The effect of regulations on insurance companies
expanding to emerging markets

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ABSTRACT

Recent Solvency and Assessment Management (SAM) Regulations that are being proposed are the bone of contention in the Insurance Industry. Industry leaders argue that the financial regulations in South Africa are being imposed on companies too rapidly, despite South Africa’s financial regulations being one of the best in the world. However, South Africa’s Insurance market growth has reduced substantially and has reached a point of saturation. Insurers are analysing the international marketplace for growth opportunities in their business. Huge opportunities in Africa and in other emerging economies of the world have lured the Insurance companies to expand their operations beyond South Africa, at the expense of their operations in developed economies.

These expansions, especially in unstable emerging economies come at a huge cost and carries inherent risks in moving to these territories. Qualitative exploratory research techniques were used to understand the link between the regulations and expansion plans to ascertain what the former has effect on the latter. Sixteen senior managers from the industry were interviewed, their responses analysed and results aggregated in this report.

The results expressed that the effect of SAM on insurance companies is varied. Some companies endure the burden in terms of huge costs of implementation and operation and restrict their expansion plans; while large insurance companies with huge balance sheets see no impact on their plans. The research further includes the effect on insurance companies of other regulations such as nationalisation, sovereign rating downgrades and perceived skills gap in the market and proposed a model around these regulations.

Keywords: Expansion Strategies, Regulations, Insurance, Solvency.
DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment 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.

11/11/2013

Ram Mahavadi

Date
ACKNOWLEDGEMENTS

“The power of God is with you at all times; through the activities of mind, senses, breathing, and emotions; and is constantly doing all the work using you as a mere instrument.”
- Bhagavad-Gita

I would like to thank the supreme Lord, for having the faith in me and guiding me through this journey over the period of two years.

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CHAPTER 1: INTRODUCTION

1.1 Introduction to research problem

“Red tape threatens to hobble the financial sector” (Jones, G. (2013, September 06a) was the headline in one of the leading newspapers in South Africa. Speaking at the release of interim results for Sanlam Group (a leading insurance company in South Africa), CEO Johan van Zyl, deliberated why there is so much concentration on regulating the financial sectors, which has seen no collapse in South Africa during the global financial crisis, unlike their counterparts in developed markets.

During the same meeting and in interviews after releasing the statements, van Zyl further communicated the slow growth in South Africa and mentioned that the Sanlam Group is actively analysing expansion opportunities in African and Asian emerging markets to increase the company’s profits (Jones, G. (2013, September 06b). The Economist Magazine (2011), in its turnaround from previous opinions on Africa, ran a cover story titled “Africa Rising”. The editors further acknowledged that the continent has real growth potential, after decades of slow growth and corrupt regimes. With abundant natural resources (oil, copper, gold, etc.) the writers of the article that featured in the magazine also projected that Africa’s growth would surpass the growth of Asian economies.

The resulting growth potential has lured South African insurers across borders to expand their operations in the rest of Africa (Reuters, 2012; West, 2013 April 24; Kamhunga, 2011 November 04). The authors of the “Africa Rising” article also provided evidence on the basis of strategies of some insurers, including the disposal of non-core assets in developed markets to infuse capital into “Blue Sky” African operations. By targeting basic life insurance products and “bancassurance”, selling of insurance products with banking (Nair, Rajkumar and Vinoth, 2012); the insurers intend to expand their footprint into Africa and are willing to wait longer timelines to receive higher profits.

While companies are considering the expansion of their operations in Africa, the regulatory body for financial services in South Africa—Financial Services Board (FSB)—which is mandated with protecting the consumers in South African market, is
busy implementing new, stricter regulatory controls upon local insurers. These regulations are intended to safeguard customers' interests; ensuring financial institutions are financially sound. The new stricter regulations might delay expansion plans of insurance companies, which might have to be reconsidered. Furthermore, if the proposed regulations are implemented into law, these might become effective from 1st January, 2016 (Pickworth, 2013 April 12).

In addition, the political uncertainties and unsteady regimes have posed doubts about the respective African governments’ abilities to pay. For example, South-African state-owned insurer, The Export Credit Insurance Corporation, decided against insuring the infrastructure projects in Central African Republic because these risks are too great (Ensor, 2013 April 22).

Matthews, Ryan-Collins, Wells, Sillem and Wright (2012) have argued that the technical skills in the rest of Africa is very poor compared with South Africa. They argued in favour of companies participating in training programs to enhance skill levels.

### 1.2 Background to Research Problem

Falkena, Bamber, Llewellyn and Store (2001) explained that three main functions of a regulation are a) to secure systematic stability in the economy, b) to ensure institutional safety and c) maintain soundness and promote consumer protection. However, these regulations are often expensive and time consuming on the part of the institutions.

Financial Services Board (hereinafter referred to as FSB), “is a unique independent institution established by South African Government to oversee the South African non-Banking Financial Services Industry in the public interest” (FSB, 2013 October, 31). They administer several acts in the interest of the public and for the protection of investor. Some of the acts that became law under the supervision of FSB include Financial Advisory an Intermediaries Services Act (FAIS, Year 2002), Financial Intelligence Centre Act (FICA, Year 2001), Long Term Insurance Act (Year 1998), and Short Term Insurance Act (Year 1998).

The recent proposals for additional regulatory measures have been a bone of contention in the industry, as mentioned in the previous section. Insurers are counting the cost of implementing these regulations and are questioning the necessity of such measures. The Insurance Companies provide an example in the recent 2013 Global
Competitiveness Report, which has indicated that South Africa is in the top three countries in terms of legislation in the financial sector (Schwab, 2013). This has been the prime reason the financial institutions in South Africa have largely been unaffected by the global financial crisis that commenced in 2008.

The regulations proposed the following changes:

a) Capital requirements of Insurance companies – increasing the reserve capital they need to hold due to local change in economic factors and evolving world requirements.

b) Capital requirements of Insurance companies due to macroeconomic factors, in instances where the companies open offices outside the borders of South Africa, especially where geopolitical and structural risks provide increased risk.

c) Skill requirements of Insurance companies – by imposing the level of qualifications and introducing additional qualifying exams with the end customer in mind.

d) Consumer protection - how the consumers are protected by law in each of the territories operating under the regulator.

With Insurers considering expansion to beyond the borders of South Africa in search of growth and profits, regulations can provide bases for such expansion or, alternatively, stifle the expansion plans of insurers. This study attempts to understand aggregate differing views in the industry of regulations and the effects on the insurance companies’ expansion plans.

While the risks pertaining to the rules and regulations in the “Home Country” of these companies, similar regulations in the “Host Country” may also provide additional factors for insurance companies to consider. Bandhopadhyay and Green (2012) argued that nationalisation is an important step in the nation building of conflict ridden African states. Several African countries have regulations about the level of retention of premiums in their territories already and these are subject to constant manipulation.

White (2010) provided the importance of rating agencies in the modern markets, and advocates that regulators look at the ratings for controlling the capitals in the markets. However, if sovereign states are downgraded or companies are downgraded, borrowing becomes expensive and capital requirements of companies would increase.
As this is an important aspect of expansion strategies for insurance companies, it was integrated into the document to provide a comprehensive perspective.

1.2.1 Research Scope

This study investigated the effective strategies of insurance companies and concentrated on various aspects of regulations and effects of such regulations on insurance companies’ expansion strategies to other emerging economies.

The study has benefits to both business and academic bodies of knowledge. Insurance companies and other stakeholders in the insurance industry (investors, brokers and regulators) would benefit from an aggregated view of various thinking patterns in the industry. Additionally, this research is hopeful to expand the body of knowledge in the academic research arena, which could possibly not only benefit research community, but also encourage and stimulate additional research.

1.3 Conclusion

This research provided insights into the expansion strategies of insurance companies around the continuous emergence of regulations.

Chapter one provided the context for the research with a motivation to the importance of the topic. Chapter two provides the critical review of literature available on the topics, reviewing the available literature and identifying the gaps that could be filled. Chapter three formulates the research questions to understand the effects of regulations. Chapter four illustrates the research methodology that was followed for conducting the research, explaining why and how the methodology worked for the study. It also provides the limitations encountered in this study and confirms the validity and reliability of the research. Chapter five provides the output from the data collected, relevant quotes and the salient points from the interviews conducted to gather insights into research questions. Chapter six discusses the results that have been obtained in this research and summarizes the results per question, with the key themes identified. Chapter seven concludes with further areas of research.
The process of the research has been represented graphically in the figure below:

**Figure 1-1: Research Overview**

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<td>Chapter 5</td>
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CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The previous chapter introduced the challenges that are perceived by Insurance companies in South Africa that have resulted in the analyses of expansion possibilities into other emerging markets. In this chapter, literature is reviewed, to understand these challenges and to identify the gaps in the literature to recognise the effect of regulations on the industry.

A brief history of Insurance is provided that explains its main functions; thereafter expansion strategies of insurance firms are explored. Significant terms are also introduced. The effect of proposed regulations in Solvency Assessment and Management is also discussed, before analysing nationalisation, effect of ratings and finally the lack of perceived skills. The Framework for literature review is provided below:

Table 2-1: Framework for Literature Review

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<th>Key Theme</th>
<th>Literature Review</th>
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<tr>
<td>Insurance</td>
<td>Acharyya &amp; Mutenga, 2013; Trenerry, 2009; Randmark40 Pty Ltd., 2013; Lloyd’s, 2013; Prudential Insurance Company of America, 1915; Old Mutual, 2013; Ward and Zarbruegg (2000); Dorfman (1994); Rejda (1998); Altrén &amp; Lyth, 2007</td>
</tr>
<tr>
<td>Expansion Plans</td>
<td>Andrews (1971); Dunning and Norman (1983); Eppink and Van Rhijn (1988); Klein and Wokee (2007); Ramamurti (2012); Ireland, Hoskisson and Hitt (2013); Sanlam (2013); Hsieh, Shen and Lee (2010)</td>
</tr>
<tr>
<td>2.3 Impact of Regulations</td>
<td></td>
</tr>
<tr>
<td>Introduction</td>
<td>Hughes (1994); Falkena, Bamber, Llewellyn and Store (2001); Chandler (2000); Maciandro, Rosaria, &amp; Quintyn (2012); Taylor (1995); Group of Thirty (2011); Botha and Makina (2011); Schwab, 2013; Beck and Maimbo (2012)</td>
</tr>
<tr>
<td>Solvency and Assessment Management</td>
<td>Dean, 2011; Choksi 2007; Gatzert and Wesker, 2012; Eling and Schmeiser, 2012; Linder &amp; Ronainen, 2004; Altrén and Lyth, 2007; Agoraki, Delis and Pasiouras, 2011; Ujunwa and Modebe, 2011</td>
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<tr>
<td>Nationalisation</td>
<td>Kahn, 2013; Rankopo and Osei-Hwedie, 2011; Doe, 2009; Tihanyi, Swaminathan and Soule 2012; Yahaya, 2012</td>
</tr>
<tr>
<td>Credit Ratings</td>
<td>de la Dehesa, 2010; Hanuscha and Vaaler, 2013; Acharyya and Mutenga, 2013; Borensztein, Cowan and Valenzuela, 2011;</td>
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</table>
2.2 Conceptualisation

2.2.1 Insurance – A Background

Insurance consists of a basic principle: one party compensates another party for protection against potential losses in the future. Insurance companies charge premiums upfront from both customers and / or shareholders for a future claim payment. Insurance companies also invest in various savings instruments and create additional value through the interest and dividends earned on such instruments (Acharyya & Mutenga, 2013).

Insurance agreements in some or other form have been in place for several thousands of years. In the ancient Babylonian and Roman societies (Trenerry, 2009, p. 3), insurance was a concept known as the Contract of Bottomry. The Chinese have been known to proverbially “spread their wares across many vessels”, thereby minimizing the risk of a single vessel capsizing and losing all the valuables, as reported in 3000-2000 BC. The Greeks and Romans took this concept further and developed Health and Life benefits such as burial rites and payment towards burial costs via regular premium payments (Randmark40 Pty Ltd., 2013).

In Europe, insurance existed for many centuries, with the first insurance contract dating back to 1000 B.C.; with insurance for ships. In the United Kingdom, the first official “Insurance” company is believed to have been registered in 1960s around the London Fires incident and was called “fire building office”. Lloyds Insurance Company, one of the oldest insurance companies still in existence, set up its operations in 1688 (Lloyd's, 2013). In Germany, residents of Hamburg formed a union representing one hundred households, to protect themselves against fires. Marine and Fire (property) insurance seems to have been widely employed in the early history of insurance.

The first insurance institution in the United States was formed in 1735 in South Carolina and was called the Friendly Society for the Mutual Insuring of Houses against Fire, organized under a royal charter. It is widely believed that Benjamin Franklin was one of the pioneers and promoters of insurance in the country (Prudential Insurance Company of America, 1915).

In South Africa, the first Insurance Company is believed to be Old Mutual, which opened its offices in 1845 in Bellville, Cape Town, with no capital other than first
premiums from its 166-member Mutual Life Association (Old Mutual, 2013). Since then, the Insurance Industry in South Africa has matured great strides, with 200 Insurance companies in the current South African market (Financial Services Board, 2012).

Insurance companies play a major role in the economy. Ward and Zarbruegg (2000) argued that benefits of Insurance in the country’s economic growth is immense and is achieved by risk transfer and indemnification, allowing companies and individuals to sustain losses. It also allows for the growth of savings, accumulating productive capital in the country.

Different types of Insurance exist. Dorfman (1994) and Rejda (1998) distinguished between private insurance and government insurance, the latter mainly concerned social security. Private Insurance can further be grouped into Nonlife and Life Insurance. Each of these groups comes with its individual risk models and strategies (Altrén & Lyth, 2007). Figure 2-1 below explains these groupings graphically.

