

**Digital disintermediation in the South African short-term
insurance industry: The readiness of the intermediary**

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

11 November 2019

Abstract

Digital technology has given many producers an opportunity to interface directly with customers, circumventing the traditional intermediaries. In recent years, digital technology has been attributed with the risk of disintermediation across different industries.

The purpose of this research was twofold. The first was to gain an understanding of the readiness of the insurance intermediaries to the advent of digital disintermediation. The second was to establish in which adopter group these intermediaries are classified, in the Diffusion of Innovation model.

An inductive qualitative study of intermediaries was undertaken. The data was collected through purposive sampling method and 13 semi-structured interviews were conducted with the interviewees. The interviewees represented the insurance intermediaries from different divisions with varying experiences. The feedback was analysed through thematic content analysis.

The study concluded that South African short-term insurance intermediaries are not ready for the threat of digital disintermediation. Furthermore, the study concludes that the intermediaries are classified as late majority in the Diffusion of Innovations model.

Keywords

Digital disintermediation

Technology

Short-term insurance

Diffusion of Innovations

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.

Edwin Maroga

Signed

Date: 11 November 2019

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Chapter 1: Introduction to the research problem

1.1. Introduction

In the digital age, the role of traditional intermediaries has come under question across different industries where there is digital presence (Clemons, Hitt, Gu, Thatcher, & Weber, 2002; Peukert & Reimers, 2018). Digital evolution has offered different organisations and different industries an opportunity to explore new ways to improve service offering. The impact of digital has had a more pervasive impact than initially thought, and continues to affect all spheres of business (Lanzolla et al., 2019; Rubbio, Bruccoleri, Pietrosi, & Ragonese, 2019). This study focuses on the readiness of the South African short-term insurance intermediaries to the advent of digital disintermediation. Through an exploratory study, this research project seeks to gain an understanding into the intermediaries' response, preparedness and strategic measures taken to future-proof themselves.

1.2. Background to the research problem

The advent of technology in recent years has led to improved customer satisfaction levels, streamlined business operations and processes for better efficiencies, and enabled organisations to explore new business models (Acharya & Hebbar, 2018; Fitzgerald, Kruschwitz, Bonnet, & Welch, 2013; Rubbio et al., 2019). The pervasiveness of technology has empowered buyers with knowledge and by placing them at the centre of all their buying decisions across the value chain. This has led to an uptake in direct purchasing by buyers thereby exacerbating the risk of disintermediation (Bouwman, Faber, & van der Spek, 2005; Dellaert, 2019; Dominique-Ferreira, 2018; Kirkbeşoğlu & Hood, 2018; Lee & Li, 2018; Willis Towers Watson, 2017).

The financial services sector has experienced an emergence of new technology innovations, which have disrupted current processes, increased transparency and provided more clarity of information (Gomber, Kauffman, Parker, & Weber, 2018; Gozman, Liebenau, & Mangan, 2018). Unlike initially thought, innovations are no longer seen as primarily processes of discovery and creation, but have evolved to

involve processes of learning and improvements (Mytelka & Smith, 2002; Rogers, 2002).

In recent years, technology has been attributed with the risk of disintermediation across different industries. This is achieved by making the connection between the buyer and producer easier, through the pervasive technological presence (Clemons et al., 2002; Peukert & Reimers, 2018). The prevalence of technology as a preferred distribution channel has led to the demise of traditional intermediaries in many industries as it reduces costs along the distribution chain (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young, Tudor, & Capozzoli, 2016). Due to advances in technology, digital disintermediation has affected the distribution channels in clerking industries such as travel agents and bank clerks (Maharg, 2016), within the music industry (Bernardo & Martins, 2014) and raised concern over the future and the sustainability of the traditional intermediaries in the hospitality and tourism industry (Law, Leung, Lo, Leung, & Fong, 2015). The role and influence of disintermediation was further explored in the agricultural sector (Kumar, 2014) and within the retail supply chain (Linton, 2018). Digital has had a profound impact on the distribution channels in the smartphone industry (Bicer & Hagspiel, 2016), the printing industry (Lee & Li, 2018), and books, movies and television (Waldfogel & Reimers, 2015).

The financial services industry has not been spared from the wave of digital disintermediation faced by traditional intermediaries in other industries. The effects of disintermediation have been explored within the equity and private equity investments industry (Fang, Ivashina, & Lerner, 2015; Hurt, 2015), the broader banking industry's processes (Marszalek, 2016) as well as within bancassurance (Marszalek, 2016; Sreenish & Kumar, 2017).

