premium flexibility and dwelling insurance, once agin this is not significant. Based on the above results it does not appear that premium flebility impacts the likelihood of purchasing microinsurance o the extent initially anticipated.

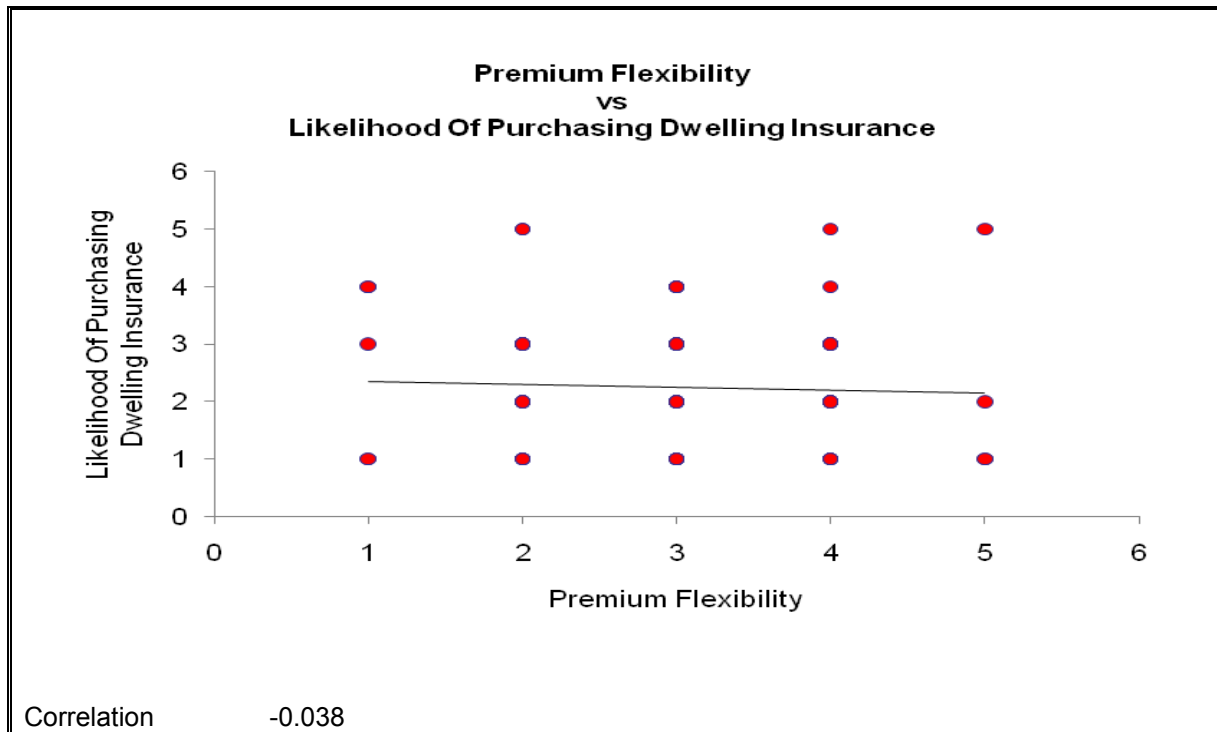
**Figure 5.28 Correlation results of premium flexibility and the likelihood of purchasing motor vehicle insurance**



**Figure 5.29 Correlation results of premium flexibility and the likelihood of purchasing household contents insurance**



**Figure 5.30 Correlation results of premium flexibility and the likelihood of purchasing dwelling insurance**



A one sample two tailed t-test was undertaken with the results thereof being summarised within Table 5.9 below. It is expected that premium flexibility has a role in determining the likelihood of purchasing microinsurance, the results obtained through the t-test concur this, with sample mean of 2.9712 and p-value of 0.7548.

**Table 5.9 One Sample T-test on premium flexibility impacting the likelihood of purchase short term microinsurance**

N = 104				Hypothesized Mean = 3		95% Confidence Level		
Mean	Std Dev	Standard Error	Degrees of Freedom	t-Test Statistic	p-Value	Mean Difference	Lower Limit	Upper Limit
2.971	0.939	0.0921	103	-0.3131	0.7548	0.029	2.7884	3.1539

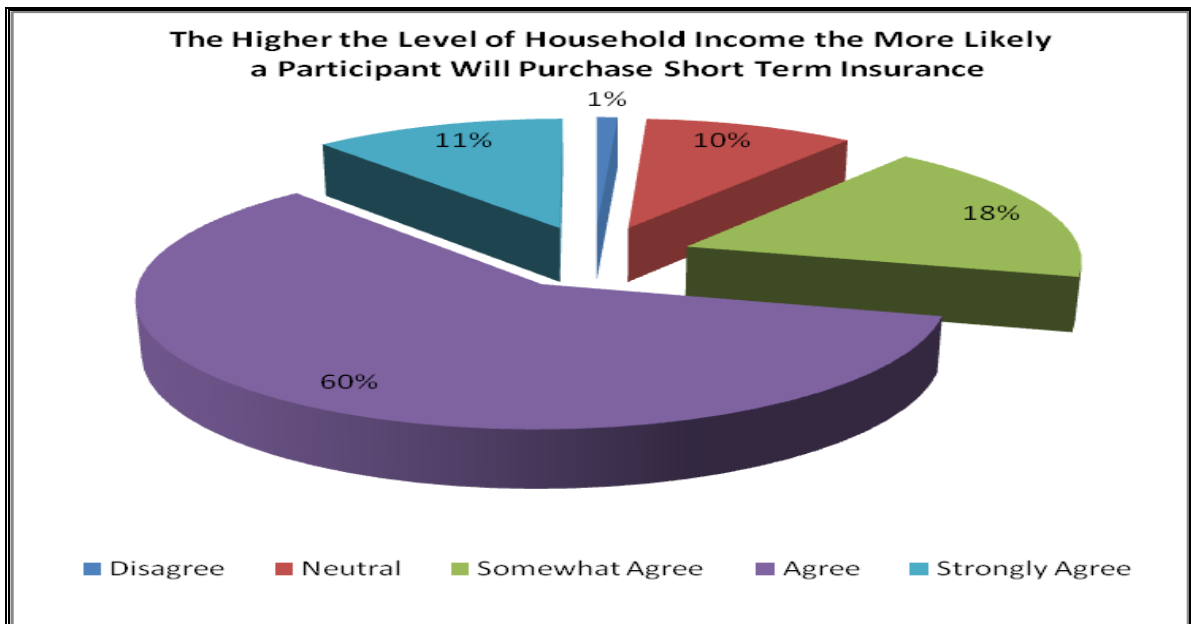
## 5.5 Household Income

### 5.5.1 Proposition Seven

**The higher the level of household income the more likely it is that consumers will purchase short term microinsurance.**

A considerable percentage (60%) of the sample surveyed agreed that the higher the level of household income the more likely it is that short term insurance would be purchased. The total responses obtained during the survey have been consolidated under figure 5.31 below. Details of the average monthly household incomes can reviewed under Appendix Five.

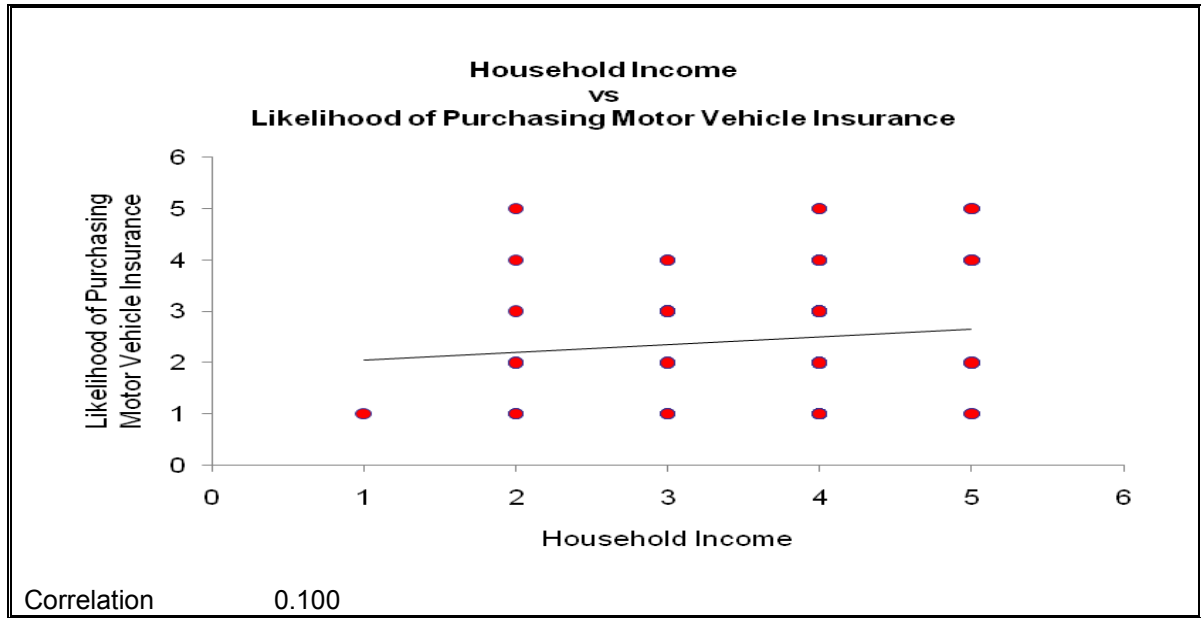
**Figure 5.31 Level of household income and likelihood of purchasing short term insurance**



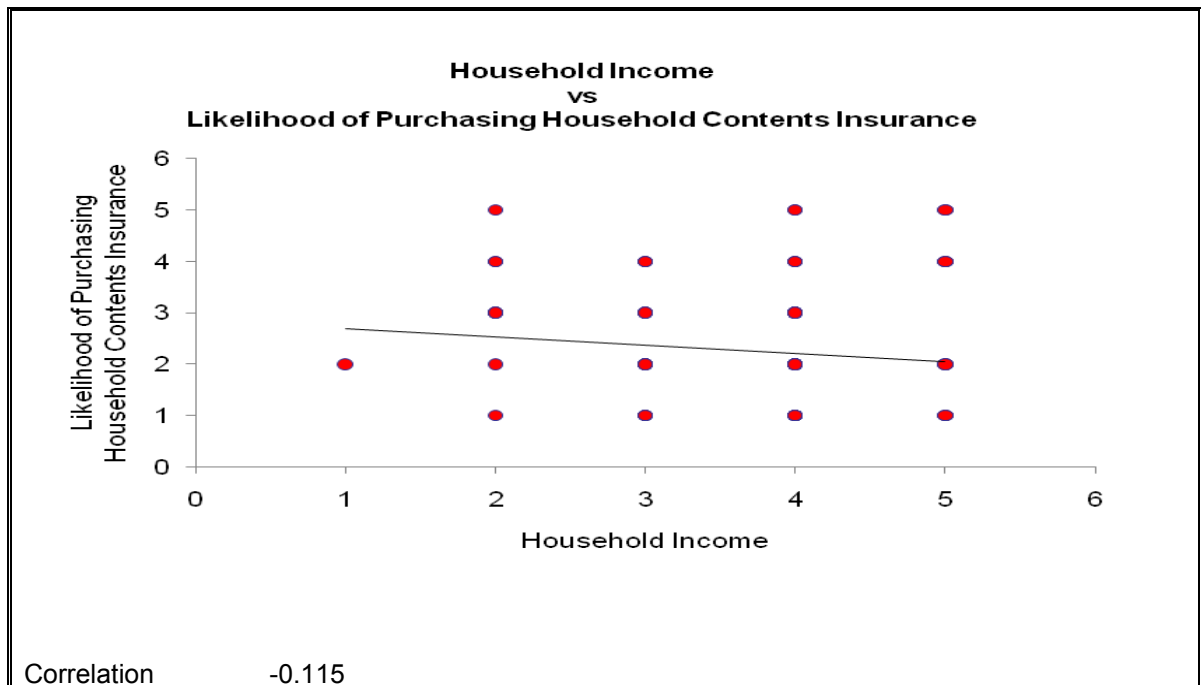
An evaluation of the relationship between average household income and the likelihood of purchasing short term microinsurance was undertaken using correlation. The resultant correlation coefficients have been disclosed under Figures 5.32, 5.33 and 5.34. The results indicate positive relationships between household income and the likelihood of purchasing motor vehicle insurance as well as dwelling insurance. It must however be noted that the

relationships established are weak. As far as household income and household contents insurance are concerned a negative relationship has been recorded.