**Figure 2-1: Types of Insurance**

![Diagram of Types of Insurance](source: Adapted from Dorfman (1994) and Rejda(1998)]

Non-Life Insurance is also known as short term insurance and covers everything else; including fire, damage to property, marine, credit guarantees, bond guarantees, vehicles (aviation and motor), personal liabilities, professional liabilities.
Long term (also known as life insurance) covers individual life and health related risks (Financial Services Board, 2012) and The table below illustrates the volume of business conducted by each group in South Africa (Financial Services Board, 2012).

Table 2-2: Key figures of Insurance Industry

<table>
<thead>
<tr>
<th>Key Item</th>
<th>Non-Life</th>
<th>Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Premium</td>
<td>87.675 ZAR (mn)</td>
<td>358.967 ZAR (mn)</td>
</tr>
<tr>
<td>Claims Paid</td>
<td>37.171 ZAR (mn)</td>
<td>291.739 ZAR (mn)</td>
</tr>
<tr>
<td>Assets</td>
<td>101.417 ZAR (mn)</td>
<td>2 082.433 ZAR (mn)</td>
</tr>
<tr>
<td>Liabilities</td>
<td>54.391 ZAR (mn)</td>
<td>1 952.042 ZAR (mn)</td>
</tr>
</tbody>
</table>

Source : Adapted from FSB, 2012 Annual Statements

2.2.2 Expanding into other territories.

What is Strategy?

There have been several definitions for Strategy. Andrews (1971) defined Corporate strategy “as the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of businesses the company is to pursue, the kind of economic and human organisation it is or intends to be, and the nature of economic and non-economic contribution it intends to make to its shareholders, employees, customers and communities”.

Firms’ expansion strategies

Using eclectic paradigm, Dunning and Norman (1983) have explained the determiners behind firms’ strategies to invest in locations outside home countries. The first parameter is firm specific advantages that deal with competencies and understanding how these were developed. The second parameter is locational attractiveness of countries or regions, indicating opportunities and the ability to transfer the competencies across the borders. The third parameter is internationalisation advantages of the enterprises that reinforce the need to understand the market entry modes and understand the potential uncertain environments.

Supporting the above view, in a study of the Internationalisation of Dutch Insurance companies, Eppink and Van Rhijn (1988) further argued that due to the local economy growth downturn, markets become saturated and other macroeconomic factors like low interest rates and home market become less attractive. In addition, the desire of
companies to spread their risk increases and is facilitated by expanding to other geographical locations, especially where there are better political relations and future collaboration with businesses is positive. This would provide organisations with economies of scale, where products developed in home market can be used in similar markets without major challenges.

Adding further and contrasting between the differences between firms from emerging economies and firms from developed economies, Klein and Wocke (2007) explained that firms from emerging economies will have to develop firm specific advantages to overcome institutional voids of their home markets, such as inefficient regulatory environments, limited market information available and inadequate controls to restrict bureaucratic inefficiencies and corruption levels. These advantages form a basis for expansion into other markets. Klein and Wocke further reasoned that fundamental contributors to the success of various South African firms in developed and developing markets is the ability to create conditions that perpetuate success, such as the protective incubating environment these firms enjoyed during the apartheid regime, where their economical exposure was severely limited.

Ramamurti (2012) explained the difference about multinationals from emerging economies, and theorised that the four important factors for internationalisation strategy are (1) country of origin effects – macro economic factors of the country, (2) the global context for internationalisation, which affects the ease with which firms can internationalize; (3) the stage of evolution of the firm as a multinational enterprise; and (4) the industry in which it operates.
Figure 2-2: Determinants of Internalisation from Emerging Market companies

![Diagram showing the determinants of internalisation from emerging market companies.]

Source: Ramamurti (2012)

**Entry Modes of firms**

To enter a foreign market, firms use various modes of entries. Literature is quite extensive in this field. Ireland, Hoskisson and Hitt (2013, p215) identified five such modes:

**Exporting:** This is a mode where the products are developed in home country and are directly exported to the buyers in foreign markets. This is not suitable for services industries like Insurance or banks.

**Licensing:** Agreements are formed with foreign companies, allowing foreign companies to sell products.

**Strategic Alliance:** Firms collaborating with another company in a different setting in order to enter one or more markets. In South Africa, this equates to insurers venturing to upper Africa; Sanlam and Santam chose to use this mode of entry strategy (Sanlam, 2013).

**Acquisitions:** Firms acquire a company in the target market, called cross-border acquisition. Eppink and Van Rhijn (1988) analysed three companies in Netherlands, and all three companies preferred this mode of entry into other European markets.
**New wholly owned subsidiary:** Also called “Greenfield” ventures, where firms open up by establishing a whole new subsidiary, following complex and costly processes and acquiring the highest control to the firm.

Hsieh, Shen and Lee (2010) added further that the factors that influence mode of entry, especially in developing markets, especially Banks in Asia and Latin America, discovered that cultural distance, the market potential of the host country, and the customer following and institutional advantages are the significant factors that influence the foreign entry mode.

Analysing the growth potential of Africa, Old Mutual—a South African financial services company—opened its Life Assurance office in Nigeria in March 2013 (Old Mutual, 2013), in addition to its existing offices around the continent in Namibia, Swaziland, Kenya and Malawi. The company has further committed to a five billion Rand expansion plan for their footprint in Africa (Business Day, 2013).

In light of the above, this research aims to determine the impact of regulations (discussed in the next section), if any, on Insurers’ plans of expansion and also, how it would affect smaller insurance companies in their quest for growth opportunities in rest of the Africa and other emerging markets.

### 2.3 Regulations

#### 2.3.1 Introduction

The importance of regulations has been continuously debated in academic circles. Hughes (1994) stated that, in the financial services industry, what institutions can and cannot do is only governed by regulatory environment. Chandler (2000) further suggested that “sensible regulation of insurance requires an understanding of a broad range of economic financial theories – pricing metrics, game theory, dynamics, international trade and econometrics – alongside ancillary subjects such as statistical and information theory”.

Falkena et al (2001) explained that the three main functions of a regulation are: (1) to secure systematic stability in the economy; (2) to ensure institutional safety and (3) to create soundness and promote consumer protection.
Secure systematic stability in the economy: For any economy it is of the utmost importance that its financial markets run smoothly and are protected from ineffective or inefficient business practices, insufficient market infrastructures; or a major lack of market liquidity. (Falkena et al, 2001).

Ensuring institutional safety and soundness: Regulatory authorities while promoting efficiency, should not impose regulatory obstacles or barriers that would reduce the safety and soundness of financial institutions, irrespective of whether or not there is a systemic dimension. Firms should be adequately profitable, have cover for their overall risk exposures, be able to face sustained global competition and at the same time have appropriate skilled levels of staff at all levels (Falkena et al, 2001).

Promoting consumer protection: For protection of consumers, regulators must enhance Integrity, transparency and disclosure in the supply of financial services. To supply these services, companies need competent staff and consumers should have access to the full spectrum of the financial services offered. In instances where consumers are wronged, there should be effective and cost-efficient compensation arrangements (Falkena et al, 2001).

The regulatory change is dynamic and happens continuously, argued Mackenzie and Lucio (2005), and regulation becomes difficult due to the number of players involved. The financial crisis of 2008 increased the complexity and enhanced the importance of regulators being in an unenviable position of developing these regulations (Maciandro, Rosaria, & Quintyn, 2012).

In terms of models of regulation, the Twin peak model is a term coined by Taylor (1995) and suggests that the functions of regulation be separated to have a different regulatory authority to different goals of regulations. The G30 Report (Group of Thirty, 2011) defined models of regulation further to differentiate the different goals of supervision and regulation of businesses versus normal operational conduct of business regulation. In a research report, authors Botha and Makina (2011) concluded that this Twin peak model has been viewed as the most efficient and cost-effective way of regulating financial institutions, not only by the regulators themselves, but also the entities themselves. This Twin peak model is represented in a graphical form in Figure 2-3 below:
With the advantage of the best regulatory framework implemented, South Africa emerged as number one in the world (Schwab, 2013). In a survey of 144 countries, the report ranks South Africa as one of the best in financial regulations, strength of auditing and reporting standards etc. Beck and Maimbo (2012) suggested that while African regulatory supervisors understood the existing risks well and have a clear sense of priorities, they are often limited by the lack of resources and empowerment to do so.

The other important aspects of regulations that would impact the strategies for expansion of Insurance companies are described in the following sections.

### 2.3.2 Solvency and Assessment Management (SAM)

The vital components in assessing the financial stability of an insurer are its solvency, capital adequacy and liquidity (Dean, 2011).

Solvency is a measure of whether an insurer can cover its liabilities. It is worth noting that solvency issues are more likely to arise in relation to unexpected aspects of claims. In principle, the ‘expected’ aspects of claims are accounted for in the pricing of the premium for the policy (Dean, 2011).
Capital adequacy is a measure of whether or not an insurer has adequate capital backing (including reinsurance arrangements) to support the assessed risks to which the insurer is exposed. Liquidity is a measure of the insurer’s ability to meet its current day-to-day financial obligations. For an insurer this usually means having enough cash readily available to pay current and near-term claims (Dean, 2011).

Choksi (2007) defined three types of insolvency:

- Balance-sheet insolvency—where liabilities exceed assets;
- Cash flow insolvency—where debt cannot be paid when it is due; and
- Bankruptcy—formally filed for by the distressed corporate through a legal process.

Comparing the banking and insurance regulations, it was observed that frameworks in the industry in the European Union have undergone a structural revision, as regulations move away from static rules based systems (the calculation of capital requirements is based on pre-specified rules), and towards principles-based regulation (provides a better reflection of the true risk situation of an undertaking) (Gatzert and Wesker, 2012; Eling and Schmeiser, 2012). For insurance, European regulators are prescribing Solvency II, which is divided into three sections (Linder & Ronainen, 2004):

- The first section deals with the quantitative requirements such as capital requirements, etc.
- The second section deals with the governance and risk control measurements.
- The last section stresses the importance of reporting – public and private disclosure requirements on the management methods of insurance companies.

Solvency II has created momentum in Insurance companies worldwide towards global standardisation of Insurance regulations due to the globalisation of the industry. Though Solvency II requirements are only valid for European Union states, countries around the world dealing with European insurance companies have been advised to register as a “Third world equivalent” and develop models in line with Solvency II. Since South Africa qualifies as one of them, local regulatory authorities (Financial Services Board, 2012) have developed models and regulations accordingly and have provided local insurance companies with the directives and set deadlines for various levels of testing and capital requirements, with a view to enact these requirements in Parliament to be effective from 01 January 2016 (Financial Services Board, 2012).
Altrén and Lyth (2007), analysing the effect Solvency II on Swedish firms, confirmed that the changes would not impact substantially on the insurance companies’ risk management practices. They also found that the actual effect cannot be predicted until the actual regulations come into effect.

While analysing the effect of regulations’ competition in the banking industry from transition economies, Agoraki, Delis and Pasiouras (2011) presented an argument that confirms that the new additional capital requirements have multiple effects. First, high initial capital stringency requirements can impose entry barriers for newcomers. This would restrict competition and allow existing institutions to accumulate power, resulting in more prudent, less-risky behaviour. Second, higher overall capital requirements are associated with higher fixed costs of running the institutions and, consequently, fewer institutions are able to afford these costs, leading to reduction in the number of market players.

In a study in Nigeria on the positioning of the Insurance industry, Ujunwa and Modebe (2011) argued about the poor state of the Insurance industry and listed the lack of proper regulation as one of the major contributors to the state. Furthermore, they called for stricter regulatory regimes and advised that Solvency II be implemented in Nigeria to improve operational efficiency of Insurance companies.

Despite the above literature, it becomes evident that, while there has been extensive research done on Solvency effects in terms of effects domestically, no research exists on the effect of such capital and risk based requirements for Insurance companies on their expansion strategies. It will be interesting to understand the plight of insurance companies against these regulations and their quest for growth. The importance of regulations is discussed below.

### 2.3.3 Indigenisation

The Oxford dictionary defines nationalisation as “a process of taking control from private to state ownership or control”, Indigenisation as “bring[ing] (something) under the control, dominance, or influence of indigenous or local people” (Oxford Dictionary, 2013). Both words are similar and denote occasions where governments want to take ownership of some of assets. Be it the talk of Mines’ Nationalisation from the ANCYL in 2010, or the governments in other parts of Africa wanting to own their strategic assets,
all governments are ultimately searching for more control in an era of unprecedented freedom.

Nationalisation is an old device (Kahn, 2013): since the industrial revolution of the late 18th century, states have taken on the role of constructing and operating infrastructure that, in private hands, would have constituted a natural monopoly. While Britain was the only country with private railways, European counterparts, most notably the states of France, Prussia, Austria, and Russia all took the state-owned option for development of transport networks and utilities. India nationalised and maintained its banking and insurance services from 1956. It was only in the 1990s that India opened its markets for overseas firms, but only with joint ventures to a maximum share of 26%. Nationalisation is supposed to benefit the host country in terms of development of local resources and stop foreign companies from benefitting on local resources (Rankopo & Osei-Hwedie, 2011).

Discussing what firms do to manage such risks, Keillor, Wilkinson and Owens (2005), have conducted empirical research and found that firms engage in political behaviour with a view to influence government policies. Firms also use industry alliances when threatened with transfer restrictions.

Doe (2009) impressed that indigenisation is important in post-conflict states. He proposed a framework describing indigenous state reconstruction, arguing that this provides important foundations for emerging state. Tihanyi, Swaminathan and Soule (2012) called for managers of multinationals to improve indigenisation not only to use these subsidiaries as profit centres, but also knowledge hubs, especially in relation to government and other institutions in the host country.