1.3. Research problem

Historically, the profound information inequalities between the consumers of insurance products and services, as well as the insurance companies has created a need for institutions to mediate between the two parties. The insurance intermediaries are entrusted with the responsibility of matching the demand and the supply side of the insurance market (Dominique-Ferreira, 2018; Eckardt & Rathke-Doppner, 2010).

Insurance buyers are often faced with the daunting task of deciding what kind of insurance coverage is needed, comparing different insurance companies and their related insurance policies; which includes rates, limits, coverage and deductibles. This task would include an assessment of the reputation of the different insurance companies, pertaining to claims settlements and the quality of service to policyholders. This process is further complicated by the width and breadth of insurance products on offer by different insurance companies, as well as new and emerging risks that insurance buyers are faced with (Agalliu, 2012; Bouwman et al., 2005; Cummins & Doherty, 2006). Insurance intermediaries are individuals or firms who possess profound knowledge of the insurance industry and are independent from insurance companies, who perform these tasks on behalf of the insurance buyers (Cummins & Doherty, 2006).

On the one hand, insurance intermediaries serve the insurance consumers by providing an insurance needs assessment, and advice on the insurance options ranging from a complete risk transfer approach to self-insurance or retention and other methods of optimising their risk, concluded by counsel on which insurance company to select (Verma, Aggarawal, & Singh, 2013). On the other hand, insurance intermediaries provide both the distribution channel and marketing services for insurance companies (Eckardt & Rathke-Doppner, 2010; Verma et al., 2013).

As a final step in the value chain, the distribution system is critical for insurance companies to move insurance products and services to insurance buyers (Verma et al., 2013). Whilst some insurance companies market their products and services to buyers directly either by mail or telemarketing (Cummins & Doherty, 2006), intermediaries are still the main retail channel distribution for insurance products and services around the world (Dominique-Ferreira, 2018).

The insurance marketplace is experiencing a transformation that may lead to changes in the way insurance buyers purchase insurance goods and services (Verma et al., 2013). In order to achieve a competitive advantage among the competitors, Verma et al. (2013) argue that insurance companies cover the market, gain customer loyalty and reduce costs by establishing successful distribution channels.

“The times are not just changing – they have changed, and the insurance industry needs to adapt to the new digital landscape” (Willis Towers Watson, 2017, p.1).

Insurance buyers are becoming increasingly aware of their expectations and as such, demand higher standards of service. This is fuelled by the fact that technology enables them to conduct a comparison of insurance goods and services with ease and accuracy (Dominique-Ferreira, 2018).

Insurers recognise the potential value of digital opportunities in both the front and the back office of their businesses. The increased use of digital technologies has significantly decreased the cost of producing and distributing products in many industries (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young et al., 2016). Insurance companies therefore should innovate and integrate the distribution channel (Verma et al., 2013).

The use of digital technology and a variety of distribution services have allowed for the producers of products and services to circumvent traditional intermediaries. This has led to the direct access and marketing of their products to consumers. The benefit of making use of digital technology is not limited to making sure that more products and services reach the market, but the platforms can also improve the insurer's bargaining position when a contract with an intermediary is set up (Peukert & Reimers, 2018).

Through their research, Willis Towers Watson (2017) have found that insurance companies admit that they have been slow to adopt digitalisation when compared to other companies within the financial services sector. However, insurance companies do acknowledge that there is a need to build their capabilities in order to improve their digital function. Organisations adopt technological innovation in different stages depending on a number of factors, some of which are internal and other are external (Min et al., 2018; Zhai, Ding, & Wang, 2018). Diffusion of innovation is a process through which an innovation is adopted; it explores the different adoption stages under which different organisations are categorised (Rice, 2017; Rogers, 1962, 2002). Organisations are categorised into one of five adoption groups, the innovators, early adopters, early majority, late majority and laggards (Min et al., 2018; Rice, 2017; Rogers, 1962, 2002; Zhai et al., 2018).

Adoption to digitalisation and innovation can be done through one of two ways; internally driven innovation initiatives with full ownership by the insurance companies, or outsourcing of digital capability initiatives to a reputable third party

(Lanzolla et al., 2019). Failure to build such functions and capabilities leaves the insurance companies at risk of losing market share because younger customers are more inclined to make use of digital distributions as channel to purchase insurance products (Willis Towers Watson, 2017).

Many platforms that distribute goods and services give the user the option to consume the said goods and services without the assistance of the intermediary. The phenomenon of circumventing or bypassing traditional intermediaries from the distribution channel is known as disintermediation (Lee & Li, 2018).

The dawn of internet technology, through digitisation, has decreased the cost of distributing products and services. It is for this reason that traditional intermediaries are faced with the risk of being eliminated from the value chain (Lee & Li, 2018). Disintermediation has been largely heralded by internet experts and academicians alike, as it allows buyers to make purchases and retrieve information rapidly in order to make informed decisions (Young et al., 2016).