**Figure 5.32 Correlation results of household income and the likelihood of purchasing motor vehicle insurance**



**Figure 5.33 Correlation results of household income and the likelihood of purchasing household contents insurance**



**Figure 5.34 Correlation results of household income and the likelihood of purchasing dwelling insurance**

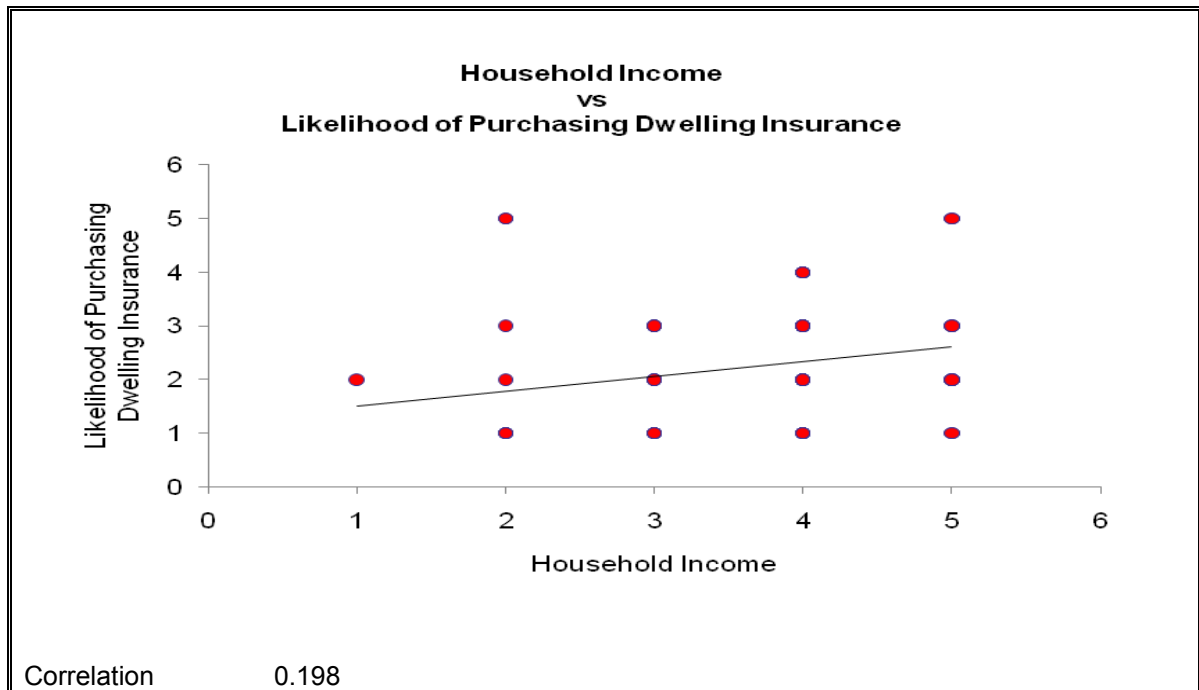


Table 5.10 below provides a summary of the one sample two tailed t-test undertaken on Proposition Seven. The results are agreeable with the fact that the higher the level of income the more likely it is that consumers will purchase microinsurance. This evidenced by the sample mean of 3.712 and p-value < 0.0001.

**Table 5.10 One Sample T-test on the level of household income and the likelihood of purchasing short term microinsurance**

N = 104				Hypothesized Mean = 3		95% Confidence Level		
Mean	Std Dev	Standard Error	Degrees of Freedom	t-Test Statistic	p-Value	Mean Difference	Lower Limit	Upper Limit
3.712	0.833	0.0816	103	8.7186	<0.0001	0.712	3.5497	3.8734

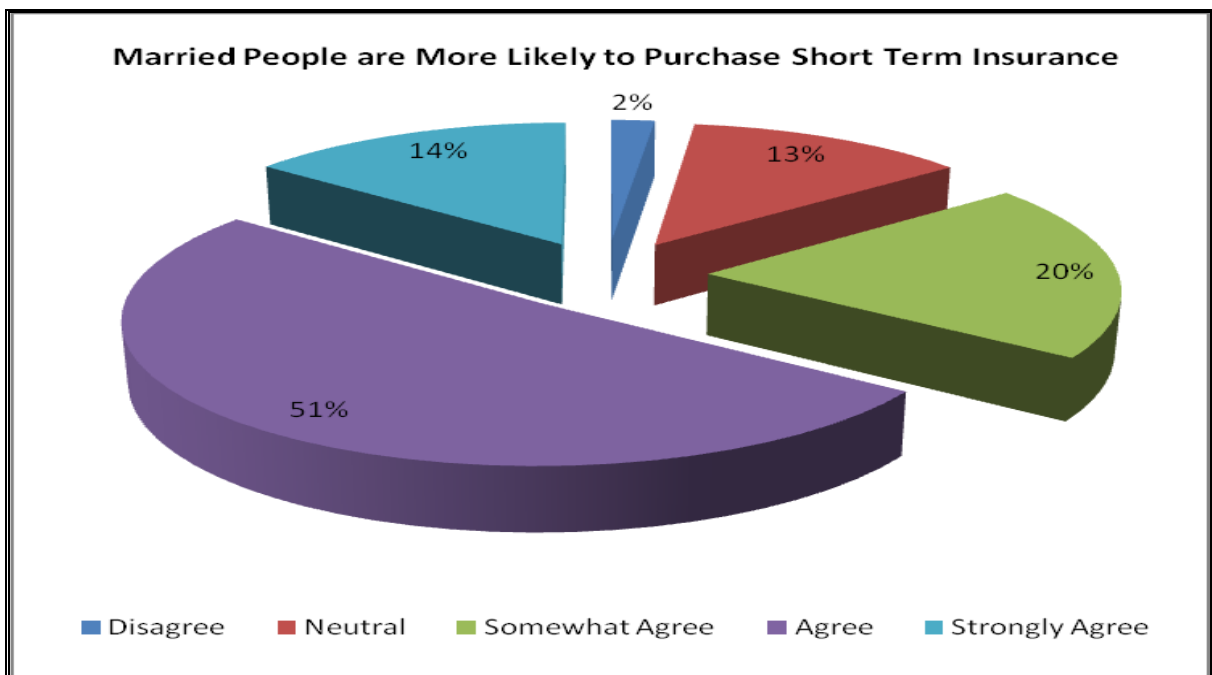
## 5.6 Marital Status

### 5.6.1 Proposition Eight

It is believed that marital status has an impact on the attitude and intention of low income consumers to purchase short term microinsurance; specifically married consumers are more likely to purchase short term microinsurance than single consumers.

The results aligned with the above proposition have been summarised under figure 5.37 below. More than half (51%) of the sample respondents agree that married people are more likely to purchase short term insurance.

**Figure 5.37 Impact of marital status and the purchasing of short term insurance**



A one sample two tailed t-test was processed with the results thereof being summarised under Table 5.11 below. The results of the t-test revealed that married low income consumers are indeed more likely to purchase short term microinsurance, this is evidenced by the notable sample mean of 3.635 as well as the p-value being < 0.0001.

**Table 5.11 One Sample T-test on the impact of marital status, specifically married consumers being more likely to purchase microinsurance**

N = 104				Hypothesized Mean = 3		95% Confidence Level		
Mean	Std Dev	Standard Error	Degrees of Freedom	t-Test Statistic	p-Value	Mean Difference	Lower Limit	Upper Limit
3.635	0.946	0.0927	103	6.8435	< 0.0001	0.635	3.4507	3.8185

## 5.7 Conclusion

The data collected through the survey as summarised above provides for interesting insight and hence creates an appropriate platform for discussion and in depth analysis of the results. Accordingly the discussion of results forms the basis of Chapter Six.



## CHAPTER 6: DISCUSSION OF RESULTS

The objective of this chapter is to discuss the findings presented in Chapter Five, with the discussion taking into consideration the literature presented in Chapter Two along with the subsequent propositions developed there from and presented in Chapter Three. The results will be discussed in accordance with each of the propositions presented for consideration.

### **6.1 Awareness of short term microinsurance products and services by low income consumers creates an intention for them to participate in this sector.**

The results obtained in respect of the above proposition indicate that there is a positive relationship between awareness and the intention to purchase the different types of microinsurance forming the basis of this research. This is evidenced by the correlation coefficients obtained in figures 5.10, 5.11 and 5.12, which were obtained using the likelihood of purchasing insurance assuming intention had already been established. Surprisingly there is almost a perfect correlation between awareness and dwelling insurance, this may be aligned to the fact that a dwelling is considered a fixed asset which appreciates in value over a period of time and consumers will take up the necessary means, including insurance, to ensure that their investment is safeguarded. The correlation result in respect of dwelling insurance is further supported by regression analysis which points to the fact that 95% of the variation in the intention to purchase dwelling insurance can be explained through awareness.

Anderson and Billou (2007) emphasize the importance of awareness whilst also cautioning against the challenges associated with the Bottom of the Pyramid including lack of access to conventional media. Unfortunately the survey undertaken did not extend to include a measure of the types of media that are available in East Bank, Alexandra, this would have provided an indication of potential awareness platforms which can be used to highlight microinsurance. Based on the LSM variables as well as the basic level of education recorded it would however be deemed prudent to assume that different media types are available and that these could be satisfactorily understood by those surveyed. The sample mean of 2.8942 demonstrates that awareness in terms of microinsurance is not at the desired level. The above noted and in fairness to microinsurance organisations it must be reiterated that the industry is currently undergoing significant regulation review making it difficult to create awareness whilst in a phase of uncertainty. The ongoing debate between

the Department of National Treasury and industry as contributed to by Vivian (2012), Momoniat (2012) and Cranston (2012) is a clear demonstration of why awareness has not been at the forefront of microinsurance.