Hence the threat or opportunity of Nationalisation is always imminent when expanding to African countries that are filled with challenges of corruption, inadequacy of leadership and weakness of policy implementation capacity (Yahaya, 2012). However, there seems to be no literature available on the effects of nationalisation and indigenisation on the insurance companies’ preferences.

2.3.4 Sovereign Ratings

Sovereign ratings reflect the analysis of a Credit Rating Agency (CRA) such as S&P (Standard & Poors, 2013) about the future ability and willingness of sovereign
governments to service their debt obligations to the non-official sector in full and on time. Similarly, Credit ratings are the opinions of a CRA on the general creditworthiness of an obligor, which in this case is a company or an institution that has borrowed debt to repay later (Standard & Poors, 2013). These ratings are issued by CRA on the request of analysts or issuers themselves.

These CRAs have come under greater scrutiny, as the failure of the rating agencies was identified as one of the reasons for global financial crisis of 2008-2009 (de la Dehesa, 2010). Hanuscha and Vaaler (2013) explained the importance of credit ratings, and demonstrated that the sovereign ratings provided by these CRAs allow for fiscal smoothing in the governments, thereby reducing their risk levels; especially during the change of regimes. Furthermore, Doherty, Kartasheva and Phillips (2012) have stated that CRAs provide different ratings for the same company, based on their analysis and this normally leads to confusion in the market.

Insurance companies, to diversify the risks that they have undertaken, use a process called reinsurance, where part of their premiums are forwarded to their reinsurance partners (Acharyya and Mutenga, 2013). These reinsuring partners are chosen carefully to avoid concentration risk and spread between multiple reinsurers, called counterparties.

Hence, the capital requirements are related to the spread of insurance companies’ risks with other companies and their ratings. The higher the rating of the company rating, the lower the capital requirements. However, credit ratings of these reinsurance partners are restricted to the sovereign ratings of the countries they operate in; more so in emerging markets (Borensztein, Cowan and Valenzuela, 2011). One of the proposals of the SAM is to link the rating of the insurance partners to the additional capital companies would require to hold (Financial Services Board, 2013).

It would be interesting to ascertain whether there is any effect on insurance companies on such downgrading in their strategies. This study attempted fill the gap in academic research on the ratings and risks associated with expansion plans of Insurance companies.
2.3.5 Resource Requirements

Meyer, Estrin, Bhaumik and Peng (2009) argued that one of the significant factors associated with entry into emerging markets is resources. Entry into new markets by acquisitions or Joint Ventures normally take the form of combining resources between home office and staff from local firms. In contrast, Greenfield projects do not provide easy access to local resources. The choice of entry mode thus depends on whether, and to what degree, firms require such resources.

Smith, De Leon, Marshal and Cantrell (2012) proposed seven ways to reduce and close the gap, especially in the critical skills sector. By analysing specific skills and uncovering talent hidden in organisations, sourcing external talent through creative means such as using social networks, creating and leveraging external talent networks, organisations can close the gaps, they suggest. Embedding learning into everyday work will also develop employee skills rapidly; redesigning work to enable demand-driven skills deployment, rather than the supply-driven skills, and finally to create transparency in organisations’ talent needs are the three additional ways that help to overcome the skills gap, these authors added.

Observing the talent in Africa, Kgosana (2011) explained that Africa has moved from “an aid dependent state” to “an attractive destination” and even though there has been growth that has been seen in the last decade, it is becoming increasingly difficult to find resources with the right skills in the local context of each country the insurance companies operate in. While the situation is improving, he further suggested that to deliver the right services, professional firms need to make bold and extraordinary investments to make sure the consistent high quality standard is maintained (Kgosana, 2011).

Yahaya (2012) explained further that the great paucity of skills on the African continent can be attributed to historical and colonial reasons and policy makers should concentrate on growing indigenous talent pools for tackling the issues. However, the implementation of Solvency and Assessment Management has proposed new additional skills requirements, and specifies competencies required in various disciplines of actuarial, risk management and reporting pillars at the levels that industry in Africa has not yet witnessed.

In this research project, it is proposed to examine whether there really is a gap in the market in terms of skills and how the insurance companies treat this critical component of business for their expansion to Africa and other emerging markets.
2.4 Conclusion

The prospects of huge growth opportunities and the willingness of Insurance companies to expand into various hitherto unexplored territories is gaining momentum in South Africa. This expansion comes with inherent challenges and issues. Few of these issues, as outlined in Chapter 1, have been discussed through the critical review of literature. The gaps in the literature have been identified in Figure 2-4 below.

As shown, the regulations could be divided into two major groupings – Home Country and Host country. Home country variables that affect expansion plans include the proposed SAM regulations, perceived lack of skills in the market and the sovereign ratings of South Africa. Host country environment would have both sovereign ratings and credit ratings of companies operating on its soil, in addition to perceived skills gap and nationalisation issues. The model is presented in figure below.

Figure 2-4: Effect of Regulations on Expansion Plans

Accordingly, this research project has set out to answer the research questions as specified in Chapter 3.
CHAPTER 3: RESEARCH QUESTIONS

The research attempts to answer the following questions, as explained in the previous chapter:

3.1 Research Question 1: SAM and its effects on Insurance Companies

How do insurers view their competitive position against local / international competitors when expanding to the rest of the continent, with proposed implementation of new Solvency and Asset Management regulations, which will require higher capital and better governance requirements?

3.2 Research Question 2: Nationalisation and Indigenisation

How do Insurance companies plan to deal with the “indigenisation” and “nationalisation” policies of various governments?

3.3 Research Question 3: Credit Ratings and associated risks

How do Insurance companies view risk of ratings for sovereign states they operate in as well as credit ratings of the firms? How do they view counter party risk?

3.4 Research Question 4: Critical skills

How do Insurance companies tackle the issue of the lack of critical skills to enter these new emerging markets where regulations might not be up to the level required by local authorities?
CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

This chapter outlines the approach employed in carrying out the research required to answer the questions as proposed in Chapter 3. The literature based preliminary investigation pointed to the need for an exploratory investigation to expand insights into the effect of regulations on Insurance companies expanding to markets outside South Africa.

This chapter begins with the explanation of the applied methodology to conduct research and researcher’s approach undertaken towards population and sample selection. This chapter then describes data collection methods, how the data analysis was performed, before concluding with limitations of the method.

4.2 Research Design and Methodology

The research methodology used for this research would take on a qualitative and exploratory nature. Denzin and Lincoln (2003, p4) define that qualitative research “consists of a set of interpretive material practices that make the world visible”, meaning that researcher is in a position to interpret and explain the meaning from abstract position. Qualitative research has shaken off its traditional criticisms of being comparatively limited scientific evidence against quantitative methods, and have provided greater flexibility to “unpack how people construct the world around them, what they are doing or what is happening to them in terms that are meaningful and that offer rich insight” (Flick, 2007).

Malhotra (2010) argues that qualitative research design tends to be unstructured and exploratory in nature and based on small samples. The researcher was of the view that the qualitative approach was most appropriate to meet the objectives laid out for this study as it enabled insights to be captured directly from the experts in the insurance industry on their expansion plans and effects of regulations in host and home country environments for the insurance companies in South Africa.

Exploratory study is further defined as “research that aims to seek new insights, ask new questions and to assess topics in a new light” (Saunders & Lewis, 2012, p. 110). 

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This exploratory study also allows researcher to discover general information about a topic that is not clearly understood and Saunders and Lewis (2012) also warns that the outcome may not be substantial enough to warrant further investigation.

Exploratory research can be conducted in three ways – search existing academic literature; interviewing “experts” in the subject; and conducting interviews with focus groups (Saunders & Lewis, 2012). This study employed the first two methods. First one was the literature review provided in chapter 2 and in second phase, appropriate to this kind of research, semi-structured interviews have been conducted with experts in the industry.

Semi-structured interviews are a method of data collection in which the interviewer asks about a set of themes using some predetermined questions, but varies the order in which the themes are covered and questions are asked. The interviewer, depending on the answers, may drop some questions or introduce additional questions. These experts are called participants in research and defined as “the person who answers the questions in an interview, structured or semi structured” (Saunders & Lewis, 2012).

The research was conducted in the following stages:

- Perform literature review (as evidenced in Chapter 2)
- Draft a list of possible open ended themes and questions for semi-structured interviews.
- Pre-test questionnaires with a sample audience.
- Identify a list of potential interviewees, who are able to assist with data gathering.
- Self-administering the semi-structured interview and questionnaire through face-to-face interviews.
- Analysing the feedback of interviews.

### 4.3 Population and Sampling

#### 4.3.1 Population

Zikmund (2003), Saunders and Lewis (2012) defined population as “the complete set of group of entities sharing some common set of characteristics that can be used to generalise the findings of the study”.

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In this context, population for this research can be defined as:

- Insurance companies in South Africa.
- Financial institutions offering insurance services in South Africa.
- Financial institutions offering some kind of insurance service in rest of Africa based in South Africa.
- Insurance institutes with niche market target.
- Insurance Brokers from South Africa, with offices in the rest of Africa.
- Insurance companies without any expansion plans into other markets, to ascertain their reasons for not exploring the foreign markets.

4.3.2 Size and Nature of the Sample

Malhotra (2010) defined sample as a subgroup of elements of a population that are selected for participation in the study. This can further be divided into probability and non-probability sampling (Leedy & Ormonde, 2010). In probability sampling, each member of the population has a probability of including (Zikmund, 2003). In non-probability sampling, probability is unknown (Leedy & Ormonde, 2010).

Saunders and Lewis (2012) defined purposive sampling as a non-probability sampling in which the researcher’s judgement is used to select the sample members based on range of possible reasons and premises. The researcher took advice from an executive manager of a multi-national insurance company and screened a list of possible respondents for the purpose of interviews. In line with the availability of time and resources, fifteen interviews have been conducted with the selected managers in various insurance institutions in South Africa. This sample size is fifteen.

4.3.3 Unit of Analysis

The unit of analysis for this research was the perspective and knowledge of the Managers in Insurance Industry. These individuals have varied backgrounds and are hold senior positions such as CEOs, Directors and Risk and Compliance Managers, and Strategy Managers in the companies chosen provide their expert views on the research questions.
4.4 Data Collection

Since the aim of the research is to identify and assert the strategic actions and regulatory impacts, the interviews provide a direction and a preview into the thinking that goes on in corporate board rooms of Insurance companies. One-on-one and in-depth interviews provide an efficient, feasible and flexible way of collecting data. Allowing for a two-way communication between researcher and respondent, this method provides an opportunity for the interviewer to probe, clarify and follow-up with ambiguous or unclear answers (Mason, 2002). The further aspects of face-to-face interviews, like body language, and the ability to understand explanations of the respondents combined with observation, provide an excellent opportunity to collect unstructured information (Zikmund, 2003).

As a first step towards the interview, the researcher discussed the research with the Executive member from the company in which he is employed and identified the list of possible insurance companies that could be included in the population sample. After an analysis of each company and the respondents, the researcher identified several key employees of each company that would be ideal candidates for interviews. The questions were also refined at this stage and suggestions were provided regarding how the interview should be conducted, which have been incorporated into interview schedule.

The prospective respondents were contacted via a standard email template (Appendix A) requesting an interview outlining the research objectives. Upon receipt of confirmation, the respondents were thanked and the researcher proceeded to set-up meeting requests either with the Personal Assistants of the individuals or directly with the nominated representative from their company. All the meetings happened in respondents’ offices, except for one where the interview was held in the researcher’s office, as this location was more appropriate for the respondent, being closer to home.

At the start of each interview, respondents were profusely thanked for their valuable time. A brief introduction was given about the research topic, background of the research topic choice and the background of the researcher. The confidentiality of the data, voluntary nature of participation and ability to withdraw from the interview at any time was confirmed. Respondents were also asked to speak openly and freely, as the purpose of research were to gather perceptions around the research topic. It was also explained to them that audio recordings were taken for the purpose of data analysis.
and further requested that if they would like to discuss anything offline, they were free to ask at any time of the interview to stop the recording and provide their opinion. Each of these interviews lasted varying times, with an average length of 40 minutes per interview.

At the conclusion of the interview, participants were asked to share any further thoughts they might have had on the issue, but were not covered during the interview. The signed consent form (sample in Appendix B) was then collected from the respondents and they were thanked again for their valuable time and input.

The collected audio files were transcribed verbatim within two weeks and notes from the meeting or key observations were entered into a spreadsheet. The transcripts of the audio recordings and notes that were captured provided the primary data for the analysis of data.

As the interviews progressed, actual themes and specific categories became clearer to the researcher as identified by Saunders and Lewis (2012). These themes were then aligned with research questions on the regulatory impacts on the insurance companies and allowed for appropriate data analysis.

4.5 Data Analysis

There are “a range of approaches to qualitative data analysis with a common focus on shifting from level of description and summary to exploring and explaining the underlying essences, patterns, processes and structures” (Silvermann, 2011, p288). The frequency analysis and content analysis techniques were used to identify trends and patterns from the interview transcripts.

Dierckx de Casterle, Gastmans, Bryon and Denier (2012) advocated the use of QUAGCOL (Qualitative Analysis Guide of Leuven) to capture the rich insights of qualitative interview data. This systematic but flexible method contains conducting analysis in two stages of five steps each and depicted in Figure 5-1 below.
In line with the above methodology, during the first stage, all interviews have been transcribed and the text was read and read to summarize the perspectives. The reports were then analysed for key viewpoints of participants along with the researcher’s notes during the interview. A computer program called Atlas.ti was used to assist the data analysis. The program enables loading of all transcripts as primary or source documents to proceed with analysis.