Notwithstanding the need for insurers to adapt to the new digital landscape, there have been adoption challenges experienced by insurance companies. Some of the challenges experienced by insurers are presented by complexity in the regulatory requirements within the insurance industry, long lead times to commercialise new technologies, as well as lack of direct relationship between insurer and insurance buyers due to intermediation (Willis Towers Watson, 2017).

As insurers experience margin decline and increased price competition, they need to compensate by improving operational efficiency, thereby controlling costs. It is for this reason that insurers are moving to digitally ready infrastructures that enable real-time process and interaction with customers and potential customers (Cappiello, 2018). Insurers cannot afford to remain behind the other industries in the financial services sector when it comes to adopting digital technology, as such; they are investing in their digital capabilities and appointing Chief Digital Officers (Willis Towers Watson, 2017).

The prioritisation of digital platforms, with a view to improve margins through lowering operating costs, was also necessitated by the challenging economic climate in South Africa in the past two years. The South African economy slipped into a technical recession in the second quarter of 2018 (South African Treasury, 2019). This

symbolises a negative growth in the Gross Domestic Product (GDP) for South Africa for two consecutive quarters, the first and the second quarter of 2018 (Wiid & Cant, 2018). The South African economy experienced a decline of 2.6% in the first quarter of 2018 and further experienced a decline of 0.7% in the second quarter (StatsSA, 2018). The impact of the contraction in the economy, resulting in the technical recession, is most felt by the Small, Medium and Micro-sized Entities (SMMEs). This is as a result of reduced demand for their products and services as well as the increasing costs (Wiid & Cant, 2018).

SMMEs are faced with numerous challenges in South Africa, not least of which are financial in nature (Mutoko & Kapunda, 2017; Wiid & Cant, 2018; Zondi, 2017). SMMEs are more sensitive to costs than larger corporates. The technical recession merely pronounced the extent of these sensitivities. SMMEs continue to come under pressure to create jobs and remain sustainable businesses in the long run (Wiid & Cant, 2018).

Since digital technologies reduce the costs of production and distribution of products and services across different industries (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young et al., 2016), they become a viable option for SMMEs, who are constantly under pressure to save costs to remain competitive and sustainable.

1.4. Research purpose

The purpose of this research was twofold. The first was to gain an understanding of the readiness of the insurance intermediaries in the short-term insurance industry in South Africa to the advent of digital disintermediation in the SMME sector. The second was to understand in which adopter group these intermediaries are classified, in the diffusion of innovation model. Organisations in the insurance industry realise that they need to deliver digital strategies that are innovative and future-proof, if not, they would run the risk of being obsolete (Willis Towers Watson, 2017); and insurance intermediaries are not spared from the need to transform. Given the benefits digital platforms offer insurance companies, questions arise about the readiness of the South African insurance intermediaries to this change.

A variety of distribution channels in the insurance marketplace is available, from which insurance companies can choose. In determining which a suitable channel of distribution is, insurance companies will consider who are their customer, what the ideal target profile is, which products or services are to be sold through the channel, which channel provides the best experience and value to the customer and what are the operational costs involved (Verma et al., 2013).

Research carried out by Willis Towers Watson (2017) revealed that insurers have traditionally not had an engaged relationship with their customers, the relationship is maintained by the intermediaries or brokers. Distribution channels involving the broker were therefore perceived to offer clients the best experience and value. Making use of digital platforms as a distribution channel has proven to be cost effective (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015), therefore traditional distribution methods involving intermediaries may prove to be less favourable for insurers and clients alike in the long run.

The small business sector is one of the major contributors to the health of the economy in many countries and South Africa is no different (Wiid & Cant, 2018). This comes in the form of employment, contribution to the national fiscus and overall contribution to the GDP. Due to their importance, the SMME sector has been identified in the National Development Plan of South Africa as one of the significant contributors to economic growth (Wiid & Cant, 2018). The planning commission, tasked with drawing up a plan to stimulate economic growth, recommended the formation of the Ministry of Small Business Development (Zondi, 2017).

The inclusion of the SMME sector into the National Development Plan and the formation of the Ministry of Small Business Development highlight the importance of the SMME sector to the economy. Given their importance and magnitude, insurance companies and insurance intermediaries have strategic plans to increase their market share in the SMME market. The challenge for insurance intermediaries, however, is the fact that SMMEs are cost conscious, as such, the paying of brokerage fees for insurance placements becomes a significant financial consideration. As stated before, making use of digital technologies has proven to be cost effective and a viable alternative when compared to the traditional intermediary services.