The Theory of Planned Behaviour developed by Ajzen and Fishbein (1969) is clear on the fact that “a person’s behavioural intention is a product of attitude towards the act”, without being aware a person cannot develop an attitude towards a particular issue and hence the importance of awareness (Omar & Owusu-Frimpong, 2007, p. 966). Awareness is an imperative towards enhancing the intention of low income consumers to participate in the insurance sector. Importantly there are also implications for the broader society as speedy resolution to the required legislative framework is necessary enabling institutions to create the desired awareness. The evidence collected is therefore in support of Proposition One.

## **6.2 Access to basic financial services places low income consumers in a better financial position.**

In terms of the results obtained for Proposition Two only 10% of the participants surveyed disagreed that access to financial services had placed them in a better financial position, with 14% of the sample recording a neutral response. This means that the balance of the participants, this being 76%, believed that access to financial services had made a difference to their lives in terms of financial positioning. For ease of reference these results can be reviewed under Figure 5.14.

One of the issues brought to the fore by Bihari (2011) is the fact that low income consumers are not able to borrow against potential future earnings as a result of financial exclusion. Mendoza and Vick (2010) further indicate that the appropriate use of borrowings facilitates investment in future sustaining activities enabling the uplifting of the poor from poverty. It is interesting to note that 88% of those surveyed have access to cheque or savings accounts; this means that they have a safe and secure environment in which their finances are maintained including a point in which earnings, where applicable, are deposited. A bank account also enables the saving of funds in respect of future activities, including unexpected disasters.

It is interesting to note that 37% of those surveyed currently make use of credit cards, with this figure anticipated to grow to 52%. This is a signal of the low income consumers looking to utilise borrowings in the form of credit for future sustaining activities. The survey undertaken did not extend to interrogate reasons behind the anticipated increase in credit card usage; undoubtedly this would have been useful information. Similarly questions relating to how access to financial services had placed those interviewed in a better financial position would have added further insight to the research.

Overall the data collected supports Proposition Two; this means that increased access to financial services, including microinsurance, will place low income consumers in a better financial position. Bearing in mind the impact that access to financial services has, as outlined above, it is once again important to ensure that low income consumers have the intention and exhibit behaviour to participate in this sector. An additional benefit of broadening access to financial services is that low income consumers, with time, will begin to have comfort in engaging with formalised financial services, this being one of the barriers identified by Bihari (2011). With time there will also be acceptability of financial services, including microinsurance, acceptability being one of the key issues in terms of poverty alleviation according to Anderson and Billou (2007).

### **6.3 Short term microinsurance products and services are readily available to low income consumers.**

The results obtained in respect of Proposition Three, on face value, seem to indicate that low income consumers consider short term microinsurance products and services to be readily available. In terms of the information presented in Figure 5.15 a notable percentage of participants (61%) have recorded responses in the somewhat agree to strongly agree categories of the Likert Scale. On closer inspection however it can be observed that only 20% agree and 3% strongly agree with the proposition being reviewed. A statistical analysis reveals a mean of 2.789 against a hypothesized mean of 3 and a relatively low p-value as indicated in Table 5.6.

Anderson and Billou (2007) indicate that availability is an indication of the extent to which consumers are readily able to acquire and make use of a product or service. As already highlighted microinsurance is an area currently under review and hence it cannot be

expected that an array of products would be easy to acquire at this point in time. In their current form insurance products targeted at low income consumers are also considered inadequate for this specific market, as per the National Treasury Department consumers need to understand what exactly it is that they are covered for (Momoniat, 2012, p. 16).

The above noted, an important element of Anderson and Billou's (2007) literature is the reference to a consumer's ability to use the product acquired. At the time of acquisition a consumer considered the Bottom of the Pyramid purchases an intangible product as far as microinsurance is concerned, the benefit of which may or may not be realised at a future date. Bearing in mind the consumer need to simplify decision making as pointed out by Rubinson (2009), the consumers' decision comes down to purchasing a product that will secure immediate survival such as food or alternatively a product whose use will be enjoyed in the future depending on the occurrence of a defined event. Based on the literature reviewed thus far a low income consumer will undoubtedly elect immediate survival, this being an issue reflected by Pressman (2006).

The exchange of monetary value needs to result in immediate benefits for a Bottom of the Pyramid consumer this being aligned to their primary objective of survival. The fact that low income consumers are unlikely to use microinsurance immediately following the purchase thereof means that products are not readily available in their context. In addition it must be noted that the lack of readily available microinsurance products is a missed opportunity, this impacts behaviour as no intention is created to make such a purchase. The proposition that short term microinsurance products and services are readily available to low income consumers is thus not supported.

#### **6.4 Affordable short term microinsurance products and services are delivered such that current costs encourage usage even by the poorest consumers.**

Survey results per Figure 5.16 indicate that 28% of the respondents agreed that short term microinsurance is affordable, with a further 3% in turn strongly agreeing with the proposition at hand. This means that only 31% of those surveyed are of the firm opinion that microinsurance is delivered at an affordable cost, leaving an overwhelming 69% unconvinced. The sample mean difference was calculated at 0.087 per Table 5.7; whilst this

may not seem significant the p-value of 0.3868 provided strong evidence that short term microinsurance is not considered affordable by low income consumers.

Closely aligned with affordability is usage, the participants were requested to confirm insurance products that they currently make use of as well as those that they intend using in the near future, these have been recorded under Appendix Four. The survey regrettably did not extend to include a rating in the form of a Likert Scale on the products actually under usage as this would have enabled a direct comparison between present usage and affordability. That said the survey did measure the likelihood of usage which aligns with intention and using this data the relationship was then measured.

In terms of the three microinsurance products reviewed none of them displayed a strong relationship with affordability, with the largest correlation recorded being 0.306 in respect of household contents insurance. There may be a number of reasons behind this, including the fact that it is possible that a number of participants purchase their household contents on credit through furniture retailers who in terms of the National Credit regulations are required to practice responsible lending driven by consumer affordability. The retailers also take on the responsibility of arranging insurance on behalf of their customers where agreed. A review and collection of data on household insurance provided by retailers would have been useful taking into consideration the above point of view. Further analysis on household contents insurance also revealed that as much as 9% of the variation in usage can be attributed to affordability.

Ultimately Kar (2007) identified premium affordability as a key component of microinsurance; the poor must be presented with products that enable regular remittance of premiums to insurers. At the same time insurers must receive sufficient premiums enabling capitalisation of their operations and long term sustainability. As can be seen there is a fine balance between providing the appropriate product and securing the required financial returns. Anderson and Billou (2012) also point out that companies need deliver products and services at a price that enables consumption by low income consumers when transacting at the Bottom of the Pyramid. At the present moment the low income consumers interviewed do not consider the products being delivered to be affordable. In the broader context the provision of affordable products is also a step towards financial inclusion as identified by Bihari (2011). All the above considered there is no evidence in support of Proposition Four, affordable insurance products and services are not be delivered, this in

turn discourages usage as well as any intention that a consumer may have had as far as microinsurance is concerned.

### **6.5 The target consumers for short term microinsurance practice collectivism and when making purchasing decisions the Chief Financial Decision Maker takes into account the potential benefits for the household.**

Prior to inquiring with the Chief Financial Decision Maker on the importance of making decisions which are in the best interest of all household members the participants were requested to rate the extent to which financial resources are combined towards common needs. The responses recorded were skewed towards the non combining of resources as per Figure 5.21. Whilst it is anticipated that low income consumers will combine resources the data collected and summarised in Figure 5.21 indicates otherwise. The data collected thus points to the fact that low income households do not necessarily conform to all practices expected to form part of collectivism.

The intention towards collectivism is however different amongst low income consumers when compared to the practice outlined above. When requested to respond on the importance of the Chief Financial Decision Maker acting in the best interest of all household members a notable percentage of the participants showed recognition towards this factor. As much as 60% of the sample recorded that the best interest must be observed frequently (42%) and always (18%). The statistical analysis undertaken on the above question also resulted in a mean of 3.567 and a p-value < 0.0001, making this a significant finding.

Chipp and Corder (2009) make reference to the fact that collectivism prioritises the household as opposed to the individual; this is clearly the intention as far as decision making is concerned amongst the low income consumers surveyed. Whilst decisions made within the household extend beyond financial matters it would have been worthwhile probing how it is that the participants surveyed occasionally and rarely combine financial resources and yet they have managed to institutionalise and are intent on pursuing the principle and behaviour associated with collectivism. A potential explanation on how collectivism has worked to date is possibly provided by Douglas and Douglas (2008) who recognise the role of experience as part of the process of households managing the consequences of poverty. As a matter of interest the participants surveyed were found to

be mainly in the age groups of 35 to 49 as well as 50 and above, with these participants making up 54% of the sample. The spread of the age categories can be observed under Appendix Three, and specifically within Table 5.1. Hamilton (2009) adds input into the discussion of collectivism by identifying that low income households ensure the success of collectivism partly through the appointment of a dedicated individual empowered to make decisions on behalf of the household, this was found to be evident as per the identification of Chief Financial Decision Makers who participated in the survey forming the basis of this research. In conclusion the results obtained demonstrate support for Proposition Five meaning collectivism is a recognised and established practice by low income consumers.

#### **6.6 The greater the level of premium flexibility the more likely it is that low income consumers will purchase short term microinsurance.**

The general result obtained in respect of Proposition Six per Figure 5.24 indicates that most of the low income consumers surveyed somewhat agreed that premium flexibility plays a role in the purchasing of microinsurance, with 41% of the respondents recording this rating. Whilst 24% of the sample agreed that premium flexibility impacts positively towards the uptake of insurance only 25% agreed with Proposition Six. This can be interpreted to mean that the low income consumers interviewed were not entirely convinced on the role that premium flexibility can play towards encouraging demand for microinsurance. For ease of reference the likely future demand for the different types of microinsurance can be reviewed under Figures 5.25, 5.26 and 5.27.

The relationship between premium flexibility and the different types of microinsurance under evaluation was also explored. Positive correlations were recorded in respect of premium flexibility and motor vehicle insurance, as well household contents insurance. The relationships established were however not very significant as per the correlation coefficients reflected on Figures 5.28 and 5.29. The correlation exercise in respect of dwelling insurance and premium flexibility was however negative per Figure 5.30. In view of the above results it is important to attempt to unpack the outcome of each microinsurance product. Undoubtedly consumers would appreciate flexibility around their motor vehicle insurance premiums; this could follow a similar process to a vehicle installment holiday whereby financial institutions grant an option to vehicle owners not to remit their monthly installment during December or January. A similar process could be followed in respect of household contents insurance. Statistics relating to premium



holidays on vehicles would have served for interesting observation, specifically the extent to which these are utilised by those that purchase vehicles under finance agreements. The correlation result in respect of dwelling insurance is quite intriguing; this implies that as premium flexibility reduces then the likelihood of purchasing dwelling insurance increases in certain instances. This unexpected result may potentially be explained through the fact too much product flexibility may sometimes impair product credibility as customers begin to ask themselves if this is too good to be true. Another potential explanation is that consumers have over a period of time internalised premiums as fixed monthly transaction, this behaviour is embedded in their thinking towards insurance.