The researcher was then able to extract and work through the verbatim responses, coding these into related themes. Concept families were created to categorize the data by employing a coding system to group related units of data. Once significant themes were identified, constructs were prepared matching to the research questions to continue with the analysis. All identified codes and questions were then grouped appropriately and published under results in next chapter.

4.6 Limitations

The study was conducted only on the insurance companies based in Johannesburg region in South Africa that were expanding to dynamic markets and the research could be applied to all dynamic markets. However, the regulatory requirements vary from country to country and the findings may not be applied in such situations.
The interviews were conducted in 2013 and were based on the proposed regulatory changes and some of these proposals would be regarded as legal requirements only from 2016 onwards. The final regulations may be similar, or change considerably for positive or further requirements that might be added, which would require that the answers provided might require re-testing again in a few years’ time, when the regulations would have been in force and the organisations would have had exposure to the regulations in real life.

Qualitative research often depends on individual’s judgement of the researcher and on the researcher’s interpretation of data, leading to perception bias (Saunders & Lewis, 2012).

Since respondents are dealing with the sensitive issues of strategy of their organisations, sometimes response bias might have crept in, individuals trying to defend their own position and / or withholding the information due to sensitivity of the information (Saunders & Lewis, 2012).

Results obtained during the sampling method used cannot be generalized across industries and to the whole population. (Zikmund, 2003).

The richness of data that emerges from in-depth interviews is so huge that it might not be interpreted correctly (Malhotra, 2010).

4.7 Validity and Reliability

In terms of research, validity is defined as “a) extent to which data collection methods accurately reflect what they intended to measure and b) research findings are what they profess to be about” (Saunders & Lewis, 2012, p127) and Reliability is defined as “the extent to which data collection methods and analysis procedures will produce consistent findings” (Saunders & Lewis, 2012, p128).

For the qualitative research, the validity is slightly difficult, owing to the fact that there are several limitations as discussed above, but the effect of validity would have been minimized by conducting an extensive literature review based on academic and business sources to understand and develop proposed research questions in terms of competitive strategy, entry to dynamic markets and regulatory impacts, with insurance industry as the main focus.

To increase the reliability in this qualitative research, an interview guide was prepared, as suggested by Saunders and Lewis (2012) and with the additional support from
industry experts, pre-tested with individuals to gain satisfactory approval to proceed with interviews. This ensured that any respondent bias had been reduced. During the interview, questions were asked in such a way that would eliminate any response bias and notes were made in places where it was suspected that it was a biased view. Furthermore, researcher bias was removed by producing the output in the words of respondents.

4.8 Conclusion

This research methodology design allowed the researcher to answer the research questions set out in Chapter 3. What factors influence the expansion strategies of insurance companies and effects of regulations in “host” as well as “home” countries and the perceived lack of skills in the market has been explored in the previous chapters.
CHAPTER 5: RESULTS

5.1 Introduction

This previous chapter presented the methodology used for carrying out the research. This chapter presents the findings from the extracts of the interviews of Managers from various Insurance Companies based in South Africa.

5.2 Profiles of Interviewees

Interviews were conducted with 16 managers, representing 13 different insurance companies based in Johannesburg in South Africa. Profiles of the interviewees are described below, followed by the presentation of the results from these interviews, in terms of the research questions outlined in Chapter 3.

Interview 1

Company A is a new start-up company based outside Pretoria, started only in 2012. Providing specialized personal services, this company has a huge advertising campaign that ran on South African media networks. Promising the lowest premiums, they have been able to attract a sizeable chunk of customers onto their books.

Respondent from this company (Respondent A) is the Chief Financial Officer and has a vast experience in Insurance and Reinsurance in South Africa and well known in the Insurance circles for his useful insights.

Interview 2

Company B is a well-established small scale insurance company, with its operations in several neighbouring countries. They operate mostly with specialist companies and have recently started a reinsurance business with a view to capture business from rest of the continent via reinsurance treaties.

Respondent B is an Executive Director of the company for their reinsurance division; he is also responsible for the implementation of local regulatory requirements in the company. He has worked extensively outside the borders of South Africa and has...
experience in negotiating and dealing with companies and regulators on the African continent.

Interview 3

Company C is a division of a major South African Insurance conglomerate with various businesses. This company has a subsidiary operating out of Mauritius and is well known for their specialised niche products in the market.

Respondent C is the Compliance Manager in the company responsible for implementation of regulations and Respondent D is the manager, Legal services.

Interview 4

Company E is the African arm of a major American Insurance Brokerage firm. They have insurance related operations in more than 100 countries around the world. In Africa, they have operations in nine countries and they operate from Sandton as their head office for the region.

Respondent E is the Executive Manager of the company, responsible for compliance to regulations in each of the territories, providing direction and training to all staff for regulatory compliance measures.

Interview 5

Company F is a specialist Insurance company based in Parktown area of Johannesburg. It is 23 year old company and their product range includes life insurance, short term insurance in specialized lines of business insurance. They operate their business model though several underwriting managers in South Africa and some sub-Saharan countries.

Respondent F is a qualified Actuary and manager responsible for the implementation of new capital based risk regulations being implemented in South Africa. Respondent G is the Risk Manager, responsible for implementation of compliance to regulatory regimes in the markets they operate in.
Interview 6

Company H is an insurance arm of one of the major four banks in South Africa. This company has extensive banking experience in Africa, but little presence in terms of Insurance outside South Africa.

Respondent H is the Compliance Manager for the Insurance Company, responsible for implementation of regulatory requirements within the organisation, while respondent I is a Specialist working with Respondent H in the same department, with specific focus on studying the impact of regulations.

Interview 7

Company J is an insurance arm of another one of the major four banks in South Africa. This company has very little exposure outside South Africa in both its insurance and banking divisions. This major bank has 4 million banking customers, but they have been unable to improve their insurance customer base, which has been at a fraction of their banking customer base.

Respondent J is the Executive Director in the company responsible for the implementation of special projects and business development in the Insurance division.

Interview 8

Company K is a small to medium range specialized insurance company, with its portfolios in life, health and short term insurances and presence in few African countries in Health Insurance sector.

Respondent K is the Chief Executive Officer of the company, with more than 30 years of industry experience in various roles; he was responsible for set up of various companies in South Africa and opening up of their subsidiaries and branches in Africa for these companies.

Interview 9

Company L is the African Insurance division of a major South African Bank, with operations in several Sub Saharan African countries. They followed their banking footprint to set up Insurance products, targeting the same customers, satisfying their insurance needs.
Respondent L is the Executive Manager responsible for setting up the operations for the Insurance Company's financial services division in various countries they have chosen to open up.

**Interview 10**

Company M is the Short-Term Insurance arm of a major Insurance Group in South Africa. While the group has set up its operations outside South Africa--mostly in developed markets, their short term insurance company is still nascent and has not progressed beyond the borders of South Africa.

Respondent M is the Chief Executive Officer of the company and he is a qualified actuary. He has vast experience in Insurance industry in South African markets.

**Interview 11**

Company N is one of the major Insurance Houses in South Africa. It is a family owned business, not publicly traded, and has expanded their business significantly in the last decade. They also have an International division, with operations in several African and other emerging economies.

Respondent N is the Chief Development Officer of the International Division, responsible for developing business in outside South Africa,

**Interview 12**

Company O is one of the oldest Insurance companies in South Africa. It has a wide network of distribution channels and forms part of a major Insurance group in South Africa, founded in the 19th century.

Respondent O is the Executive Manager responsible for underwriting management all over Africa.

**Interview 13**

Company P is a mid-sized Insurance company in South Africa, operating in both Life and Non-Life sectors, with a history of more than 25 years. Their total gross written premiums in 2012 financial year was approximately 900 million South African Rands.
Respondent P is the Chief Executive Officer of the company and he has vast experience in the African continent, specifically in Insurance Industry.

**Conclusion to the profile of the interviewees**

As can be seen above, the interviews were conducted with a wide range of experts in the Insurance industry. In Summary, the mix included all levels of industry – Large, Medium and Small, Insurance companies, insurance companies which are subsidiaries of banks, insurance companies which have operations in other markets, Insurance broking firms etc. to ensure consistent message across the industry.

### 5.3 Interview Questions and Aggregated Responses

All the responses to the interview questions have been grouped into common themes using Atlas.ti software and all the interview questions have been mapped to research questions as per the Table 5-1 given below:

<table>
<thead>
<tr>
<th>Table 5-1: Mapping of Interview Question to Research Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research Question</td>
</tr>
<tr>
<td>Q1: SAM and its effects 1.1</td>
</tr>
<tr>
<td>Q1: SAM and its effects 1.2</td>
</tr>
<tr>
<td>Q1: SAM and its effects 2.1</td>
</tr>
<tr>
<td>Q1: SAM and its effects 2.2</td>
</tr>
<tr>
<td>Q1: SAM and its effects 2.3</td>
</tr>
<tr>
<td>Q1: SAM and its effects 2.4</td>
</tr>
<tr>
<td>Q1: SAM and its effects 2.5</td>
</tr>
<tr>
<td>Q1: SAM and its effects 2.6</td>
</tr>
<tr>
<td>Q1: SAM and its effects 2.7</td>
</tr>
<tr>
<td>Q1: SAM and its effects 3.1</td>
</tr>
<tr>
<td>Q1: SAM and its effects 3.2</td>
</tr>
<tr>
<td>Research Question</td>
</tr>
<tr>
<td>---------------------------</td>
</tr>
<tr>
<td>Q1: SAM and its effects</td>
</tr>
<tr>
<td>Q1: SAM and its effects</td>
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<tr>
<td>Q1: SAM and its effects</td>
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<td>Q1: SAM and its effects</td>
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<td>Q1: SAM and its effects</td>
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<tr>
<td>Q1: SAM and its effects</td>
</tr>
<tr>
<td>Q4: Critical Skills</td>
</tr>
<tr>
<td>Q4: Critical Skills</td>
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<tr>
<td>Q4: Critical Skills</td>
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<tr>
<td>Q4: Critical Skills</td>
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<td>Q4: Critical Skills</td>
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<tr>
<td>Q4: Critical Skills</td>
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<tr>
<td>Q4: Critical Skills</td>
</tr>
<tr>
<td>Q2: Nationalisation</td>
</tr>
<tr>
<td>Q2: Nationalisation</td>
</tr>
<tr>
<td>Q2: Nationalisation</td>
</tr>
<tr>
<td>Q3: Credit Ratings</td>
</tr>
<tr>
<td>Q3: Credit Ratings</td>
</tr>
</tbody>
</table>
After the transcribed documents were loaded to ATLAS.ti software, key themes have been identified and coded with key words. The occurrence of the key codes has been examined and analysed for inclusion in the result. The frequency and Rank order of top 20 key codes have been shown in the table below:

<table>
<thead>
<tr>
<th>Code</th>
<th>Frequency</th>
<th>Rank Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAM</td>
<td>32</td>
<td>1</td>
</tr>
<tr>
<td>Other African Countries</td>
<td>26</td>
<td>2</td>
</tr>
<tr>
<td>Market Challenges</td>
<td>25</td>
<td>3</td>
</tr>
<tr>
<td>Exceptional Skills</td>
<td>23</td>
<td>4</td>
</tr>
<tr>
<td>Resource Gap</td>
<td>22</td>
<td>5</td>
</tr>
<tr>
<td>Cost of Implementation</td>
<td>21</td>
<td>6</td>
</tr>
<tr>
<td>Local Laws</td>
<td>18</td>
<td>7</td>
</tr>
<tr>
<td>Mergers and Acquisitions</td>
<td>17</td>
<td>8</td>
</tr>
<tr>
<td>Work with Government</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td>Entry Mode - Joint Venture</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Resources Available</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>Huge Opportunity</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Research</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Additional Capital Requirements</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Disadvantage</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>Nationalisation</td>
<td>13</td>
<td>16</td>
</tr>
<tr>
<td>Regulatory Speed</td>
<td>13</td>
<td>17</td>
</tr>
<tr>
<td>Cultural Differences</td>
<td>12</td>
<td>18</td>
</tr>
<tr>
<td>China</td>
<td>11</td>
<td>19</td>
</tr>
<tr>
<td>Competitors</td>
<td>11</td>
<td>20</td>
</tr>
</tbody>
</table>

The above table highlights that SAM, Other African Countries, Market Challenges and Exceptional skills appeared greater number of times and form important part of the results in the sections below.
5.4 Results: Research Question 1: Effects of SAM Regulations on Insurance Companies’ Expansion Plans

Question 1 dealt with the strategic impact of regulations on Insurance Companies. In the interviews, respondents were asked about their views regarding the general South African Insurance market and the challenges that are being faced in the market by companies, before expanding the questionnaire to rest of the continent. They were asked if they had operations in the rest of Africa, what challenges they are facing and then continued to ask questions about expansion into the rest of the world. All respondents were further requested for their experiences, views and perceptions on the effect of regulations, especially SAM, on their expansion plans.

5.4.1 Business challenges in South Africa for Insurance Companies

As can be seen from the following, all 16 respondents answered that the Insurance Industry in South Africa is going through threatening times. Not only has the market slowed down and global recession effects are being felt, but also the local regulations in the last few years have pushed Insurance companies into thin margins and have resulted in low returns to shareholders. As one of the respondents put it:

Interview 13:

“It is going through a very difficult time and I think it is you know primarily, I mean it’s a convergence of different factors. It’s very sluggish economic growth, so there is no growth, strong competition for people not just to retain their market share but to grow their market share and that is leading to unrealistic price expectations and pricing on policies so and under-pricing on lot of cover. And then we have got the impact of now probably four or five years of regulation, which is where it now is beginning to introduce change on the structural basis.”