1.5. Scope of the research

This scope of the research was restricted to the understanding of the readiness of the insurance intermediaries within the short-term insurance industry in South Africa to the advent of digital disintermediation in the SMME sector. Due to the pervasiveness of digital platforms, traditional intermediation channels face the threat of being obsolete (Law et al., 2015; Willis Towers Watson, 2017). The research was further delimited to focus on SMMEs as they are most sensitive to cost pressures (Wiid & Cant, 2018).

1.6. Significance of the research

Prior research has focused on the importance of digital innovation and technology, as well as their impact on organisations' market share (Kirkbeşoğlu & Hood, 2018). Further, research has focussed on how organisations that adopt and embrace technology are more profitable than their counterparts that have not adopted technology (Maharg, 2016). The adoption of innovation has also been analysed across the different adoption stages (Min et al., 2018; Rogers, 1962, 2002; Zhai et al., 2018). It is therefore important to gain an understanding of the intermediaries' readiness with regards to the advent of digital platforms which pose a threat to the traditional intermediaries' existence in the future. Further, the research aims to gain insight into the intermediaries' adoption of technological innovations. Diffusion of innovation as a theory aims to shed light into the adopter groups under which South African short-term intermediaries fall.

The research study aims to add to the scant academic literature on global scholarship on disintermediation and technology adoption in the short-term insurance intermediaries' readiness to the adoption of technological innovations through an exploratory study. Further to this, the research study aims to shed light into the importance of digital technologies in as far as they threaten the survival of traditional intermediation methods (Law et al., 2015; Willis Towers Watson, 2017), as well as the crystallising under which adoption group do the South African short term insurance intermediaries fall (Min et al., 2018; Rogers, 1962, 2002; Zhai et al., 2018).

1.7. Conclusion

This chapter has presented an introduction to the research study. Digital technologies pose a threat to the survival of traditional intermediaries in the insurance industry (Law et al., 2015; Willis Towers Watson, 2017). They provide easier access to markets in a convenient and cost effective manner (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young et al., 2016). SMMEs, due to financial challenges are the most sensitive to costs (Mutoko & Kapunda, 2017; Wiid & Cant, 2018; Zondi, 2017) and are therefore left to explore innovative and cost effective solutions in the ordinary course of business. The readiness of, and the rate at which insurance intermediaries adopt technology is therefore crucial (Min et al., 2018; Rogers, 1962, 2002; Zhai et al., 2018).

The overall objective of this research is to gain an understanding of the readiness of the insurance intermediaries in the short-term insurance industry in South Africa to the advent of digital disintermediation, and to understand which adopter group these intermediaries fall under, in the diffusion of innovation model. The research project seeks to understand what measures the intermediaries are putting in place to make themselves future-proof and which adopter group in the diffusion of innovation they fall.

This research therefore proceeds with chapter 2 where the literature review on the diffusion of innovation as a theory, as well as the discussions of the key constructs underpinning this research are examined further. Chapter 3 outlines the propositions of the research study; chapter 4 outlines the methodology employed to collect and analyse the data for this research study; chapter 5 outlines the results; chapter 6 details the discussion of the results; and chapter 7 is the conclusion.

Chapter 2: Literature Review

2.1. Background to intermediation

The insurance industry is considered to be very complex and complexity is further exacerbated by the intangible nature of the products offered by the insurance companies (Yu & Chen, 2014). The deep information asymmetries between the insurance buyers and the insurance companies gave rise to the evolution of institutions that mediate between insurance buyers and insurance companies (Dominique-Ferreira, 2018; Eckardt & Rathke-Doppner, 2010). Often, the insurance buyer is neither familiar with the contents of their insurance policy nor the importance of the policy itself until the insured event occurs (Yu & Chen, 2014).

The perceived nature of the complexity of the insurance contracts, the knowledge asymmetries that exist between the insurance buyers and the insurance companies, the intangible nature of the insurance products and the significant price differentials result in intermediation being the primary form of distributing insurance products (Kirkbeşoğlu & Hood, 2018). In an effort to reduce costs associated with insurance companies' internal sales personnel and operating expenses, insurance companies were motivated to consider multiple marketing and distribution channels (Yu & Shiu, 2014).