Akotey et al. (2011) identify premium flexibility as one of the key demand determinants of microinsurance, whilst this is also supported by Lee et al. (2010) the data collected necessitates further debate of this issue. In other words the introduction of premium flexibility into microinsurance products needs to be carefully considered. Ideally flexibility needs to attach to microinsurance products as a form of reward, as identified by Kar (2007) insurance contracts need to afford individuals that practice and demonstrate risk reducing behaviour some form of reward. In line with the literature presented by Anderson and Billou (2007) products offered to low income consumers must gain acceptability in order to be successful, microinsurance is no different, and with acceptability will come credibility. Whilst there is evidence in support of Proposition Six this does reflect as strongly as initially anticipated. Firstly microinsurance must gain trust of low income consumers and secondly once customers are comfortable with the product their behaviour can then integrate and be influenced towards product features including premium flexibility.

#### **6.7 The higher the level of household income the more likely it is that consumers will purchase short term microinsurance.**

An overwhelming 60% of the participants agreed with the fact that a higher level of income makes it more likely that consumers will purchase microinsurance. A further 11% strongly agreed with Proposition Seven. Correlation exercises were undertaken in respect of the microinsurance products outlined in this research. Positive correlation coefficients were produced in respect of motor vehicle insurance as well as dwelling insurance; these results can be reviewed under Figures 5.32 and 5.34. These results are expected, as consumers



earn more income they are likely to begin acquiring higher valued assets, including vehicles and houses, and hence the likely increase in the demand for insurance products associated with these particular assets. The above noted, a negative correlation was observed in respect of household income and household contents insurance, for ease of reference this is reflected under Figure 5.33. A possible explanation to this is aligned to the fact that consumers at the Bottom of the Pyramid are unlikely to acquire further household contents once they achieve a certain level of income as their focus shifts to higher valued assets as indicated above. Essentially this results in reduced demand for household contents insurance in line with reduced demand for household products. Further testimony of the impact of household income on the likelihood of purchasing microinsurance products was provided through statistics which returned a sample mean of 3.712 and a p-value < 0.0001.

Amongst the determinants of microinsurance demand identified by Akotey et al. (2011) is the level of household income; this was also concurred by Lee et al. (2010). In view of the data collected there is support for Proposition Seven, with this being aligned to the available literature.

**6.8 It is believed that marital status has an impact on the attitude and intention of low income consumers to purchase short term microinsurance; specifically married consumers are more likely to purchase short term microinsurance than single consumers.**

More than half (51%) of the survey participants indicated that they agreed with the proposition that married consumers are more likely to purchase microinsurance, with a further 14% strongly agreeing with the same proposition. A statistical analysis resulted in a sample mean of 3.635 and a p-value < 0.0001, this being further attestation of the acceptability of Proposition Eight.

Hamilton (2009) recognises the role of a partner in contributing to decision making, whilst he does specifically identify what this is he confirms that it has an impact. It is likely that the two minds involved in decision making with married couples provide increased focus on potential products, in other words the increased time spent considering a product improves the chances of its acceptability. Akotey et al. (2011) on the other specifically

identifies marital status as a demand determinant of microinsurance. In light of this information part of the strategy to increase microinsurance demand should focus on married couples as they are more likely than single consumers to take up microinsurance. It would have been an interesting exercise to collect data on the impact of marriage on each category of insurance available and included in this research, this would have pinpointed insurance covers that are most desired by married couples. Based on the data collected there is significant support for Proposition Eight.

## **6.9 Conclusion**

The discussion of results has provided support in respect of most of the propositions presented for consideration, with these being aligned to the theory outlined in the earlier chapters. It must also be stated that there were two propositions which were not supported, however these be taken against the prevailing microinsurance environment in South Africa. Importantly, the propositions identified have significant relevance and influence to the topic of intention and behaviour, if South Africa is to successfully launch microinsurance within the Bottom of the Pyramid then the areas identified above must be synchronised enabling delivery of a unique and appropriate solution supported by enabling legislation.

## **CHAPTER 7: CONCLUSION**

In the concluding chapter the objective is to bring together all the elements discussed in the previous chapters. This will enable the key findings to be highlighted, this being useful to microinsurance stakeholders. Furthermore this chapter also presents an opportunity to provide recommendations for future research.

### **7.1 Key Findings**

#### **7.1.1 Impact of Microinsurance Regulation**

Microinsurance is an area within financial services that is currently under development, this being a global phenomenon. In South Africa this process is being championed by the Department of National Treasury in consultation with various stakeholders, but mainly potential and existing product providers. It would appear that the establishment of an appropriate regulation framework is however taking time to finalise and in turn low income consumers situated at the Bottom of the Pyramid are the ones being impacted by the slow pace of development.

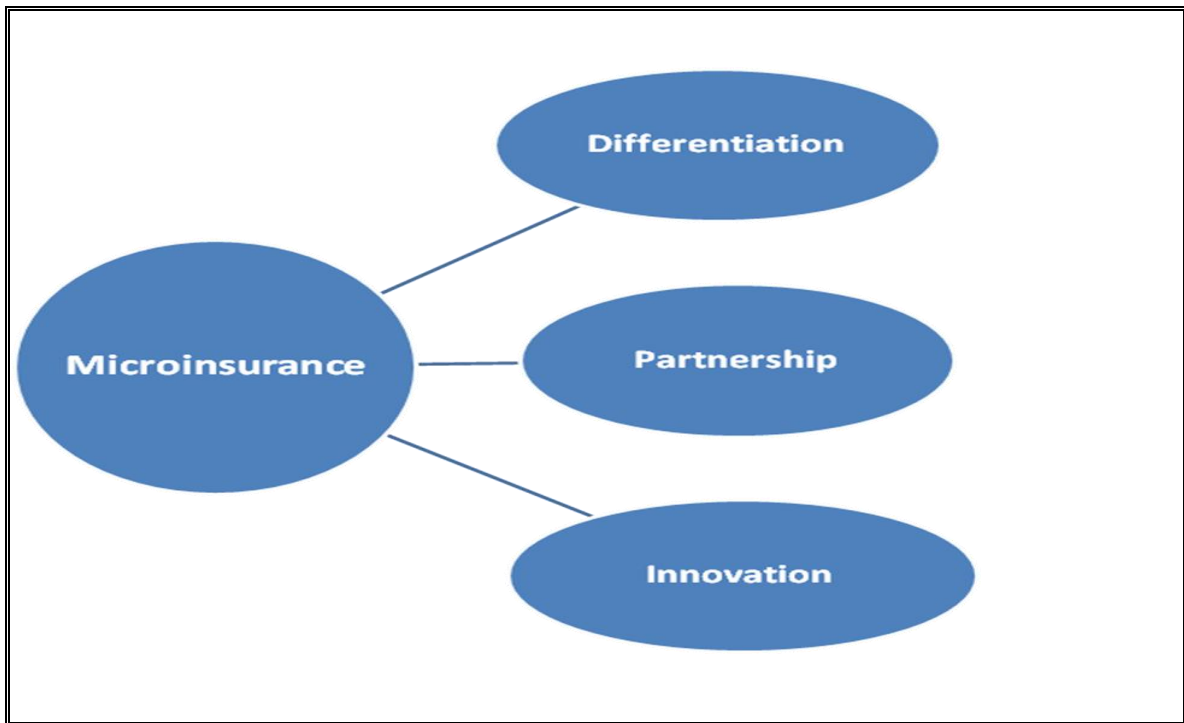
Looking at the results obtained through the research it is clear that short term microinsurance products are not readily available; this has emanated from the lack of established regulation which would enable investor confidence and investment in this sector of financial services. The prevailing uncertainty has stagnated the development of microinsurance products as providers await conclusion of this important aspect. Ultimately regulators and industry need reach consensus on the way forward, this needs to occur soonest bearing in mind the Bottom of the Pyramid consumer still needs to adapt and evolve their behaviour towards accepting microinsurance.

In addition to product development the regulators need to take cognisance of the fact that until industry is provided with an enabling framework they will not be in a position to return affordable products to low income consumers. This means that there is a reluctance to invest in innovation at the present moment due to the uncertainty around intended legislation. This was one the findings of the research, affordable short term microinsurance products and services are not being delivered to low income consumers.

### 7.1.2 Insurance Industry Reengineering

The insurance industry has been provided with a positive outlook as indicated within this report; however it is also a mature industry in much need of revitalisation to achieve the desired growth. The reengineering of the industry through frugal engineering can take a number of forms, with one of these being product development. Microinsurance is abundance with opportunity for product development, the low income consumer in pursuit of a better life is willing to explore means that will enable economic development and growth, making this market an ideal target. Ultimately microinsurance will require all stakeholders to keep the end goal in mind, this being the development of a differentiated product created through innovation and partnership. This is best encapsulated in Figure 7.1 below, adopted from Meyer and Vazirani (2012), which serves to identify the convergence point critical to the success of microinsurance.

**Figure 7.1 Key determinants of microinsurance success**



### 7.1.3 Low Income Consumer Insight

The research revealed and confirmed a number of issues relating to consumers associated with the Bottom of the Pyramid. It was noted that the low income consumer practices collectivism, however it was also discovered that not all expected characteristics of collectivism were present. The participants surveyed as an example do not consider the

combining of financial resources as key yet the Chief Financial Decision Maker is still able to make decisions within the realm of collectivism by acknowledging that acting in the best interest of all household members is a key responsibility.

In order to increase the demand for microinsurance adequate awareness must be created around the available products, the literature highlighted the importance of awareness in low income markets and this was further confirmed through the survey undertaken. Having dealt with awareness it is also important to recognise the role played by access to financial services, in effect there is no gain in creating awareness in respect of a sector where the poor are unable to gain access. Once again the information collected along with the literature highlighted these specific areas.

The literature reviewed propelled premium flexibility as a key demand determinant of microinsurance, whilst this may be the case serious consideration must be given to the potential implications for the consumer in that they may question the credibility of the product as the culture of fixed premiums has been imbedded over an extensive period of time. Premium flexibility is certainly an innovative process which must be introduced as a form of reward in order to provide justification of its existence to the low income consumer. Another area of discovery related to household income, whilst it is generally accepted that income drives issues such as affordability it is important to measure the consequences of income levels against specific microinsurance products as the outcomes differ and not generalise across all products. Finally, the literature supported by the research findings confirmed the importance of marriage and product usage. Married couples are more likely to purchase microinsurance, accordingly the delivery of future products must take this into consideration when developing the marketing strategy.

#### **7.1.4 Consumer Behaviour**

All things considered the ultimate challenge facing the development of microinsurance is managing and changing consumer behaviour towards the acceptance of microinsurance as poverty alleviation tool. Regulators can develop legislation suitable with industry requirements and product developers can be innovative in deriving solutions suitable to the Bottom of the Pyramid as far as microinsurance is concerned however until all are able to have a detailed understanding of consumer behaviour it is unlikely microinsurance will have the desired impact.

To begin with there must be an understanding of low income consumers' beliefs on the consequences of not having microinsurance. By means of an example in South Africa the Bottom of the Pyramid is clear on the implications of death and securing a dignified burial, this is demonstrated by the uptake of funeral cover and significant participation in burial societies. At the present moment low income consumers understand the potential effects of a disaster such as a storm, crashing a vehicle or losing household contents, however this is not translated into financial implications that the consumer will have to bear following the disaster. In a similar manner that the impact of death has been engraved on consumers the impact of risks associated with microinsurance must receive the appropriate recognition.