This lack of profitability is explained by another respondent:

Interview 12:

“I think one of the major challenges we face at the moment is that we are struggling with underwriting profit and the underwriting results are being pressured. I think most major players in South Africa at the moment; certainly
all the intermediated players are seeing profit margin degeneration. Um, I think we are seeing a very soft pricing market because the pricing is being placed down or pressurised, the profit is suffering. We have also seen, we have seen, a number of large losses, I think some of our competitors have seen large losses as well which haven't helped. And then late last year of course, we suffered a catastrophe hail storm as an industry which has also put pressure on the industry. I think there is quite a lot of motor inflation, some of it probably caused by the fact that the exchange rate, that the Rand has weakened, and so therefore, that's causing more motor inflation which again puts pressure on the claims line, which then contributes to the lack of profitability.”

One of the respondents, answering the challenges faced by South African Insurers mentioned the regulations as a major contributor to the source of issues:

Interview 11:

“The first key issue that will come up and I think you will get that in a lot of people’s discussion is the whole issue relating to regulation, and regulatory changes, so you SAM, consumer regulations, dynamics with regards to doing with the brokers, changes in the legislation with regards to underwriting managers, binder agreements, so I think regulations has a big impact and certainly one of the most significant issues that insurers have got to deal with and leading onto that, you've now got to spend a lot more money on compliance, a lot of money on compliance infrastructure and getting the right people and placed from that perspective and obviously your balance between what your costs are versus your income is certainly providing a significant challenge therefore the business has got to grow.”

Another respondent summarises the problems faced by South African insurance industry that this is a combination of all factors that has caused the slowdown:

Interview 8:

“The issues are, I don't think the market is growing as well as it should have been and secondly, I think that we are faced with a whole range of economic, social, political issues, simultaneously facing the issues of regulatory environment. SAM is one of them. I don't think SAM is a problem per se, I think
it is probably good in the long run but I think with the adjacent regulatory impact as well, outsourcing directive, binder regulations and every other bit of paperwork which comes through.”

5.4.2 General Business environment in other emerging markets

While South Africa is filled with challenges, respondents’ answers regarding the growth on African continent seemed to denote a region that has remained largely unaffected.

Interview 13:

“We do, we do have business in Africa. We currently operate in Sub-Saharan Africa, we have no bricks and mortar, but we do, we do provide capacity and expertise into African territories. It has been very profitable.”

Another respondent confirms that their African operations have been very profitable, owing to the strategy they have used. They have used the operations using their parent company distribution channels, which already have distribution networks in Africa.

Interview 9:

“It then goes without saying that because there is a relative lack of penetration of life products, so they are relatively unknown, or they have been to date, and because there is a very good reason to have this conversation with the customer, the time that it has taken to for our businesses to become viable is relatively short, you know they are cash positive, you know, pretty much from day one and they are profitable, you know, pretty much straight away.”

When asked about their strategy for expansion, general themes came out as mergers and acquisitions, in some cases outright buying was concluded. Expansion preferences are given below in Table 5-3.

Table 5-3: Frequency of theme – Expansion Preferences

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>%age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Ventures / M&amp;A</td>
<td>10</td>
<td>62.5%</td>
</tr>
<tr>
<td>Greenfield Expansion</td>
<td>6</td>
<td>37.5%</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>100%</td>
</tr>
</tbody>
</table>
Some organisations preferred Greenfield expansions:

Interview 4:

“It is M&A, so they will take over existing brokerages, the problem with these countries is the indigenisation, so you have to have local presence, you need to be licensed, so for an foreign company to go in and say ok we want to start a brokerage, they are going to say well where is local presence, ok they then have to develop a relationship, find somebody they want to partner with, then get a license, the time to market will be too long. So for them to go in, identify who are the top 3 players in the industry in this field that we are in, and say who is open to a buyout, or to acquisition. And that is what they have been doing, that is the strategy. And go for full or at least majority Controlling stake in that partner.”

Interview 9:

“Our international focus is to focus on emerging markets developing markets that really is conducive to number one product innovation, number two distribution innovation, where your regulatory environment allows you to bring some of those innovations to bear, within these markets, so that’s really been our focus, our focus is really Africa Asia from a growth perspective (....)So far we have done all green fields more focused on finding the right insurance entrepreneurs and we have done that all with us being a majority shareholder.”

5.4.3 Results: Solvency Assessment and Management – Advantage?

Sharing their views about the impact that SAM has on expansion plans of the insurance companies, several respondents feel that the regulations in general have enforced restrictive environment in South Africa.

When asked whether it is advantageous or disadvantageous to have SAM regulations on South Africa for expansion plans, the answer is overwhelmingly negative, as is evident from the following table:
Table 5-4: SAM – Advantageous or Disadvantageous?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>%age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantageous for Expansion</td>
<td>4</td>
<td>25%</td>
</tr>
<tr>
<td>Disadvantageous for expansion</td>
<td>12</td>
<td>75%</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>100%</td>
</tr>
</tbody>
</table>

The respondents who have responded that it is advantageous provide following reasons:

Interview 7:

“I think it is advantageous from that point of view because if you master that model you can always gain some efficiency out of it when you go to another country because you have done it, you have paid the school fees it’s a matter of getting that, obviously with some tweaks you follow what I mean?”

Interview 11:

“No there is, there are potential disadvantages but I think if you start thinking through it and applying your mind correctly it’s not such a big disadvantage. Obviously holding more capital is an issue that one has got to deal with but I think over time that will sort itself out.”

Interview 10:

“I think long term it is an advantage; for the industry and I think long term it creates a better participant in the market, short term I think it is a disadvantage. You know, it is always hard to compete against a much more nimble competitor. So it’s a disadvantage from that perspective.”

Great number of responses has been received regarding why it is disadvantageous.

Interview 3

“I mean there is a huge disadvantage, and would restrict our development, any South African, I would imagine it doesn’t matter who you are, big or small, it would restrict your expansion into those areas. It’s the same about what we are complaining about at the moment, with foreigners coming into South Africa,
from a reinsurance prospective, where they don’t have to hold capital, but we do, we have to register as a fully-fledged fully capitalized insurer to be able to write reinsurance business in this market. (....) All we know is that the playing fields are not level in South Africa.”

Interview 5

“I think we as disadvantageous we have increasingly competitive environment within in Africa, so insurers that are based already in Africa looking to grow in the same way that we are, we have a higher capital requirement, we have a higher actuarial requirement and then further to that we are member of BRICS which then further brings in countries which do not have as sophisticated capital – capital measures and governance measures as we do trying to compete with the same pool.”

One respondent feels that while small companies will feel the pinch of additional capital, large companies will remain unaffected by the new SAM regulations.

Interview 3

“I think our bigger companies here, you know you Santam, M&Fs Zurich, Munich’s, and Swiss, but you know companies like that, who have international parents and things like that, they will be fine in terms of rating and capital and things like that, but I think it is your medium size, the smaller companies will cope, but it is going to be costly.”

There were questions about the validity and necessity of SAM regulations in South Africa, as a respondent thinks that the regulations in SAM are more aligned to European environment and would not necessarily work in South African Context.

Interview 8

“I think that is where SAM/ Solvency II is all wrong, because the chances, in my mind personally, of companies wanting to go open up in Europe are slim. And there the regulation and the playing fields would be even more difficult for profit margins are squeezed.”
5.5 Results: Research Question: Dealing with Nationalisation and Indigenisation

Question 2 deals with the impact of nationalisation regulations of sovereign states on some or all aspects of Insurance Business. “How do you see the nationalisation policies of governments effect your strategic plans?” Participants agreed in general that they will work with governments and follow the instructions as it is the right thing to do.

One respondent explained the process of nationalisation and how it works on the African continent:

Interview 9

“You have to place certain percentages in the local industry and in fact in some cases in very specific plans, now this firstly is not new and our sense is that it has been moving towards liberalisation, you know, so it’s actually where it still exists, it’s a legacy of something going years back where the government then said look we want to create a local re-insurance industry, we don’t want all premiums to flow off shore, we want to create a local industry, and in some cases there is a state owned re-insurer, so they say, well you know, we want this company that we own to gain some support, during the trend is towards liberalisation, so many countries Tanzania for example, Kenya which still has compulsory sessions, are moving towards scrapping those divisions”.

However, respondent also confirmed that reverse to this is already happening:

Interview 9

“And then in some isolated cases, you have the reverse that is happening, so a place like Botswana for example, has traditionally been very liberal in this regard and is now moving back to say now hold on a second, traditionally we have allowed outward re-insurance to flow sort of unhindered, but we are putting in place something to promote the local industry.”
Another respondent asserted the view about nationalisation as necessary, but implied there are workarounds to the problem.

**Interview 8**

“I think that the only real issue there is that there is a desire that there be a level of retention in the countries. That is the one area where the regulator is, in the local territories, is insisting on local participation by local insurers. But, the transfer of skills and doing the claims management and other work (....) is not a worry so much. It’s just retention of risk, a level of retention of risk in the in country insurers.”

This is further collaborated by another respondent, who argues that there are ways to overcome nationalisation rules set by governments:

**Interview 13**

“If you think about it, one of things that, one of the benefits as South African insurer has, is [the] technical skill in underwriting business at a very high level, and not understanding when I said earlier that local expertise, probably adequate to deal with most of the stuff that they do. There are risks that, they need overseas or external expertise to come in, so South African insurer can provide expertise and perhaps some infrastructural support at a fee. And that’s one way when you are doing a JV or you’re doing a partnership, or something you know, so I have thirty per cent of the business in Uganda, but I provide a hundred per cent of the technical knowledge and so on for which I get is worth another twenty per cent of the company. So there are ways of looking at that, at that model and addressing those issues accordingly.”

The view of the companies’ willingness to open offices in new territories might also be coloured by the experiences the other similar companies has in that market or any market that is deemed similar. In the words of a respondent:
Interview 12

“I think xxxx Insurance has had some experience in Africa already, clearly they have already had some expansion into Africa and have had the experience where the government has nationalised the company and have had some poor experiences with them and I guess that would colour your attitude towards that country in the future, so you might not want to invest in that country should something like that happen and I guess it would also make you want to be certain about the other countries you are going into that the same thing will not happen. I think it’s difficult in Africa because in some places because political stability isn’t that easy to get, but what I’m thinking then is that the first expansion would be into the more politically stable regimes and then you know, establish practices in those countries, establish companies in those countries, get those countries to grow and then take it from there. But I think if the country is being perceived as being politically unstable, it would be unlikely that we would want to invest there.”

5.6 Results: Research Question 3: Dealing with Sovereign Ratings

The proposed new Solvency regulations in SAM provides for additional capital requirements for reinsurance partners’ credit ratings. Since the companies’ credit ratings follow that of the sovereign rating of the country that they operate in, respondents were asked about the impact that would have on their expansion plans.

Frequency analysis on the significant themes resulted in figures that are shown in Table 5-3. It is evident that there was no mention of the effect of Sovereign ratings from three respondents. This is due to the lack of knowledge of the participant in this particular field.
Table 5-5: Frequency of theme - Ratings

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>No mention in Interviews</th>
<th>Mentioned in Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Ratings</td>
<td>16</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Sovereign Ratings</td>
<td>18</td>
<td>10</td>
<td>3</td>
</tr>
</tbody>
</table>

The responses received are given below:

**Interview 5:**

“We always have our internal ratings in terms of irrespective of what is on the market which is normally higher than the market and the sovereign ratings so we sort of used to that in other words, we tend to do business with if you talk about re-insurance or whatever we’ve got AAA or AAA plus or whatever it is so we sort of used to that so the sovereign ratings obviously if it drops it creates all round problems totally just from capital point of view so we keep our ears and eyes open unfortunately something which as a company we don’t have control over that’s the macroeconomic situation that we are looking at, but yes it’s a challenge and I won’t underplay it – it’s a challenge and the lower it gets obviously the stacks get higher so from that point of view we are mindful of the fact.”

Another respondent confirms the thinking:

**Interview 6:**

“I think SAM favours investment ratings so I think the first eight ratings to A minus is investment rate and then it increases financially after that so it doesn’t mean you can’t do business with the company if it is not in its grade, but you’ve got to have quite a lot of capital and get the returns to make that worthwhile or be well or be well diversified like we are. We’ve got 38 reinsurers and not just one or two it has got its own because SAM also penalizes you on concentration. So credit ratings is something there is a lot of back and forth because credit rating is only one dimension of a company’s ability to operate I think what we have seen with Ireland being rated an A+ the day before they collapsed so with Lehmann Bros., it shows you that credit ratings isn’t an absolute truth.”
Another respondent has holistic view of the ratings and confirms that Africa is a long term investments and the research for investment goes beyond country ratings into deeper macroeconomic factors:

**Interview 11**

“When we do a new country entry, we obviously consider macro factors very strongly, but those macro factors relate more to the impact of the economy on the insurance industry, you know, for example you might find a country like in a certain, well South Africa is a good example, as a credit rating which is downgraded, or you know, runs the risk of being downgraded, but sits at the back of that is when you look at the insurance industry, look due to the economic factors, the industry is not growing at the same rate that you would have seen a number of years ago, but it is a well-managed industry, it is vibrant, it’s professional, you know, it’s not going to disappear because the country received a rating downgrade and I think the same holds true for perhaps even more so, you know, for the countries in the rest of the continent, where insurers penetration, one is very different between South Africa and most of the other countries across the continent is that insurance penetration here is at a first world, developed country level. Whereas generally across the continent, with one or two exceptions, Morocco, you know, there are one or two sort of outlier countries, but they still don’t come anywhere near South Africa, for the rest insurance penetration is dismal, you know, so it is a massive gap in our view that needs to be developed and filled over, you know, and you really need to take a long term strategic view here, it’s not a 5 year programme, you know, this is a 10 15 year kind of programme. So a downgrade and a country sovereign rating is not something that in and of itself, would cause us to take a second look at a country. We would look more at a political risk overall stability, Egypt you know again being the topical example. But for the rest we see an opportunity because of the low, generally, low levels of insurance penetration.”
5.7 Results: Research Question 4: Critical Skills

Against the perceived lack of critical skills in African market, the interviewees were asked about their feeling on the lack of skills – both in South Africa and other countries on the continent. The results are surprising, as can be seen from the analysis in table below:

Table 5-6: Lack of resources in the continent

<table>
<thead>
<tr>
<th>Resources Available</th>
<th>Frequency</th>
<th>Frequency %\text{age}</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources Available</td>
<td>25</td>
<td>64%</td>
</tr>
<tr>
<td>Resources Gap exists</td>
<td>14</td>
<td>36%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

5.7.1 Skill levels in South Africa in Insurance Industry.

The first question about critical skills to all participants assessed their perceptions regarding the levels of skills available in South African Insurance sector. The respondents were further probed to discuss the general skills and what they perceived as critical skills. They were also asked how the skills are affected with onset of new regulations.