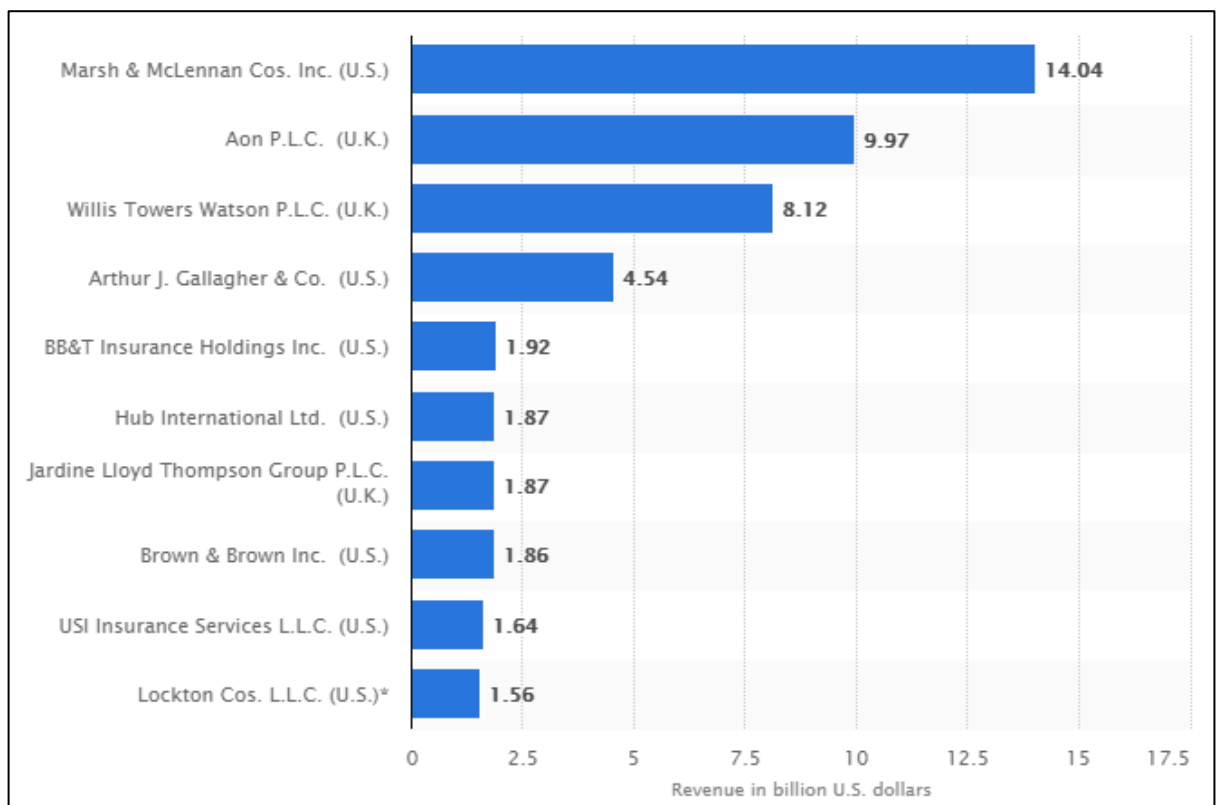
In most developed countries, insurance companies utilise the services of the intermediary companies as a distribution channel for their products because it is cost effective and intermediaries provide a crucial connection between the insurance buyer and the insurance company (Yu & Chen, 2014), this is mainly because insurance intermediaries have stronger relationships with insurance buyers (Willis Towers Watson, 2017).

Inefficiencies in the insurance market were partly neutralised by the advent of modern technology and communication technology, which should have an impact on the demand for intermediary services. Further, changes in the insurance market such as deregulation and liberalisation of insurance have led to a greater product differentiation by insurance companies, which in turn spearheaded the increased demand for intermediary services (Maas, 2010). For many insurance products, intermediaries remain central to the process of buying and selling between insurance

buyers and insurance companies, and as such, still play a decisive role in facilitating the insurance transition (Kirkbeşoğlu & Hood, 2018; Maas, 2010).

Part of the reason to involve an insurance intermediary is to ensure that the insurance market imperfections are removed, the processes are more efficient for both the insurance buyer and the insurance company, and that the intermediaries create value and benefit for their clients (Maas, 2010). Value to clients by intermediaries is added through economical placement strategies, efficient risk management strategies and better risk finance optimisation. Commissions are an important sign of intermediaries' contribution to the insurance market (Yu & Chen, 2014). Figure 1 lists the top insurance intermediaries globally, by revenue.

Figure 1 Leading insurance brokers globally in 2017 by revenue



Source: (Statista, 2019)

Maas (2010) argues that even though in the past two decades, new development in the form of technology and globalisation have reduced the price of information, lowered the transaction costs and levelled the playing field with regards to knowledge asymmetries, the demand for intermediary services has not decreased, in fact, the demand for such services has increased. Mass (2010) further suggests that there

are factors other than market imperfections that are driving the demand for intermediary services.