Having understood the consumers' beliefs the next step is to evaluate their understanding of the consequences of a particular risk. In a number of cases the authorities often step in to declare an area a disaster, this is followed by various forms of assistance including clothing, food, blankets and the like. As noted in the report only a small portion of funds intended for rescue efforts do in fact reach the intended beneficiaries. This has serious consequences in that the low income consumer will never fully recover all that has been lost following an incident. In their focus on day to day survival low income consumers remain clouded in terms of their ability to associate lack of microinsurance with long term consequences and stagnant economic development. The consequences of having to rebuild a house, repurchase a vehicle are significant and these need to be demonstrated to low income consumers.

Consumers also subscribe to normative beliefs as pointed out by Omar and Owusu-Frimpong, this means that societal intervention is required to ensure that the behaviour observed and adopted by low income consumers is what is in fact desirable. Microinsurance has not been broadly adopted by society and hence when individual consumers make decisions on insuring they find it acceptable not to have insurance as this is a societal norm. A potential solution to this issue is the introduction of familiar institutions similar to burial societies which can be trusted and adopted however focusing on microinsurance. This highlights the importance of partnership, it does not end with product development but should be utilised to influence societal beliefs as well. Utilising structures familiar to the Bottom of the Pyramid also impacts the adoption rate of microinsurance whilst at the same time allowing the poor the opportunity to participate in income generation as opposed to purely providing them with a product. A section of the literature advocates the generation of income for the poor as opposed to restricting transactions to selling to them.

Finally there must be an understanding of what will motivate low income consumers to take up microinsurance. This can be imbedded in the actual product by rewarding good risk customers as already indicated within the report. An understanding of the above factors is what will ultimately drive behavioural change towards the acceptance of microinsurance. The evidence reviewed to date indicates the potential impact of microinsurance on economic development and subsequently economic growth and hence the importance of altering intention and behaviour towards microinsurance.

## **7.2 Potential Future Research**

Taking into consideration that microinsurance is still in a developed phase means that there should significant scope for future research within this niche area of financial services. A key impediment identified above was regulation, it would be interesting to ascertain and evaluate the cost of delayed regulation, in this regard consideration would need to be given to the acceptable period in which to finalise a legislative framework. Once this period has been exceeded what is the cost of this, monetary or otherwise, to the broader society.

In addition to the above collectivism is recognised as an important aspect within the Bottom of the Pyramid. Whilst the Bottom of the Pyramid has been identified and somewhat defined there is room for in depth analysis of how it actually functions, specifically within the South African context. This would include reviewing the elements that make up the characteristics of the collectivism and how they combine enabling decision making in the interest of all household members or society if more appropriate.

## **7.3 Conclusion**

Microinsurance is critical to poverty alleviation in South Africa and for this to be recognised time must be invested towards behavioural change amongst low income consumers. The responsibility of evolving behavior lies with all stake holders as the continued lack of microinsurance has implications for all. The state is required to keep funding losses as opposed to better utilising resources, the private sector misses out on an opportunity grow financial services and the low income consumer remains caught in a cycle of poverty. The effect of microinsurance and the requirements to ensuring its success have been captured in Figure 7.2 below.

Figure 7.2 Elements associated with successful microinsurance





## REFERENCES

- Akter, S., (2012). The role of microinsurance as a safety net against environmental risks in Bangladesh. *The Journal of Environment and Development*, 21(2), 263-280. doi: 10.1177/1070496512442505
- Albright, S., Winston, W., & Zappe, J. (2009). *Data analysis and decision making with Microsoft excel* (p. 573). Mason, United States of America: South Western Cengage Learning
- Ajzen, I., & Fishbein, M. (1969). The prediction of behavioral intentions in a choice situation. *Journal of Experimental Social Psychology*, 5(4), 400-416. Retrieved from <http://people.umass.edu/aizen/pubstxt.html>
- Ajzen, I. (2012). The theory of planned behaviour. *Handbook of Theories of Social Psychology* (pp. 438-459). London, United Kingdom: Sage. Retrieved from <http://people.umass.edu/aizen/pubstxt.html>
- Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes*, 50, 179-211.
- Akotey, O., Osei, K. & Gemegah, K. (2011). The demand for microinsurance in Ghana. *Journal of Risk Finance*, 12(3), 182-194. doi 10.1108/15265941111136932
- Anderson, J., & Billou, N. (2007). Serving the world's poor: Innovation at the base of the economic pyramid. *Journal of Business Strategy*, 28(2), 14-21. doi:10.1108102756660710732611
- Annan, K. (2005, November). *International year of microcredit 2005*. Retrieved from [http://www.yearofmicrocredit.org/pages/whyayear/whyayear\\_quotecollection.asp#kofianna](http://www.yearofmicrocredit.org/pages/whyayear/whyayear_quotecollection.asp#kofianna)
- Bihari, S. C. (2011). Financial inclusion for Indian scene. *SCMS Journal of Indian Management*, 8(3), 5-16. Retrieved from

<http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=70062004&site=ehost-live&scope=site>

Carlson, B. D., & White, M. A. (2008). Enhancing stimulus integration in a consumer information processing system: A theoretical foundation. *Marketing Management Journal*, 18(2), 154-167. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=36403591&site=ehost-live&scope=site>

Cather, D. A. (2010). A gentle introduction to risk aversion and utility theory. *Risk Management & Insurance Review*, 13(1), 127-145. doi:10.1111/j.1540-6296.2009.01173.x

Chamberlain, D., Chelwa, G., Ncube, S., & Smit, H. (2011). Insurance products standards to reach low-income consumers in South Africa: Help or hindrance? A review of the experience of Mzansi and Zimele insurance product standards. (Research Report No. 8). Retrieved from [http://www.cenfri.org/documents/microinsurance/2011/Review%20of%20Mzansi%20and%20Zimele%20product%20standards\\_final%20draft.pdf](http://www.cenfri.org/documents/microinsurance/2011/Review%20of%20Mzansi%20and%20Zimele%20product%20standards_final%20draft.pdf)

Chipp, K., Corder, C., & Kapelianis, D. (2012). Where practice meets theory: defining and reviewing the bottom of the pyramid for South African marketers. *Management Dynamics*, 21(1), 18-29

Chipp, K., & Corder, C.K. (2009). Where practice meets theory: defining and reviewing the bottom of the pyramid for South African marketers. *Paper presented at the Gordon Institute of Business Science's International Base of the Pyramid Conference. Johannesburg: South Africa.*

Churchill, C. (2006). What is insurance for the poor? *Protecting the poor. A microinsurance compendium*. Switzerland: International Labour Office, 12-16. Retrieved from <http://www.munichre-foundation.org/NR/rdonlyres/D486E30D-EC49-4AB6-A614-8C0C8D9E8D1B/0/Part0.pdf>

Churchill, C. C. (2007). Insuring the low-income market: Challenges and solutions for commercial insurers. *Geneva Papers on Risk & Insurance - Issues & Practice*, 32(3), 401-

412. Retrieved from  
<http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=26016396&site=ehost-live&scope=site>

City of Johannesburg Metropolitan Council, Corporate Geo-Informatics. (2012). Retrieved from <http://ims.joburg.org.za/joburg/viewer.aspx>

Cranston, S. (2012, July 6). Insurance Companies. Best to keep it short. *The Financial Mail*, p. 52. Retrieved from <http://www.accessmylibrary.com/article-1G1-295538054/insurance-companies-best-keep.html>

Dalal, A., & Morduch, J. (2009). The psychology of microinsurance: small changes can make a surprising difference. Geneva: International Labour Organisation. Retrieved from [http://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS\\_175786/lang--en/index.htm](http://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS_175786/lang--en/index.htm)

Dercon, S., Kirchberger, M., Gunning, J. W., & Platteau, J. (2008). Literature on microinsurance. Geneva: International Labour Organisation. Retrieved from <http://www.ilo.org/public/english/employment/mifacility/download/litreview.pdf>

Foddy, W. (1993). *Constructing questions for interviews and questionnaires*. New York: Cambridge University Press

Gibson, K. (2011). Case study: strengthening consumer protection in the South African microinsurance market. Retrieved from <http://www.finmark.org.za>

Hamilton, K. (2009). Consumer decision making in low-income families: the case of conflict avoidance. *Journal of Consumer Behaviour*, 8(5), 252-267. doi: 10.1002/cb.285

Hornig, M., Chang, Y., & Wu, T. (2012). Does insurance demand or financial development promote economic growth? evidence from Taiwan. *Applied Economics Letters*, 19(2), 105-111. doi:10.1080/13504851.2011.568386

Hussels, S., Ward, D., & Zurbruegg, R. (2005). Stimulating the demand for insurance. *Risk Management and Insurance Review*, 8(2), 257-278. Retrieved from <http://0->

web.ebscohost.com.innopac.up.ac.za/ehost/pdfviewer/pdfviewer?vid=4&hid=122&sid=4b330471-b24b-4bfc-b1d9-95e13a8515ea%40sessionmgr104

Hussey, J. & Hussey, R. (1997). *Business Research. A practical guide for undergraduate and postgraduate students*. Hamshire: Palgrave.

Kar, J. (2007). Gender issues in post-disaster resilience building through microinsurance. *ICFAI Journal of Risk & Insurance*, 4(4), 7-19. Retrieved from <http://0-web.ebscohost.com.innopac.up.ac.za/ehost/detail?vid=6&hid=119&sid=aea45b1c-8b77-476a-ad9d-77164697c97c%40sessionmgr113&bdata=JnNpdGU9ZWZWhvc3QtbGl2ZSZzY29wZT1zaXRl#db=buh&AN=27615937>

Karnani, A. (2006). Misfortune at the bottom of the pyramid. *Greener Management International*, (51), 99-110. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=25290811&site=ehost-live&scope=site>

Karnani, A. (2007). The mirage of marketing to the bottom of the pyramid: how the private sector can help alleviate poverty. *California Management Review*, 49(4), 90-111. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=25995889&site=ehost-live&scope=site>

Landrum, N. (2007). Advancing the base of the pyramid debate. *Strategic Management Review*, 1(1), 1-12. Retrieved from <http://www.strategicmanagementreview.com/ojs/index.php/smr/article/view/12/16>

Lee, S., Kwon, S. I., & Chung, S. Y. (2010). Determinants of household demand for insurance: The case of Korea. *Geneva Papers on Risk & Insurance - Issues & Practice*, 35, 82-91. doi:10.1057/gpp.2010.29

Lewis, P., & Saunders, M. (2012). *Doing Research in Business and Management. An Essential Guide to Planning Your Project*. Edinburgh Gate: Pearson Education Limited

Lin, Y., & Bei, L. (2008). The perceived value of time in a transaction. *Advances in Consumer Research*, 35, 720-721

Martinez, J. L., & Carbonell, M. (2007). Value at the bottom of the pyramid. *Business Strategy Review*, 18(3), 50-55. doi:10.1111/j.1467-8616.2007.00485.x

McGadney-Douglass, B., & Douglass, R. (2008). Collective familial decision-making in times of trouble: Intergenerational solidarity in Ghana. *Journal of Cross-Cultural Gerontology*, 23(2), 147-160. doi:10.1007/s10823-008-9064-8