The answers were not very surprising; this respondent confirmed that South Africa as such does not have any issues and provided his reasoning:

**Interview 1:**

“I think in the insurance industry you have some very good skills. South Africa I think during the apartheid years has made insurance their own; they were very innovative in the life industries there are some products there that are world firsts like Universal Life. So I think generally speaking South Africa is very innovative and I have a theory that it was caused by apartheid. You are a pariah you might as well survive on your own, it made you take more risks it made you look at how you can do things by yourself, and you can't rely on other people. Do it yourself as a result we became very innovative. And we haven't struggled to put people together to get the skills that we want, we haven't struggled I think there is an abundance. We haven't really struggled we haven't said how do we get this person in here as insurers.”

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Some other respondents mentioned that there is a great dearth of skills and they are struggling to find the required people, even in South Africa:

**Interview 7:**

“Definitely there is a huge skill shortage in South Africa, especially in the white collar job to start with we can narrow down into insurance industry and that too within actuary skills and POPI or whatever even in IT skills.”

Another respondent acknowledge that with the new regulations coming into effect, it is becoming increasingly difficult.

**Interview 4:**

“I think our agency and broker side, I think it’s more complex, there are a lot of agents that don’t have the right level of skill even if they pass the RE exams, some of them just struggle to migrate to compliances, it is not something that will just go away”.

However, the employment of these resources involves high cost and is only the prerogative of large companies who can afford this investment:

**Interview 8:**

“I think to a large extent the larger insurance companies are fortunate in as much that they can afford to have people that are employed purely and simply to deal with the SAM related issues of regulation changes. The smaller companies have to use existing resources that are then spread across doing their normal day job as well as trying to get as involved as possible with industry discussions for example.”

### 5.7.2 Skill levels in Rest of the African continent in Insurance Industry.

The next question posed to the interviewees was how the rest of the continent appears in terms of skill sets. The participants were quizzed on the level of technical skills on the ground, critical skills and regulatory skills. The answers received are varied on either extreme.

Africa is a huge continent and just as we cannot say Europe is one territory, the same
is true for Africa. It should be not viewed as one complete entity. This is exactly true in case of skills; some countries have better skills than others.

**Interview 4:**

“I was presenting Zimbabwe and the questions that came out of there, I was shocked, there were more four MBAs in the room in Zimbabwe. You know, whereas from Namibia, I don’t think there were people in the room that had matric, you know so, so there are different levels of education and what people associate the importance they place on having a good education differs in different regions.”

The above was also confirmed by another respondent:

**Interview 12:**

“I don’t want to appear critical of the skills in Africa because what we often find in the outlying areas there are really good skills and deep skills because the individuals stay in their jobs for a long time and therefore they do become very skilled.”

However, some respondents disagree, and say that the skill levels are very low in the territories in which they operate:

**Interview 8:**

“Skills are low. Skills levels are low in the territories. Not at the level that South Africa’s got.”

Another respondent, whose organisation operates in several territories, disagrees partly to the statement above and confirms that it is not as bad as it is thought of in South African circles.

**Interview 9:**

“So let me say as an overarching statement, I do tend to find that some people who operate from South Africa, tend to view the rest of the continent, and this does not only relate to insurance and matters relating to the insurance industry, but in other ways as well, tend to view everything as backward or non-existent
or, you know, not up to scratch, or whatever the case may be. And my experience in carrying out the work that I do that this is not necessarily the case, so you've got a regulator, you know, the regulations pertaining to insurance, maybe somewhat outdated if we can use that term from a South African point of view, especially from a consumer related legislation, we have seen a raft of this stuff coming through in South Africa, over the last number of years. And in some cases, or in many cases, in fact, you don't see the same sort of aggressive approach to consumer related legislation in other countries. So although the legislation may in certain respects be a bit outdated in comparison to what we know here and take for granted here, that doesn’t mean it’s dysfunctional in any way shape or form.”

These skills are far from perfection in these markets outside South Africa, but the respondent clarifies that the requirements for these skills in Africa are not as strict as is needed in other territories.

Interview 13:

“I think that they generally, look skills in insurance globally is scarce, and one would expect Africa to have its share of that skills shortage. The African markets are certainly not as sophisticated as South Africa, and so whilst they have skills issues, it's I guess not as exaggerated as it would be if we were operating Africa. Many of these territories have got much simpler regulatory regimes, you know they sell simpler products into particular market segments, and so generally, I mean the skills levels are adequate, given the state we are in, and the status of these markets at the present time.”

5.7.3 What efforts are being made to enhance skills?

It is important for organisations to improve the skills of people they employ, for both their current and future needs, both in terms of business and regulations that might impact their business. It is important to be able to negotiate with various industry bodies and be in a position to provide sufficient contributions required for these regulations before they become laws, thereby protecting their own interests.

In line with the above, all participants were asked about the measures they employ to bridge the gap in skills shortage. They were then asked to define their priorities for training their staff from foreign operations—where applicable—and finally, they were
asked about the skill levels in the regulatory bodies on the continent and how they deal with it.

One of the overwhelming themes that came to the fore was training of people through graduate programmes and increase in intake at junior levels is assisting the industry to bring skill levels up.

**Interview 13:**

“There’s always been a shortage, right, but I think that we are adding to it quite rapidly, with the need for new skills, risk managers, actuaries, you know people who didn’t have, I mean even IT, business analysts, process engineers (....) the unintended consequence is it does force you to get youngsters, you know through, and that’s good for development in the long term.”

The overseas employees are brought to South Africa for training programmes, which might include short bursts of teaching and preparation that typically last between three and six months:

**Interview 8:**

“We bring their people to our offices in Johannesburg and train them and send them back. But it’s a low level; it’s not a comprehensive, detailed underwriting claims management skill that we would like to have. And that takes quite a few years to acquire, you know.”

Also, South African experts are lent to other territories for a fixed period to impart knowledge and training that is required in the markets.

**Interview 9:**

“I guess if you venture into Africa you would probably have to expose skills because I think that’s where and I think as a bank we have done that well we’ve exported our skills into Africa so when we open up branches or businesses in different countries in Africa, we generally export South African skills to those areas and some of the countries in Africa is probably not that under developed
and if you look at a country like Kenya or the actuarial capabilities where people import actually actuaries from there all over the world basically we’ve got a couple here as well, and I think we mustn’t under estimate Africa completely in terms of the under development.”

5.8 Conclusion

This chapter presented the information that emerged from the data analysis that was conducted from the transcripts of the interviews and additional notes that were made during the interview. The next chapter discusses these findings in relation to the literature review conducted in Chapter 2.
CHAPTER 6: DISCUSSION OF RESULTS

6.1 Introduction

This previous chapter presented the results from face-to-face, in-depth interviews, wherein the data was analysed using qualitative techniques and software. The complete set of 13 interviews with 16 respondents conducted over the period of two months were analysed and results are outlined. This chapter further interprets the results based on the critical review of existing literature detailed in Chapter 2 and the results produced in Chapter 5.

This chapter ultimately seeks to provide answers to the research questions posed in Chapter 3, which are the effects of regulation on Insurance companies when expanding to emerging markets:

- Competitive position of South African Insurance Companies due to implementation of SAM.
- Nationalisation threats.
- Sovereign rating downgrades.
- Lack of critical skills.

6.2 Research Question 1: SAM and its effects on Insurance companies

6.2.1 Introduction

Research Question 1 examines the proposed regulations around Solvency Assessment Management and the impact it will have on South African Insurance Companies expanding to markets outside South Africa. This question is answered by analysing the current environment of Insurance Business in South Africa, followed by the advantages of expansion to other markets. Further, the effects of SAM proposals on such expansion plans are discussed before concluding with a summary of the findings.
6.2.2 Discussion of Results

The results of the responses provided by the interviewees that correspond with Research Question 1 are grouped into different constructs, as depicted below:

Table 6-1: Discussion of results - Research Question 1

<table>
<thead>
<tr>
<th>Key Constructs for Question 1: How do the Insurance Companies see their competitive position due to implementation of SAM, when expanding to other countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A 1.1</strong> South African Insurance Market is saturated. Due to increased competition and few catastrophic losses, the recent past for Insurance Industry has seen very slow progress.</td>
</tr>
<tr>
<td><strong>A 1.2</strong> Coupled with the above, influx of regulations at a great urgency has caused Insurance companies' cost of operations to increase, thereby reducing their profit margins.</td>
</tr>
<tr>
<td><strong>A 1.3</strong> Opportunities in markets outside South Africa are huge, due to the development of manufacturing, low base start-up and projected future growth. However, growth in these markets is slow and one needs to take a long term view.</td>
</tr>
<tr>
<td><strong>A 1.4</strong> Preferred method of expanding into these territories is mostly joint ventures, to test the water, understand the culture and then expand further.</td>
</tr>
<tr>
<td><strong>A 1.5</strong> Proposed additional capital requirements in the Solvency and Assessment Management regime are a definite disadvantage to insurance companies with expansion plans.</td>
</tr>
<tr>
<td><strong>A 1.6</strong> These proposals are world class; work well in developed world, might not work so well in emerging markets. Advantageous only for the companies planning to expand to Europe or other parts of developed world.</td>
</tr>
<tr>
<td><strong>A 1.7</strong> Answer is inconclusive as to whether South Insurance Companies will be out-pricing themselves out from new markets they are expanding due to the additional capital requirements</td>
</tr>
<tr>
<td><strong>A 1.8</strong> However, for large insurance companies, with huge balance sheets, these additional capital requirements are negligible.</td>
</tr>
</tbody>
</table>

As explained in section 5.2.1, all respondents agree that the South African Insurance industry currently faces several challenges. The market is still reeling from the after-effects of the global financial crisis and recent large losses have hit industry heavily. In addition, regulatory proposals maintain uncertainty in the Insurance market. Several regulations have come into effect since 2002 – FAIS (Financial Advisors and Intermediary Services), which forced certification exams for agents and brokers. It was the regulation that had a major impact on Insurance companies. Since then several
other acts have come into operation, which forced changes to the way in which insurance companies traditionally operated, as evidenced from the responses to the interview questions. In the South African environment, this relates to Dixon’s (2013) argument that explained why companies would look outwards for growth and margins. The ultimate goal of companies is to maximise their return to shareholders and, as highlighted by one respondent, “The ultimate goal for shareholders is to enhance their wealth. So we do have it on the horizon that we are going to go into Africa and also Russia.”

To support this argument further, Ramamurthi (2012) explained the determinants of expansion of organisations from emerging economies are driven by four forces, namely internationalisation and the ease of expansion; the macroeconomic factors of the country of origin; the industry of the organisation; and lastly the stage of evolution of the organisation. Inasmuch the macro economic factors of South Africa and the ease with which South African Organisations can ease into International Markets (Klein and Wocke, 2007), have provided the necessary impetus for Insurance organisations to look overseas.

However, the challenges experienced by insurance companies do not stop there. The regulations that the industry has been subjected to over the last few years, as well as the proposed new SAM regulations, pose additional challenges. These new proposals were proposed by the Financial Services Board that, through collaboration with industry, are time consuming and has an enormous impact in the form additional resources spent on these new regulations due to the cost of implementation. Furthermore, once the proposals are signed into law, the cost of ongoing operations is another continuous challenge for the industry. As one of the respondents (Interview 11) clearly explained, opening an international office under new SAM proposals comes with requirement of additional capital holding (e.g.; opening office in Botswana would mean holding of R 70 million additional capital) in South Africa due to geo-political and currency risks in those countries.

This additional capital requirement would have to be covered via increased funds from shareholders, who in turn would anticipate better returns and/or premium increase from policy holders, which is highly restrictive in terms of the business environment currently under price wars. However, price wars are not the main concern. These additional requirements would place a serious burden on any plans that small and medium insurers may have, due to the balance sheet constraints. Respondents 9 and
13 confirmed that these additional requirements, however, are negligible in case of large insurance companies like Sanlam, Mutual and Federal and international companies like Zurich, etc. For these large companies, which it would be matter of experiencing only a little discomfort; the additional requirements would not trouble their expansion plans, as they simply allocate greater assets to fund such plans.