Whilst the intermediary service providers are an important part of the distribution channel in the insurance market, Kirkbeşoğlu and Hood (2018) argue that intermediaries' market share has been impacted by the phenomenon of e-commerce and the growth of direct insurers. The advent of modern technology and communication technology neutralises the inefficiencies in the insurance market (Maas, 2010) and may change the way insurance buyers purchase insurance (Verma et al., 2013). Organisations cannot always react quickly enough to the changes presented to them by technological advances, as such they face the risk of elimination. Whilst these changes will eliminate some organisations, others will adapt to these changes and survive, while at the same time new organisations will emerge. Organisations that cannot adapt to the changes that are presented by the modern world will decrease in number and will not survive (Kirkbeşoğlu & Hood, 2018). Technology continues to bridge the information gap and customers are more aware of their expectations and, now more than ever demand higher standards of service. Technology enables customers to compare products and services quickly and accurately (Dominique-Ferreira, 2018).

It is therefore important for organisations to embrace changes in order to, not only survive, but thrive in the modern business environment. To do this, organisations need to be more innovative in their products and service offerings. Insurance intermediaries, like other organisations in the insurance industry, are not spared from the need to innovate in order to future-proof themselves and lessen the risk of being obsolete (Willis Towers Watson, 2017). The theory of innovation and the diffusion of innovation were the foundational theories for this research study.

2.2. Background to innovation

In the 21st century, continuous innovation is required for organisations to compete in the global markets. This innovation can be in the form of products, services, processes, administrative routines or organisational structures. Innovation has become the most important pathway for any organisation to improve their pace of change in today's competitive global environment (Kuratko, Hornsby, & Covin, 2014).

Today's business environment has pressured organisations to continuously explore new ways to sustain themselves in the face of constant change and uncertainty brought about by the 21st century.

Innovation

Innovation is defined as an idea, a practice or an object that is perceived to be new by either an individual or any other unit of adoption (Hakkarainen & Talonen, 2014; Min et al., 2018; Rice, 2017; Rogers, 1962, 2002; Zhai et al., 2018). Rogers (1962) argues that the perception of the newness is fundamental in the definition of innovation, irrespective of the passage of time or first use of the discovery. Innovation can be in a tangible or intangible form (Min et al., 2018) Innovation is broadened to include new products, new services, new skills, new markets and indeed new form of organisation. The new uses of already established products, services or processes is also innovation (Zhao, 2005). The element of newness need not only involve the acquisition new knowledge, but may also involve the development of a favourable or unfavourable attitude towards innovation, persuasion or a decision to adopt (Rogers, 1962). Innovation may refer to a new process, a new attribute or an end result, it is an introduction of something new (Hakkarainen & Talonen, 2014). Innovation is considered the driving force behind the growth of the society's economy and social creativity, and consumed substantial financial investments (Zhai et al., 2018).

Whilst innovation is often confused with invention, they are not the same, although they are linked. An innovation does need to be new altogether and the idea does not need to be objectively novel, the perception of newness to an individual or any other unit of adoption is sufficient for it to be considered innovation (Hakkarainen & Talonen, 2014; Min et al., 2018). Invention is the product of the imagination or a process that originated after a set of studies and experiments. Invention is considered a narrow definition of innovation. Innovation is broader than invention and does not have to be technical. It is multifaceted and multidimensional in nature (Hakkarainen & Talonen, 2014; Zhao, 2005).

Over the past two decades, the development of the theory of innovation has evolved. The theory has moved from perceiving innovation primarily as a process of discovery but rather as a non-linear process, that involves learning. It has become more than the discovery of new scientific or technological principles (Mytelka & Smith, 2002). Innovation further refers to what the end result of the newness or what the newness

produces. In business, innovation might result in improved processes of functionality, reduced costs or improved pricing mechanisms. Innovation involves the converting of ideas into a product or service with commercial value or has economic impact (Hakkarainen & Talonen, 2014).

Types of innovation

Innovation dimensions are often thought expressed in dualisms; i.e. radical versus incremental, product versus process, and administrative versus technological. Radical innovation is path-breaking and revolutionary in nature. Incremental innovation refers to small improvements with the intention of enhancing established processes, products and services (Zhao, 2005). Technological innovation, according to Zhao (2005), is concerned with the adoption of new ideas that have a direct influence on the output processes. Often, since many new ideas are technological in nature, technology and innovation use synonymously (Rogers, 1962). Administrative innovation, on the other hand is concerned with changes that affect policies, allocation of resources and factors affecting the social structure of the organisation (Zhao, 2005).