Mendoza, R. U., & Vick, B. C. (2010). From revolution to evolution: Charting the main features of microfinance 2.0. *Perspectives on Global Development & Technology*, 9(3), 545-580. doi:10.1163/156914910X499813

Meyer, D., Vazirani, M. (2012). Succeeding at microinsurance through differentiation, innovation and partnership. Retrieved from <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Microinsurance-PoV-01-12.pdf#zoom=50>

Momoniat, I. (2012, July 20). Rules of insurance. *The Financial Mail*, p. 16. Retrieved from <http://www.fm.co.za/opinion/columnists/2012/07/18/rules-of-insurance>

Omar, O.E., & Owusu-Frimpong, N. (2007). Life insurance in Nigeria: an application of the theory of reasoned action to consumers' attitudes and purchase intention. *The Service Industries Journal*, 27(7), 963-967. doi: 10.1080/02642060701570891

Perner, L. (2008). Consumer behavior: the psychology of marketing. Retrieved from <http://www.consumerpsychologist.com/index.html>

Prahalad, C. (2008). The fortune at the bottom of the pyramid: eradicating poverty through profits. *Economic Affairs*, 28(4), 89-91. doi:10.1111/j.1468-0270.2008.864\_4.x

Prahalad, C. (2005). *The fortune at the Bottom of the Pyramid: eradicating poverty through profits*. Upper Saddle River, NJ: Wharton School Publishing

Prahalad, C., & Hammond, A. (2002). Serving the world's poor, profitably. *Harvard Business Review*, 80(9), 48-57

Pressman, S. (2006). Kahneman, Tversky, and institutional economics. *Journal of Economic Issues*, XL(2), 501-506

Rangan, V.K., Chu, M., & Petkoski, D. (2011). Segmenting the base of the pyramid. *Strategy and Business*, 89(6), 1-14

Republic of South Africa Department of National Treasury. (2011). *Microinsurance policy document*. Retrieved from [http://www.treasury.gov.za/comm\\_media/press/2011/2011072801.pdf](http://www.treasury.gov.za/comm_media/press/2011/2011072801.pdf)

Rubinson, J. (2009). The opportunity for marketing simplification. *Journal of Advertising Research*, 49(3), 260-262. doi: 10.2501/s0021849909090503

Schwarcz, D. (2010). Insurance demand anomalies and regulation. *Journal of Consumer Affairs*, 44(3), 557-577. doi:10.1111/j.1745-6606.2010.01184.x

Sheppard, B.H., Hartwick, J., & Warshaw, P.R. (1988). The theory of reasoned action: a meta-analysis of past research with recommendations for modifications and future research. *Journal of Consumer Research*, 15(3), 325-343

Short Term Insurance Act (1998). Retrieved from [http://www.acts.co.za/short-term\\_ins](http://www.acts.co.za/short-term_ins)

Smith, A., Chamberlain, D., Hougaard, C., Smit, H., & Carlman. (2010). Reaching the client: Update on microinsurance innovation in South Africa. Retrieved from [http://www.cenfri.org/documents/microinsurance/2010/Update%20on%20innovation%202010/Update%20on%20innovation\\_Synthesis%20note.pdf](http://www.cenfri.org/documents/microinsurance/2010/Update%20on%20innovation%202010/Update%20on%20innovation_Synthesis%20note.pdf)

Tversky, A., & Kahneman, D. (1991). Loss aversion in riskless choice: a reference dependent model. *The Quarterly Journal of Economics*, 106(4), 1039-1061

Tharenou, P., Donohue, R., & Cooper, B. (2007). *Management Research Methods*. Melbourne: Cambridge University Press

Tom, T. R., & Selvam, V. (2010). A study and fostering rural growth through micro insurance. *Global Management Review*, 4(2), 7-13. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=55436192&site=ehost-live&scope=site>

Triandis, H. (1995). *Individualism and Collectivism*. Boulder: Westview Press.

Triandis, H. (2001). Individualism-Collectivism and Personality. *Journal of Personality* 69(6), 907-924.

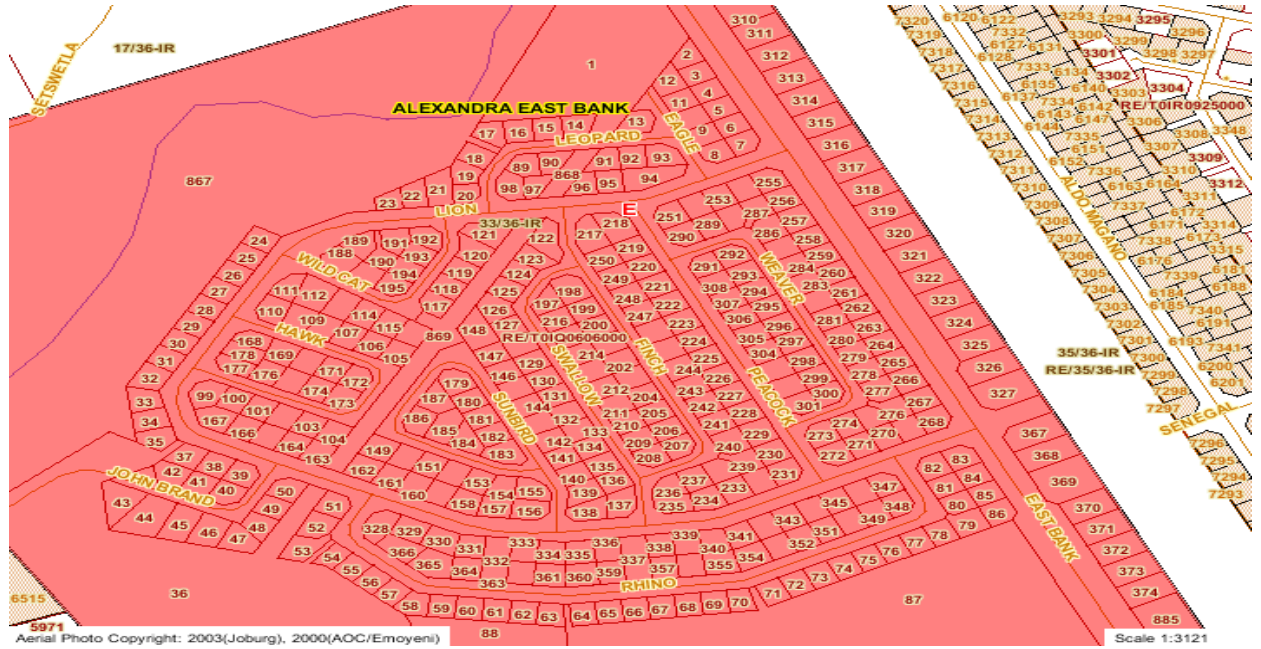
Vivian, R. (2012, July 6). Retrograde move. *The Financial Mail*, p. 18. Retrieved from <http://www.fm.co.za/fm/2012/07/05/retrograde-move>

Ward, D., & Zurbruegg, R. (2002). Law, politics and life insurance consumption in Asia. *The Geneva Papers on Risk and Insurance*, 27(3), pp. 349-412



## Appendix One

### Maps of East Bank, Alexandra



Source: City of Johannesburg Metropolitan Council



Source: Wikimapia



## Appendix Two QUESTIONNAIRE

### THE ROLE OF CONSUMER BEHAVIOUR IN SOUTH AFRICA'S SHORT TERM MICROINSURANCE



### UNIVERSITY OF PRETORIA GORDON INSTITUTE OF BUSINESS SCIENCE

---

#### **Introduction**

My name is Sibusiso Ntuli and I am currently studying for a Master of Business Administration (MBA) degree at the Gordon Institute of Business Science with the University of Pretoria. I need to complete a research project as a partial requirement for the degree.

I have chosen to look at the role of consumer behaviour in South Africa's short term microinsurance and how this contributes to the decision of whether or not to purchase available products. The research will be useful to the private and public sectors in their quest to understanding the microinsurance consumer in South Africa and increasing participation of low income consumers in broader financial services.

#### **Short Term Microinsurance**

In the context of the research a short term insurance policy is simplified to mean cover for household contents, motor vehicles and homeowners insurance in respect of the physical dwelling.

#### **Participation**

I would appreciate your participation in this study and value your responses.

Thank you for taking time to participate.

Yours sincerely  
Sibusiso Ntuli

## SECTION 1: CHARACTERISTICS

MAY I PLEASE SPEAK WITH THE CHIEF FINANCIAL DECISION MAKER OF THIS HOUSEHOLD

READ OUT EACH LSM VARIABLE AND RECORD THE APPROPRIATE ANSWER IN THE NOMINATED BOX FOR EACH OF THE FOLLOWING QUESTIONS.

1. Which of the following do you have in your home?

LSM Variables	Yes	No
Hot Running Water		
Personal Computer / Laptop or Desktop		
Motor Vehicle		
Vacuum Cleaner or Floor Polisher		
Electric Stove		
Microwave Oven		
Flush Toilet Inside or Outside		

2. RECORD GENDER OF PARTICIPANT

Female		Male	
--------	--	------	--

3. What is your age group? READ OUT THE AGE BANDS AND RECORD WHERE APPROPRIATE

16 - 24 years	
25 - 34 years	
35 – 49 years	
50 years and over	

4. What is the highest level of education that you have achieved? READ OUT THE LEVELS

No Schooling	
Some Primary School	
Primary School Completed	
Some High School	
Matric (Grade 12)	
Artisans Certificate Obtained / Post Matric Certificate	
Technikon Diploma / Degree Completed	
University Degree Completed	
Other (Specify)	

## SECTION 2: BASIC FINANCIAL SERVICES

5. In the last 12 months which of the following financial services have you made use of? READ OUT SERVICES

	Yes	No
Mzansi Bank Account		
Cheque/Savings Account		
Credit Card		
Homeloan/Mortgage Bond		
Vehicle Finance		
Short Term Insurance for Motor Vehicle		
Short Term Insurance for Household Contents		
Short Term Insurance for Dwelling		
None		

6. In the next 12 months I intend to make use of following financial services READ OUT SERVICES

	Yes	No
Mzansi Bank Account		
Cheque/Savings Account		
Credit Card		
Homeloan/Mortgage Bond		
Vehicle Finance		
Short Term Insurance for Motor Vehicle		
Short Term Insurance for Household Contents		
Short Term Insurance for Dwelling		
None		

SHOW CARD A

7. To what extent do you agree or disagree that adequate awareness is created around short term insurance by the respective institutions and organisations?

Disagree = 1	Neutral = 2	Somewhat Agree = 3	Agree = 4	Strongly Agree = 5
--------------	-------------	--------------------	-----------	--------------------

SHOW CARD A

8. To what extent do you agree or disagree that being able to access financial services has placed you in a better financial position?

Disagree = 1	Neutral = 2	Somewhat Agree = 3	Agree = 4	Strongly Agree = 5
--------------	-------------	--------------------	-----------	--------------------

SHOW CARD A

9. In terms of short term microinsurance for motor vehicles, household contents and dwellings to what extent do you agree or disagree that these are readily available?

Disagree = 1	Neutral = 2	Somewhat Agree = 3	Agree = 4	Strongly Agree = 5
--------------	-------------	--------------------	-----------	--------------------

SHOW CARD A

10. To what extent do you agree or disagree that the costs of short term insurance products and services are affordable encouraging usage?