When respondents were asked about higher pricing in international markets and whether South African companies would be out pricing themselves, different views emerged. One respondent explained:

“I don't think you price yourself out by having higher capital, so you can still hold higher capital on your balance sheet; you just want to get a return for your shareholders because your earnings against capital will be lower proportionally. it will depend on the capital intensity ratio, so it will actually depend on the capital regime in that region, as to how you price because the capital intensity ratios are part of the determination of the pricing and then you would add on all your costs, you know your cost of claim, your cost of management”.

This implied no effect on prices, however, other respondents differed from this opinion:

“You are definitely not going to survive. The outsiders will have an advantage and Insurance companies will have to find alternative ways of making money”.

6.2.3 Conclusion

It is evident from the explanations discussed in this chapter that it is disadvantageous for South African Insurance Companies to expand into other territories, with the proposed new regulations. Furthermore, the interviews with industry experts also revealed that in the long term, this can be advantageous, owing to the level playing field that would be generated.

The major concern however, appears to be that the regulations are too rapid and there is no time and resources to assimilate to these changes, therefore insurance companies struggle to concentrate on their other strategic objectives.
6.3 Research Question 2: Nationalisation and Indigenisation

6.3.1 Introduction

In Research Question 2, the respondents were asked about how insurance firms deal with nationalisation and indigenisation policies of various states. They were asked to expound on how they planned to expand, and to define the processes that would be followed prior to enter new markets, as well as to emphasise the catalysts for exiting such markets.

6.3.2 Discussion of results

Significant responses from the interviews were captured and delineated in Table 6-2.

Table 6-2: Discussion of results - Research Question 2

<table>
<thead>
<tr>
<th>Key Constructs for Question 2: How do Insurance companies plan to deal with the “indigenisation” and “nationalisation” policies of various governments?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 2.1 Indigenisation and Nationalisation poses no real threats to financial services Industry, unlike mining and other resources.</td>
</tr>
<tr>
<td>A 2.2 However, there are some restrictions in the country on retention levels of the premiums received. The recent trend with governments is to liberalize, not enforce stricter rules, by opening up markets for foreign direct investment.</td>
</tr>
<tr>
<td>A 2.3 Insurance companies use Joint Ventures where it is not possible to own 100%.</td>
</tr>
<tr>
<td>A 2.4 Experiences of their parent companies and/or other companies in the Financial Services Sector also serve as an indicator to the strategic expansion plans.</td>
</tr>
<tr>
<td>A 2.5 Proper Risk Management policies are in place to monitor each country’s political, macroeconomic situations.</td>
</tr>
</tbody>
</table>

Nationalisation is a construct that has been present throughout history in various forms and shapes. As it was pointed out by the respondents in the interviews, nationalisation and indigenisation of Insurance services is not new and the government’s desire is to retain some part of the premium income generated in the company within the borders of the operation.

As one respondent explained:

“It’s just retention of risk, a level of retention of risk in the in country insurers(....) The only issue is with retention of reinsurance.” Another respondent concurs that these are absolutely reasonable demands from the governments “For
example, in Kenya they require one third local ownership, which I think most
people in business require, you know, see it as it's very reasonable and so a
couple of points around that, firstly you know, it's not a matter that is up for
debate, it's only a question of how do you comply, you know, so compliance is
not up for debate so from our point of view”.

Schnitzer (2002), calculating the Sovereign Risk vis-a-vis international capital inflows,
argued that Joint Ventures are the least risky form of entering countries. Table 5-2 also
confirmed this point for mode of entry. By partnering with firms that the companies
have identified, they work closely and ensured the effects of nationalisation are
minimised. A respondent confirmed:

“We devote our energy and attention to finding the right partner, on boarding
them in a constructive way, doing proper due diligence, making sure we have
got the right people with the right credentials with the right background, you
know so that it’s not going to backfire on us at some point in the future” as one
respondent said.

Di Corato (2013) agreed that the threat of nationalisation exists; especially developing
countries that are rich in natural resources. He further identified that by partnering with
government and creating an appropriate Joint Venture with a local partner, it is possible
to generate optimum profits that would benefit both parties.

Finally, respondents indicated that these issues need to be observed from a Risk
management perspective and one respondent explained:

“One of the things a good risk manager looks at is the dynamism of legislation,
legislation is never fixed it changes, regimes and government and regime
change for whatever purpose. We would certainly try and work within that. At
the end of the day, it must be a viable business. If it is not a viable business
then we would shut shop, it’s as simple as that”.
6.3.3 Conclusion

As can be concluded from above information, nationalisation does not hinder insurance companies with regard to their expansion plans. With appropriate risk management frameworks and forming Joint Ventures where necessary, companies deal with the regulations in host countries with regard to the compulsory reinsurance requirements within the territories in which they operate.

6.4 Research Question 3: Effects of Ratings

6.4.1 Introduction

Sovereign ratings of countries and credit ratings of companies help mitigate the risks associated with the failures of market participants and helps assist the cost of borrowings (Larraign, Reisen & von Maltzan 1997). In this section, the responses from the interviewees about the importance of these ratings as perceived by them, and how it effects their business in general and their expansion plans, are discussed.

6.4.2 Discussion of Results

The significant discussion points from the results of the interviews for this question have been tabulated below.

<table>
<thead>
<tr>
<th>Key Constructs for Question 3: How do insurance companies’ view counter party risk?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 3.1 Sovereign Ratings of countries is not something you look at when you are looking at developing markets, since the view in these territories should be long term, not short term.</td>
</tr>
<tr>
<td>A 3.2 Credit ratings of firms need to be looked at independent of sovereign ratings.</td>
</tr>
<tr>
<td>A 3.3 However, for counter party risk, ratings become important and appropriate risk management framework is necessary to spread the risk to reduce risk and regulatory capital requirements.</td>
</tr>
</tbody>
</table>

The overarching point every participant made was that Sovereign and credit Ratings of companies are very important aspects, only in terms of reinsuring the premiums in the countries (counter party risk) and they are not concerned about the impact in terms of strategic impact.
Firstly, the participants explained that the sovereign ratings of the countries are not to be analysed in isolation, since emerging markets are volatile and there needs to be a long term consideration for these countries; “10-15 years”, as one respondent explained.

For credit ratings of individual firms’ partners, the companies have specific rules about whom they can partner with. One respondent stated:

“On a more operational level, credit rating is to come into the equation because for example in our organisation, we have an internal requirement that we only place our re-insurance with our triple A rated partners”. However, downgrading of countries these partners operate from causes automatic downgrading of rating of these companies. When quizzed about this aspect, respondents confirmed that it is possible that the companies, as part of their risk management portfolio, continuously look for alternatives and in some cases, they might overlook the ratings due to the other factors like strong balance sheet and experienced management team. As one respondent confirmed, “now as soon as you get outside of here, especially in the countries there are compulsory sessions come into play, you now need to potentially temper that requirement is say well look so and so, we can't, if we want to do any form, we can't carry the all the risk on our balance sheet, we have to reinsure something, therefore compulsory sessions come into play and therefore you are forced to do this business with a B plus rated entity”.

Another respondent explained that ratings are not the ultimate deciding factor when you are choosing your reinsurance partners:

“It’s not all about the rating, it’s also about looking at the balance sheet that we are dealing with because if you look at what's happened with rating agencies globally you’ve had some people that have great ratings but they failed because nobody had a real look at the balance sheet, and it's also again about building good relationships, so if you understand the people you are dealing with, you understand the dynamics of the companies then it’s much easier to come up with proper policy on rating”.

Other respondents have also confirmed that they, as investors, are not concerned about the ratings, as these are treated as a part of their research in macroeconomic...
factors of the country they invest in. Iannotta, Nocera and Restic (2012) provided empirical calculations and suggested that the ratings of various Sovereign countries and the investor appetite had no relation to each other.

### 6.4.3 Conclusion

This section dealt with the importance of Sovereign ratings of countries and credit ratings of individual firms and what the effect of these ratings was on insurance companies. General confirmation from the respondents alludes that they do not form a critical part of expansion strategy, but become an important factor in their operational roles.

### 6.5 Research Question 4: Resource requirements

#### 6.5.1 Introduction

This question deals with the resource gaps that can be identified in the markets and how insurance companies deal with this challenge. Participants were asked various questions related to the skills availability, skills gap, challenges and how they overcome these challenges. The literature review is matched against the responses from the interviewees and the resulting

#### 6.5.2 Discussion of Results

The salient discussion points from the results of the interviews for this question have been tabulated below:

**Table 6-4: Discussion of results - Research Question 4**

<table>
<thead>
<tr>
<th>Key Constructs for Question 4: How do Insurance Companies tackle the issue of the lack of critical skills to enter these new emerging markets where regulations might not be up to the level required by South African authorities?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 4.1 With the implementation of new regulations, skill levels need continuous upgrading in both South African and other territories in which South African Insurance Companies operate.</td>
</tr>
<tr>
<td>A 4.2 Skill levels are generally lower than the South African Skills</td>
</tr>
<tr>
<td>A 4.3 Resource gaps in the territories are filled by importing expatriate talent.</td>
</tr>
<tr>
<td>A 4.4 Training (short term or long term on job) in South Africa is a common theme for most of the companies.</td>
</tr>
<tr>
<td>A 4.5 Utilisation of consultants is a necessity for smaller insurance companies to deal with the new regulations being implemented.</td>
</tr>
</tbody>
</table>
As can be seen from section 5.7.1, the South African market, in which all respondents operate, comes with its own challenges in terms of skills required to operate in the market. This is despite the fact the South Africa is ranked number 1 in terms of Financial Regulations in a report published by World Economic Forum (2013) article. While this would imply an acceptable level of availability of resources, there are still some gaps that need to be secured and suitable plans needed to be developed to ensure the longevity of these skills.

Ashby (2008) interviewed 20 of the senior managers of the banking and insurance industry in Europe and argued that many of these regulations need additional skill sets that employees traditionally did not have. He was referring to the implementation of proposed Solvency regulations in Europe, especially concerning the global financial crisis. He further found that the regulators focus too much on quantitative capital requirements, and suggested that they should be focus time and resources on qualitative risk management solutions in the industry.

This view was corroborated by one of the respondents:

“I think capital is an issue, but I think a lesser issue than costs so I think ensures to on an ongoing basis comply with this sad legislation of pillar one, pillar three and that is costly so they need actuarial staff, not every insurer can afford that and there's a big need for proportionality around that and I think in terms of one, the knowledge of the data, the knowledge of your insurance company, the detailed view of getting things correct, in the correct basis, correct data, that you can get out of your system and understand is great I think pillar two is probably the biggest one of SAM and I think governance and risk management are critical in our industry”.

The skills in these areas become crucial in the times to come. There have been efforts to increase the intake of staff in the sectors supporting new regulations, namely with Business Analysts, Data analysts, Process engineers. Since the skills are not available, they are being forced to recruit young graduates – with the hope that they will be able to learn quickly and also will provide for future growth of the organisation and industry. In the words of one of the respondents, who is a CEO:

“I think that we are adding to it quite rapidly, with the need for new skills, risk managers, actuaries, you know people who didn't have, I mean even IT,
business analysts, process engineers (...) the unintended consequence is it does force you to get youngsters, you know through, and that’s good for development in the long term”

The continent comes with inherent challenges when considering skills. In some places skills are adequate; whereas in other areas there is a dearth of skills. There is also a great deal expatriate support in African countries, as explained by the respondents:

“I would say from my experience, this is probably going back quite a number of years is that the rest of Africa, the insurance industry has been driven to a large extent by expats.”

This also comes with their own challenges, as regulators are not necessarily familiar with local conditions:

“I believe the new regulator for life business in Botswana comes from India, so they went and they found an Indian to play in that space, and the first thing he asks us is – why don’t you sell endowment policies? Endowment policies do well in India! Our philosophy is we are not going to focus on unit linked endowment policies in a lot of these African markets, because you have got to understand the dynamic and you have got a growing middle class, the market is not big enough to satisfy from that perspective. Our aim is to broaden the scope of people who buy life insurance, we want to make sure that we get our penetration levels up, we are going to look at bank assurance, we are going to look at other forms of getting into play, but we are going to focus on risk business. It poses problems of explaining to the regulator how businesses work in Africa, which is very uncomfortable to discuss”

The challenges are multifaceted. Not only are the skills are low in the organisations and the people that work for them, but there is also a limited number of people who can successfully communicate to negotiators and explain their perspective appropriately.

For up skilling of the resources, companies need to employ people from South Africa for shorter periods to train and educate them specifically for the environment in which they will be employed. These people can either attend very short bursts of training sessions, as proposed by one of the respondents, or they can be employed for longer term contracts (6 months – 2 years) to instead train the local people and equip them
with the technical skills that are needed to deliver companies’ products.

It was also found that organisations hire people for short term contracts (3-6 months) to impart similar training and train-a-trainer concept emerges where they enhance additional skills on both ends of the spectrum. Once these trainers are back in their home country, they can then readily provide training to other colleagues to multiply the knowledge and increase awareness levels.

The critical aspect of training the international segments was the terms “South African Arrogance” which came up all too frequently during the discussions with respondents. This term denotes the way South Africans do their business, especially on the African continent. This is to the detriment of the South African organisations and they must employ a more cautious approach, as one of the respondents explained:

“*Within Africa there is a massive danger of entering a market and saying I’m from South Africa let’s get that, I mean in east Africa they see South Africa as being very arrogant, trying to lead the way, so our organisation have certainly taken a very conscious decision not to go into markets with a bit of I’m South African, I’m the greatest in the world approach, we’ve taken a very low ego, low approach to the way that we’ve done it. A good example would be when we were entering Zambia, we used Namibian operations as gateway, with very little support from South African Team.(....) I think it’s about dialogue, understanding, learning and moving forward rather than trying to force something upon the regulatory environment in host countries*.”