2.3. Diffusion of Innovation theory

Diffusion is the process by which innovation is communicated over time, among the members of a social system, using certain methods (Min et al., 2018; Rogers, 1962, 2002; Zhai et al., 2018). It is a process through which an idea, product, technology or service is adopted over a number of stages which is influenced by interpersonal and non-interpersonal factors. Innovation is adopted at different times and at different rates through a social system and has a variety of consequences; positive and negative, intended and unintended, short term and long term (Rice, 2017).

In the initial stages, it is often challenging for innovation to gain widespread acceptance, irrespective of its apparent advantages (Min et al., 2018) because diffusion of innovation is non-linear and complex in nature (Currie & Spyridonidis, 2019). It is for this reason that innovation adopters are classified into five categories, the innovators, early adopters, early majority, late majority and laggards (Olufemi, 2018; Rogers, 1962, 2002). Diffusion of innovation is based on the premise that the adoption rate differs amongst different social systems (Rogers, 2002).

The innovators are typically the originators of the innovation and are the first to adopt the innovation. They have an appetite for taking risks in order to introduce the innovation into the market and are eager to try new ideas and technologies (Olufemi, 2018; Rogers, 1962, 2002). Innovators are venturesome in nature and are willing to accept impediments along the way on the new ideas (Rogers, 1962).

Early adopters are typically the first group to adopt the innovation and often consists of a number of organisations that embrace the emerging trend (Olufemi, 2018). Whilst innovators are cosmopolites, early adopters are more integrated in the local system, they are localites (Rogers, 2002). Early adopters are visionaries and possess a great sense of opinion leadership in the social systems they find themselves. Subsequent adopters of any innovation will look to the early adopters for advice and information before they adopt (Rogers, 1962).

The early majority are concerned with evidence and proven usefulness of the innovation before they can adopt it (Olufemi, 2018). They spend a considerable amount of time deliberating on the new idea before they can fully adopt it and they provide the interconnection within the system's network (Rogers, 1962).

The late majority have a high level of scepticism towards change and need to be convinced of the utility of the innovation before adopting it. They usually only adopt innovation after it has been tried and tested by the majority (Olufemi, 2018). For this group, the adoption may be demanded both by economic necessities and a response to increasing network pressures (Rogers, 1962).

The last group to adopt innovation are referred to as laggards. They have the highest levels of scepticism to change and are often challenging to convince to adopt innovation (Olufemi, 2018). Laggards will only adopt innovation when everyone around them has adopted the innovation and are satisfied with it (Rogers, 2002). Laggards have no opinion leadership and their point of reference is the past. They make decisions based on what has been done in previous generations. Due to the rate of technological change and the fast paced world, by the time laggards adopt a new idea, it may already be dated and replaced by new ideas already adopted by innovators (Rogers, 1962).

The innovators account for the first 2.5% of the adopters of a new idea, they are referred to as venturesome. Early adopters make up 13.5% of the adopters and are

referred to as respectable due to their opinion leadership and visionary capabilities. Early majority are called deliberate and account for 34% of the adopters of innovation. Due to their sceptical nature, the late majority are referred to as sceptical and account for 34% of innovation adopters. The laggards are called traditional as they are often stuck in their traditional ways. Laggards make up the last 16% of the adopters to innovation (Rogers, 1962).

Challenges facing the Diffusion of Innovation

It often is a challenge for a new idea, technology, product or service to be widely accepted, despite its advantages being apparent (Min et al., 2018). Many organisations have unintentionally designed innovation processes that have lacked consistency and as a result produced undesirable outcomes (Christensen, Hall, Dillon, & Duncan, 2016). Innovation success exists in pockets within organisations, but failure to diffuse innovation widely often leads to its failure (Currie & Spyridonidis, 2019).

Innovations are often less successful as they fail to identify which needs to fulfil. Innovation can be more successful and profitable if it is undertaken with the view of the jobs the ultimate customer struggles to get done (Christensen et al., 2016). Failure to identify the ultimate needs, leads to failure of the innovation. Innovations often diffuse successfully for as long as they benefit the organisations adopting them, or else they disappear (Abrahamson, 1991). The challenges around diffusion of innovation are pronounced when the benefit of the innovation is not expected to be realised in the near future, or at all. The benefits of the new idea can often be long term in nature, which poses a conflict to organisations between existing products and processes and innovation. Often, structures, routines and competencies support current products and structures over innovations (Smith, 2014).

The diffusion of innovation has been criticised for simplifying the adoption process and stage of the technology by different groups. Further, the diffusion of innovation theory assumes that different adopters have the same amount of influence on various groups, which is not factual (Olufemi, 2018). Whilst the diffusion of innovation theory has focused on the rate of adoption of new technologies, it has taken a static view with regards to diffusing innovation and overlooks the evolution of the new and old technology (Adner & Kapoor, 2016). The theory also fails to consider the support

needed by individuals and organisations to adopt to innovation, whether resource based or social support (Olufemi, 2018).