Disagree = 1	Neutral = 2	Somewhat Agree = 3	Agree = 4	Strongly Agree = 5
--------------	-------------	--------------------	-----------	--------------------

**SECTION 3: COLLECTIVISM**

SHOW CARD B

11. To what extent do individuals in the household combine financial resources in respect of common needs?

Never = 1	Rarely = 2	Occasionally = 3	Frequently = 4	Always = 5
-----------	------------	------------------	----------------	------------

SHOW CARD B

12. To what extent is consent obtained from all members of the household as to how the combined income will be spent?

Never = 1	Rarely = 2	Occasionally = 3	Frequently = 4	Always = 5
-----------	------------	------------------	----------------	------------

SHOW CARD C

13. In terms of the decisions that you make as the chief financial decision maker in your household how important is it that these are made in the best interest of all household members?

Not Important = 1	Of Little Importance= 2	Moderately Important= 3	Important= 4	Very Important = 5
----------------------	----------------------------	----------------------------	--------------	--------------------

**SECTION 4: SHORT TERM MICROINSURANCE DEMAND**

SHOW CARD D

14. On a scale of 1 to 5 how likely or unlikely are you to take up short term insurance for a motor vehicle?

Unlikely = 1	Neutral = 2	Fairly Likely = 3	Likely = 4	Very Likely = 5
--------------	-------------	----------------------	------------	-----------------

SHOW CARD D

15. On a scale of 1 to 5 how likely or unlikely are you to take up short term insurance for household contents?

Unlikely = 1	Neutral = 2	Fairly Likely = 3	Likely = 4	Very Likely = 5
--------------	-------------	----------------------	------------	-----------------

SHOW CARD D

16. On a scale of 1 to 5 how likely or unlikely are you to take up short term insurance for a dwelling?

Unlikely = 1	Neutral = 2	Fairly Likely = 3	Likely = 4	Very Likely = 5
--------------	-------------	----------------------	------------	-----------------

SHOW CARD A

17. To what extent would you agree or disagree that premium flexibility impacts positively on your intentions to purchase short term microinsurance?

Disagree = 1	Neutral = 2	Somewhat Agree = 3	Agree = 4	Strongly Agree = 5
--------------	-------------	--------------------	-----------	--------------------

SHOW CARD A

18. To what extent would you agree or disagree that the higher the level of your household income the more likely you are to purchase short term insurance?

Disagree = 1	Neutral = 2	Somewhat Agree = 3	Agree = 4	Strongly Agree = 5
--------------	-------------	--------------------	-----------	--------------------

SHOW CARD A

19. To what extent would you agree or disagree that married people are more likely to purchase short term insurance than single people?

Disagree = 1	Neutral = 2	Somewhat Agree = 3	Agree = 4	Strongly Agree = 5
--------------	-------------	--------------------	-----------	--------------------

**SECTION 5: HOUSEHOLD INCOME**

SHOW CARD E

20. What is the combined average monthly household income? Just give me the letter.

A	Less than R 799	
B	R 800 – R 1 399	
C	R 1400 – R 2 499	
D	R 2 500 – R 4 999	
E	R 5 000 – R 9 999	
F	R 10 000 plus	

Please indicate whether you would be agreeable to my supervisor or another interviewer contacting you to confirm this interview.

Agreeable		Not Agreeable	
-----------	--	---------------	--

Can you please provide the following information?

Full Name(s): \_\_\_\_\_

Street Address: \_\_\_\_\_

Contact Number:

--	--	--	--	--	--	--	--	--	--

Signature: \_\_\_\_\_

Thank you for taking the time to participate in this research.

Interviewer Name: \_\_\_\_\_

Date: \_\_\_\_\_

Time Interview Started: \_\_\_\_\_

Time Interview Ended: \_\_\_\_\_

## SHOW CARDS

### Show Card A

1	2	3	4	5
Disagree	Neutral	Somewhat Agree	Agree	Strongly Agree

### Show Card B

1	2	3	4	5
Never	Rarely	Occasionally	Frequently	Always

### Show Card C

1	2	3	4	5
Not Important	Of Little Importance	Moderately Important	Important	Very Important



### Show Card D

1	2	3	4	5
Unlikely	Neutral	Fairly Likely	Likely	Very Likely

### Show Card E

A	Less than R 799
B	R 800 – R 1 399
C	R 1400 – R 2 499
D	R 2 500 – R 4 999
E	R 5 000 – R 9 999
F	R 10 000 plus

## Informed Consent Letter

Dear Participant

I am conducting research on the role of consumer behaviour in South Africa's short term microinsurance and how this contributes to the decision of whether or not to purchase available products. The research will be useful to the private and public sectors in their quest to understanding the microinsurance consumer in South Africa and increasing participation of low income consumers in broader financial services. Our interview is expected to last about 15 minutes. **Your participation is voluntary and you can withdraw at any time without penalty.** Please note that any data provided will be kept confidential. If you have any concerns, please contact me or my supervisor. Our details are provided below.

Researcher name: Sibusiso Ntuli

Email: [ntulisib@marsh-afrs.com](mailto:ntulisib@marsh-afrs.com)

Phone: 083 749 0867

Research Supervisor Name: Dr Clive Corder

Email: [cliveco@icon.co.za](mailto:cliveco@icon.co.za)

Phone: 082 655 6740

Signature of participant: \_\_\_\_\_

Date: \_\_\_\_\_

Signature of researcher: \_\_\_\_\_

Date: \_\_\_\_\_

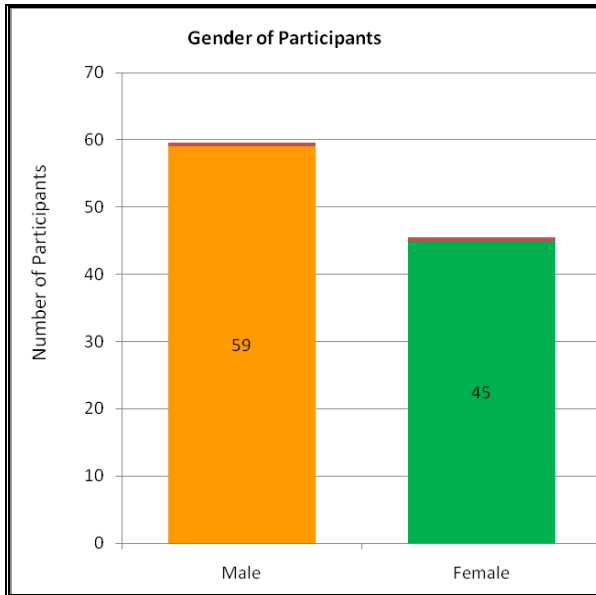
## Appendix Three

### Sample Characteristics

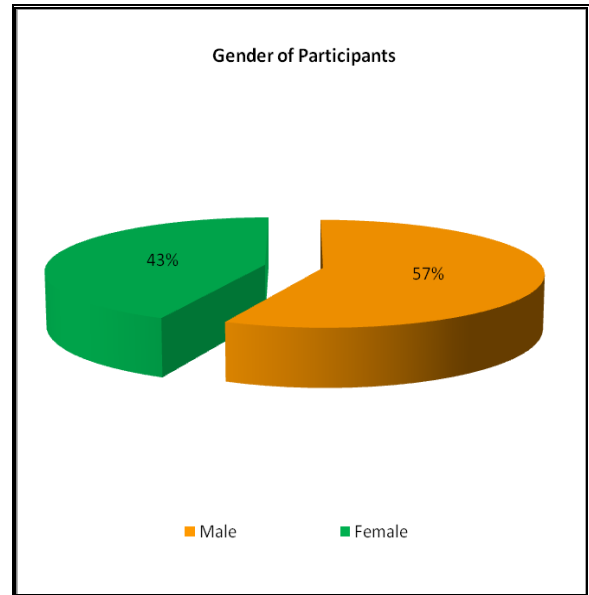
**Table 5.1 Sample characteristics per gender**

N = 104		Male		Female	
		Number of Participants	Percentage of Sample	Number of Participants	Percentage of Sample
<b>Chief Financial Decision Makers</b>		59	57%	45	43%
<b>Age</b>	16-24	8	8%	3	3%
	25-34	18	17%	19	18%
	35-49	26	25%	8	8%
	50 and over	7	7%	15	14%
<b>Level of Education</b>	Some High School	11	11%	9	9%
	Matric (Grade 12)	37	36%	29	28%
	Artisans / Post Matric Certificate	4	4%	2	2%
	Technikon Diploma / Degree Completed	7	7%	5	5%
<b>Average Monthly Household Income</b>	Less than R 799	4	4%	2	2%
	R 800 - R 1 399	7	7%	3	3%
	R 1 400 - R 2 499	7	7%	9	9%
	R 2 500 - R 4 999	18	17%	10	10%
	R 5 000 - R 9 999	19	18%	9	9%
	R 10 000 plus	4	4%	12	12%

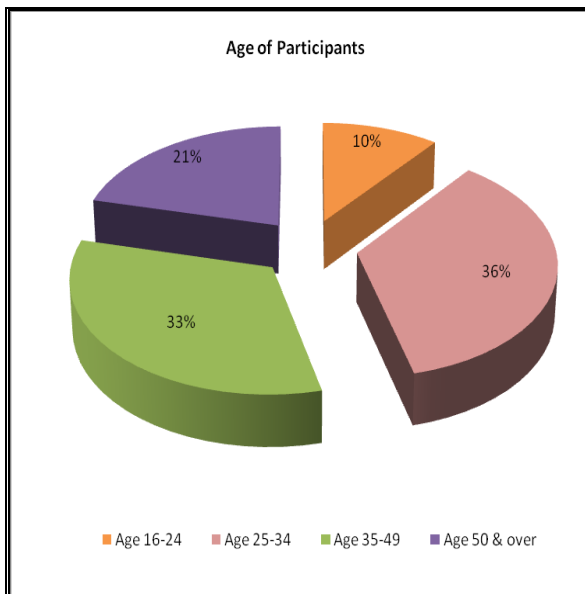
**Figure 5.1 Number of participants per gender**



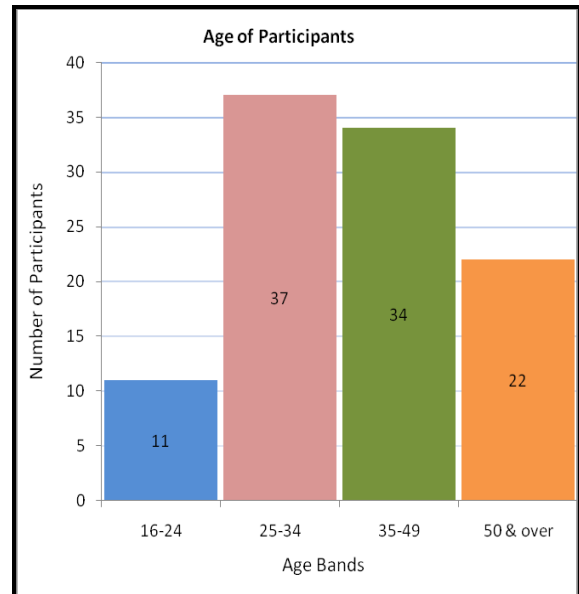
**Figure 5.2 Percentage of participants per gender**