However, one respondent strongly objected to this term and stated that the advantage of knowing more than others is actually good because it can be used as an advantageous marketing base for the firm. Negotiations can be held with regulators as an added value proposal to make their entry into the market smoother:

“So although one doesn’t emphasise this fact, although it doesn’t become core into what you are doing, one can ascertain a different experiences that you have gained from South Africa, in terms of, you know, treating customers fairly for example, so typically another country may not have specific requirements or regulations or legislation in that regard but if you can make it part of your proposal and part of your proposition to say look this is part of how we do business even though you don’t have requirements of us in this regard, this is
something that we will do because it is part of our business model, it is part of our ethos, that’s certainly in my view gives one an advantage.”

In relation to the exceptional skills required in the international insurance industry, Craig, Hou and McCarthy (2012) explained that there is looming talent disparity in the insurance sector and these authors suggested several mechanisms to increase the talent in Insurance industry. They suggested that the organisations must engage with universities to include analytics courses in their curricula, lobby for educational reforms to improve analytical skills at school level, and also appeal to the organisations to recruit graduates and improve their analytical talent in-house by training and developing them in order to secure the future leadership and growth for the said organisations.

During the interviews, several of the respondents confirmed the use of graduate programs as method to enhance the talent for future growth. However, there has been no mention of engaging with universities and/or government to increase the basic levels of education.

6.5.3 Conclusion

The results about the skills gap in the Insurance Industry have been discussed in this section. It is apparent that there is a huge gap in the industry and attempts are being made to close these gaps in the industry by recruiting graduates and other qualified, albeit junior people in vast numbers.

6.6 Conclusion to discussion of results

This chapter revealed the results garnered from the depth interviews that were conducted to gain deeper understanding about the Insurance companies’ expansion plans. These results were analysed in relation to the existing literature and the significant out comes have been extracted and noted.

The next chapter emphasises the research background and research objectives and summarizes main findings that addresses research questions. Recommendations are then identified for the management of Insurance companies, before concluding the argument with recommendations for future research.
CHAPTER 7: CONCLUSION

7.1 Introduction

The objectives of this research project, as delineated in Chapter 1, were to identify the impact of regulations on Insurance companies. Four objectives were set out, primarily identifying the SAM and its impact on insurance companies. Secondary objectives under scrutiny in this research included the nationalisation threats and effects on companies, and the ratings as they influence the Insurance industry. Finally, the perceived lack of skills in the market was set as an objective to understand.

Chapter 2 identified the theory base behind the above objectives and formulated the gaps that could be explored using this study. All the resultant questions were revealed in Chapter 3. Chapter 4 outlined the chosen methodology, explorative qualitative study and the results from 13 in-depth face-to-face interviews with 16 respondents were discussed in Chapter 5. The results were then validated against the literature from Chapter 2 and findings were discussed in Chapter 6.

This chapter summarizes the main findings of the research, outlines recommendations for insurance companies. The chapter then concludes with limitations and areas for future research.

7.2 Main Findings

In this section, the effect of regulations, as perceived by the industry is summarized.

7.2.1 Research Question 1: SAM and Its Effects on Insurance Companies

Solvency and Assessment Management regulations are proposed to be implemented to law from 1 January 2016 has a profound impact on Insurance Companies. These regulations are extremely expensive for insurance companies to implement, and these costs are expected continue throughout the operational phase. The unanimous response from the industry is that these regulations are totally unnecessary at this point in time, due to the fact that South African Financial Institutes have been largely immune from the global financial crisis that commenced in 2008. The origin of these rules, Solvency II of Europe, has been in inception for more than a decade and due to the lack of agreements on the rules, has yet to be implemented in Europe.
The SAM regulations, if implemented into law, are also prohibitive for smaller Insurance companies that desire to expand beyond borders of South Africa due to additional capital requirements. The small companies, already burdened with the cost of implementation of SAM, can ill afford these additional requirements and the market might see an increase in Merger and Acquisition activities within the industry, and some insurers reducing part of their business due to these new changes.

7.2.2 Research Question 2: Nationalisation and Indigenisation

Compared to SAM, nationalisation and indigenisation has proved to be relatively easy to manage. Participants agreed that while this is a risk that they have to take when they are venturing in to foreign territories, compulsory retention requirements are manageable. By choosing appropriate Joint Venture partners to enter the markets and by providing services outside the scope of the current offering, such as professional, technical and risk management services, expansion will possibly be welcomed by emerging markets. Appropriate risk management frameworks are necessary to monitor each territory's political and macro-economic situations to take appropriate measures.

7.2.3 Research Question 3: Effects of Ratings

The ratings provide an interesting dynamic in the life of Insurance companies. While they do not affect anything for their operations within the country, it becomes extremely important when they have to spread the risk base via reinsurance with other partners both inside and outside the countries. Intimate links between Sovereign ratings and Company ratings provides a dynamic, again from an operational point of view, to spread risk appropriately, with partners rated appropriately to keep risk management in check.

However, new SAM regulations provide an interesting twist to these rules. The capital requirements increase with the changes in the ratings provided. While the direction is a little hazy in terms of how this would be incorporated into the regulations, companies have been engaging with the regulator to reach consensus on how best to solve these issues, before they become law.
7.2.4 Research Question 4: Critical Skills

The success of any organisation depends on the ability of its employees, staff and consultants to deliver results. Be it technical knowledge required for producing superior products or operational knowledge to make sure the organisation runs smoothly, it is very important that the skills are up to date.

The regulations over the past decade have drastically changed the dynamic of the Insurance industry. Many new requirements have come in the form of FAIS (Financial Advisories and Intermediary Services), regulatory exams require companies to invest heavily in training programmes. In addition, proposed SAM imposes heavy actuarial, risk management and other critical skills, which are not easily available in the market. Appropriate skills become more critical when considering the rest of the continent from the South African companies’ perspective, as regulations are not deemed acceptable.

Against this backdrop, companies are a) outsourcing the critical function to consultants, b) recruiting people at a junior level in vast numbers to train and bring them up to speed by the time the proposed regulations come into effect and c) training people from outside South Africa on requirements that would in turn enable them to run business in their territories at a level required by South African operations.

7.3 Recommendations to Management of Insurance Companies

The following recommendations are made to Insurance Companies in South Africa based on the research questions and responses, as summarized in previous chapters.

Solvency Assessment Management regulations are being developed with customer’s ultimate interests in mind. It is in the interest of the Insurance companies to engage with the regulator to work for mutual benefit, as is being done currently.

SAM is definitely a disadvantageous prospect for smaller insurance companies regarding their expansion plans. However, there is some consolidation expected in the market due to implementation, which will provide better managed organisations to purge the unprofitable lines of business in favour of more profitable businesses. Attaining their niche segment and sticking to it, will be the advised method of business for smaller insurance companies to follow.
Medium and large size insurance companies can use Joint Venture partners to enter into other territories. Understanding the culture should be a strategic objective in their expansion plans. Importance should be given to the partners who subscribe to the business values of South African companies should be preferred.

Nationalisation is an issue that needs to become part of the Risk Management portfolio. Macro-economic factors must be evaluated carefully and the appropriate mode of entry should be used when entering a new territory. The profile of any new territory should be analysed with a long term view in mind, not short term.

The other important factor about nationalisation is the level of retention in the country. Insurance companies must note that this is only applicable for the actual business premium parameters and additional support in the form of technical skills and critical skills could be provided to Joint Venture partners to generate additional revenue.

Risks associated with ratings could be removed by prudent selection of reinsurance partners and more importantly, by analysing reinsurance partners beyond their ratings. The style of management, balance sheet and historical performance would provide good indicators to that effect.

Skill levels in the African continent are generally low and to improve this, Insurance companies are advised to partner with Universities to develop graduate programmes that would assist the level of intake into the organisations. Management is further requested to maintain the uptake of junior level skilled people in numbers to cater for Insurance industry’s future growth needs.

Another important aspect that is specific to South Africa is the quality of education at school level. Mathematics and Science literacy at school level has been ranked 148 out of 148 countries compiled in World Economic Forum’s “The Global Competitiveness Report 2013-2014” (Schwab, 2013, p. 347). Insurance companies should consider adopting certain schools as part of their Corporate Social Responsibility initiatives and develop programmes that would enhance the quality of educators and learners, that would ultimately develop the economy in general.

The key findings and recommendations are summarised in the Table 7-1 below.
<table>
<thead>
<tr>
<th>Research Question</th>
<th>Findings</th>
<th>Recommendations</th>
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| Solvency Assessment and Management| • Implementation is expensive  
• Prohibitive for smaller companies for expansion  
• No effect on larger companies  
• Might see in local M&A               | • Engage with regulator  
• Find niche markets  
• Drop lines of Business, based on new requirements  
• JV Partners for Medium-Large companies, who subscribe to similar values. |
| Nationalisation                   | • Manageable  
• Additional services provided from South Africa  
• Avoid South African Arrogance            | • Part of Risk Management Profile  
• Macroeconomic factor evaluation  
• Appropriate mode of entry  
• Take a long term view  
• Provide non-core services for a fee.    |
| Credit Ratings                    | • No effect in Local operations  
• Careful selection of Reinsurance partner | • Part of Risk Management Profile  
• Prudent selection of Reinsurance partners  
• Analyse partners beyond ratings e.g.; Management Style, historical performance etc. |
| Critical Skills                   | • Decade of regulations changed the face of Insurance Industry  
• Very expensive to hire these additional resources  
• Outsourcing critical functions  
• Include vast numbers at junior levels  
• Outside South Africa, requirements are not that stringent, hence not many issues | • Continue employing junior level employees in large numbers to prepare Industry for future requirements.  
• Partner with Universities to develop appropriate graduate programs  
• Involve in improving Primary education – especially mathematics and Science.  
• Train people outside South Africa in such a way that they are self-sufficient |
7.4 Recommendations for future research

Regulations of the Financial Services Industry has gained momentum post global financial crisis. This has placed well managed companies at a disadvantage where they have had to spend unnecessary expenditure towards this implementation and block additional capital, which could be utilized to expand their operations. In light of this research, the following further areas could be explored.

- This research was exploratory and descriptive in nature. Future researchers might quantify the impact of these regulations in companies’ expansion plans. Empirical research associated with some regression on the data available prior to and after the implementation of these regulations can be analysed.
- All four elements of regulations discussed above can be analysed independently and more research can be conducted to the effect of these individual parameters, namely: Solvency Assessment and Management, Nationalisation, Ratings and Critical Skills.
- This research considered the general expansion plans of insurance companies. This strategy could test against the insurance companies’ expansion plans to Developed Markets as well and determine whether they are any different or whether these regulations are valid for those markets as well.
- Individual countries can also be evaluated regarding the advantages and disadvantages of expansion, and provide guidelines for Insurance companies.
- Another aspect that could be researched is the decline of Insurance Skills in South Africa, with an aim to discover the depth of the problem by using empirical research.
7.5 Conclusion to Research Project

“There are no rules and regulations for perfect composition. If there were we would be able to put all the information into a computer and would come out with a masterpiece. We know that's impossible. You have to compose by the seat of your pants.”

- Arnold Newman

Regulations are an important part of protecting consumer rights, which is a primary goal of any Government. The ultimate goal of any organisation is to increase shareholder’s wealth. There needs to be an adequate balance between the two. By having harmonious relations between government and organisations and by engaging in discussions at all levels can provide a platform where both goals become possible to achieve.
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Appendix A: Interview Request Letter

Dear Sir/ Madam,

My name is Ram Mahavadi and I am a post-graduate student currently pursuing my Masters’ Degree in Business Administration (MBA) at the Gordon Institute of Business Sciences (GIBS), affiliated to University of Pretoria. As Part of the MBA programme, candidates are required to construct and submit an academic dissertation based on learning's acquired and the title I have chosen is “The Effect of Regulations On Insurance Companies Expanding to Emerging Markets”. In this research, I would be attempting to answer the following questions.

1. How do insurers view their competitive position against local / international competitors when expanding to the rest of the continent, with proposed implementation of new Solvency Assessment and Management regulations, which will require higher capital and better governance requirements?
2. How do insurance companies plan to deal with the “indigenisation” and “nationalisation” policies of various governments?
3. How do insurance companies view counter party risk?
4. How do Insurance Companies tackle the issue of the lack of critical skills to enter these new emerging markets where regulations might not be up to the level required by South African authorities?

In this regard, I would request a meeting with yourselves, to have a discussion about the points raised above and collate your answers with your peers in the market. The interview is expected to last between 30 and 45 minutes. Your participation is entirely voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential and only aggregated information would be supplied to all interested stakeholders. If you have any concerns, please contact me or my supervisor. Our details are provided below.

<table>
<thead>
<tr>
<th>Researcher</th>
<th>Research Supervisor</th>
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<tbody>
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Looking forward to hearing from you soon.

Ram Mahavadi
072 542 4862
Mahavadi.Ram@gmail.com
Appendix B: Interview Consent Letter

CONSENT FORM

A copy of this page is to be retained by participant

GORDON INSTITUTE OF BUSINESS SCIENCES
(UNIVERSITY OF PRETORIA)

<table>
<thead>
<tr>
<th>Researcher</th>
<th>Research Supervisor</th>
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CONSENT

I…………………………………………………………………………(Full name of participant) hereby confirm that I understand the nature of the research project, and I consent to participating in the interview.

I understand that I am at liberty to withdraw from the interview at any time, should I so desire.

I also understand that confidentiality will be maintained and only summarised responses would be included in the research.

I also agree to my interview being audio recorded by the researcher.

SIGNATURE OF PARTICIPANT DATE

……………………………………………………………………………………………………………………………………………………………………………………………………………

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