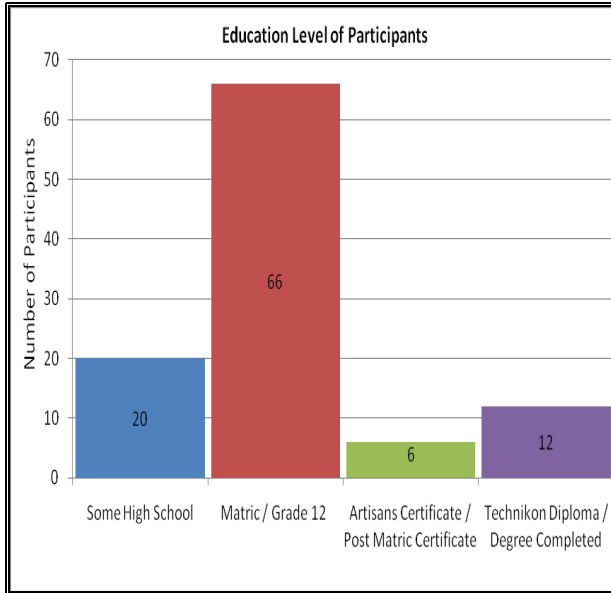
**Figure 5.3 Age of participants (percentage)**



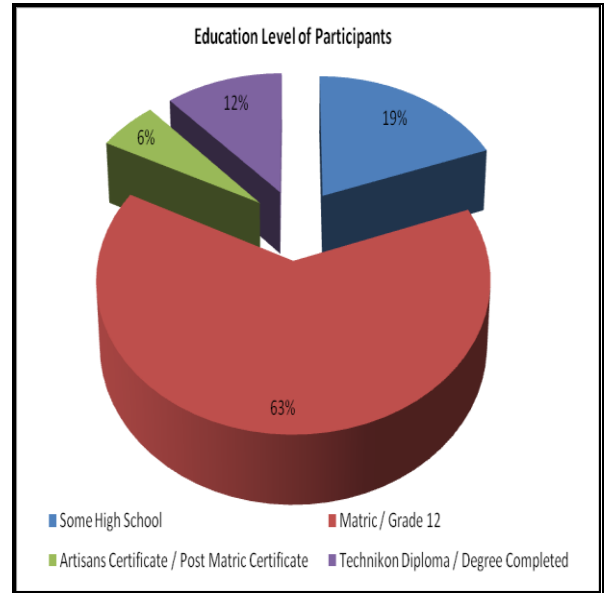
**Figure 5.4 Age of participants (number)**



**Figure 5.5 Education level of participants (number per category)**



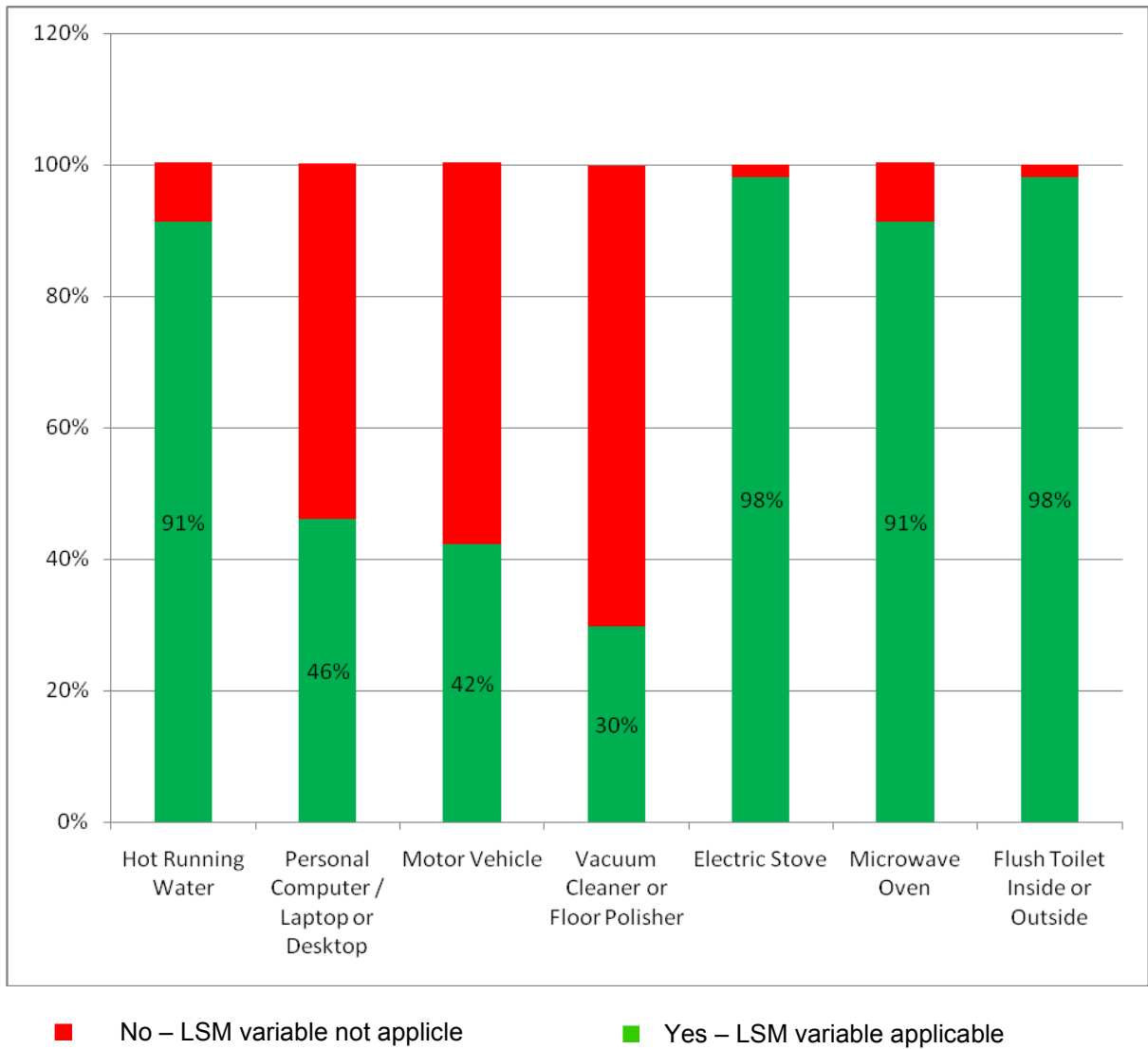
**Figure 5.6 Education level of participants (percentage per category)**



**Table 5.2 LSM variables applicable (not applicable) to participants**

N = 104	Yes		No	
	Number of Participants	Percentage of Sample	Number of Participants	Percentage of Sample
Hot Running Water	95	91%	9	9%
Personal Computer / Laptop or Desktop	48	46%	56	54%
Motor Vehicle	44	42%	60	58%
Vacuum Cleaner or Floor Polisher	31	30%	73	70%
Electric Stove	102	98%	2	2%
Microwave Oven	95	91%	9	9%
Flush Toilet Inside or Outside	102	98%	2	2%

**Figure 5.7 LSM variables applicable (not applicable) to participants**



## Appendix Four

### Basic Financial Services

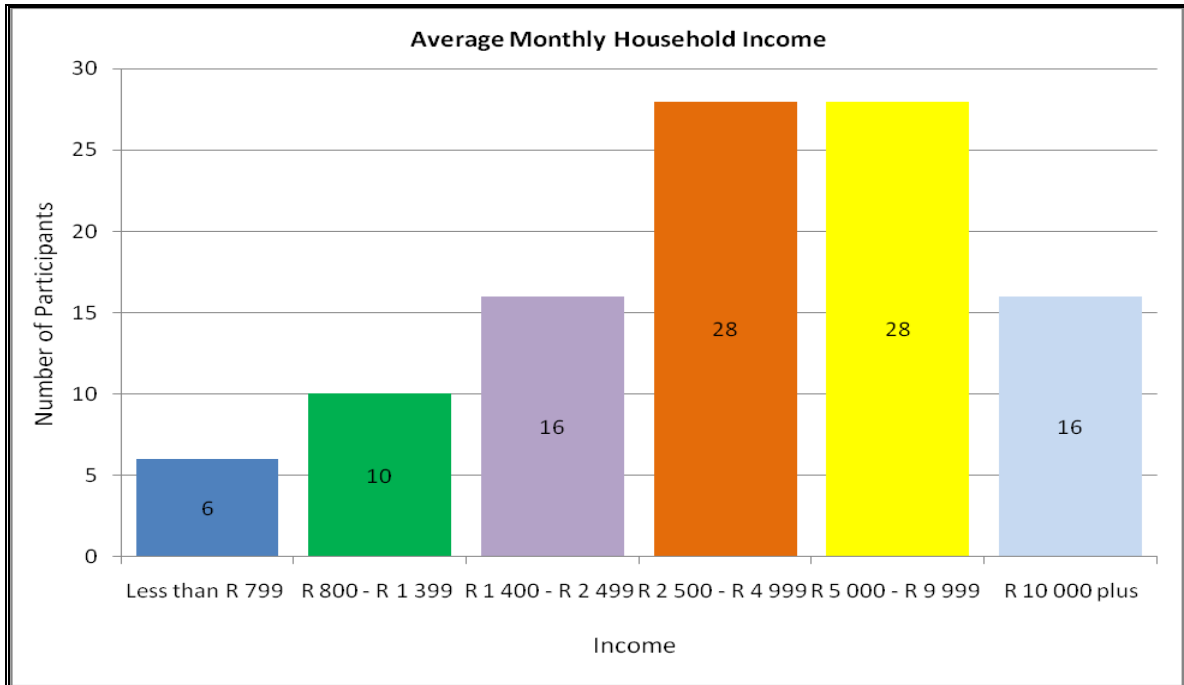
Financial services used in the last 12 months and intended for use in the next 12 months (% of survey participants)

N = 104		Current Use		Intended Use	
Financial Service		Yes	No	Yes	No
Mzansi Bank Account	Number of Participants	25	78	27	76
	Percentage of Sample	24%	75%	26%	73%
Cheque / Savings Account	Number of Participants	92	11	89	14
	Percentage of Sample	88%	11%	86%	13%
Credit Card	Number of Participants	38	65	54	49
	Percentage of Sample	37%	63%	52%	47%
Homeloan / Mortgage Bond	Number of Participants	17	86	20	83
	Percentage of Sample	16%	83%	19%	80%
Vehicle Finance	Number of Participants	18	85	18	85
	Percentage of Sample	17%	82%	17%	82%
Short Term Insurance for Motor Vehicle	Number of Participants	23	80	25	78
	Percentage of Sample	22%	77%	24%	75%
Short Term Insurance for Household Contents	Number of Participants	18	85	20	83
	Percentage of Sample	17%	82%	19%	80%
Short Term Insurance for Dwelling	Number of Participants	16	87	19	84
	Percentage of Sample	15%	84%	18%	81%

## Appendix Five

### Average Monthly Household Income

**Figure 5.35 Average monthly household incomes (number of participants)**



**Figure 5.36 Average monthly household incomes (percentage of participants)**