2.4. Intermediation and Disintermediation

2.4.1. Intermediation

Intermediaries form an important part of many industries' distribution channel (Manea, 2018). Their function, importance and varying degree has been explored in the banking and investment industry (De Moraes, Antunes, & Rodrigues, 2019; McCoy, 2015), while Manea (2018) examined their ability to facilitate trade and products flow in the artworks and antiquities industry. In their role as repo intermediaries, they have continuously played a crucial role between cash borrowers and cash providers (Gottardi, Maurin, & Monnet, 2019), whereas in the within asset management space, they have proven to be key in managing risk from holding a position on assets exposures (Phelan, 2017). The role and importance of intermediaries was further examined within the private equity funds and investments, as well as how they can be exposed to risk due to liquidity regulation on bank intermediation (Bonner & Eijffinger, 2016; Harris, Jenkinson, Kaplan, & Stucke, 2018).

An intermediary is an entity or a person that acts as an agent to facilitate trade between the buyer and producer (Maharg, 2016). Intermediaries act as middlemen between the buyer and the seller (McCoy, 2015). Intermediation is a mechanism by which producers or sellers offer a medium of exchange between the two parties (Ezirim & Amuzie, 2016). Further to acting as a channel for goods and services between the two trading parties, buyer and supplier, intermediaries add value to the transactions and throughout the value chain and perform specialised tasks (Bernardo & Martins, 2014; Shittu, 2012). In the insurance industry, intermediaries have helped bridge the deep information asymmetries between the insurance buyer and the insurance companies (Dominique-Ferreira, 2018). Insurance intermediaries' function in the insurance industry stretches from the identification of the risks the risks insurance buyers are intending to address to the facilitation of purchase and placement of insurance, as well as providing advice to insurance buyers and insurance companies in alignment to the placement process. The insurance

intermediary therefore plays a crucial role in matching the demand and the supply side of the insurance market (Dominique-Ferreira, 2017).

Whilst the deep knowledge asymmetries between the insurance buyer and the insurance companies remains one of the biggest reasons for the need for intermediaries in the insurance industry (Dominique-Ferreira, 2018; Eckardt & Rathke-Doppner, 2010), other factors have contributed to the need for intermediation. The complexity of the insurance offerings by the insurance companies, the ever-changing risk environment, the intangible nature of the insurance products and services, significant price differentials, as well as the complexity of the insurance contract have all lead to the need for intermediaries (Kirkbeşoğlu & Hood, 2018; Yu & Chen, 2014). It is for these reasons that insurance companies and insurance buyers alike, rely on the insurance intermediaries in the facilitation of the insurance transactions (Dominique-Ferreira, 2018).

The involvement of a well-informed intermediary in the insurance distribution channel has benefited both the insurance buyer and the insurance company through improved efficiencies in the distribution channel, brought by the intermediary's intimate knowledge and understanding of the client's risks and insurance needs (Glode & Opp, 2016; Glode, Opp, & Zhang, 2019). Intermediaries further provide a financial benefit through lower costs for searching, for both insurance buyers and insurance companies (McCoy, 2015), lower cost of interaction between the two parties on either side of the market when compared to the cost of direct transaction (Weber, 2014), as well as lower information and opportunity costs (Dominique-Ferreira, 2018). Further, costs related to recruitment and training of distribution staff, such as salespeople, have been reduced by insurance companies in the past, through the use of insurance intermediaries (Yu & Shiu, 2014). Largely, the intermediary provides its clients with lower through economies scale, research and development, legal support and other transaction costs can be spread across the intermediary's client base, resulting in lower costs for the insurance buyer (McCoy, 2015; Weber, 2014).

In addition to lowering the costs in the distribution channel within the insurance industry, intermediaries provide superior knowledge to insurance buyers, improved interface with the insurance products and services, as well as better serving the insurance buyer's needs (Edelman & Wright, 2015). Intermediaries are usually

independent from the insurance companies, as such, their independence and their knowledge of the insurance products, services and the market, provide trust to the insurance buyer (Weber, 2014).

The world over, insurance companies have been making use of insurance intermediaries to distribute their products and services, as such, intermediaries still provide a useful link between the insurance buyer and the insurance company (Dominique-Ferreira, 2018; Yu & Chen, 2014; Yu & Shiu, 2014). Whilst this remains true, and the involvement of an intermediary is considered important in lowering the cost of doing business, Edelman and Wright (2015) argued that sometimes the pricing mechanism of services was more than what it would have been, had the insurance buyer not involved the intermediary.

Customers have become of their expectations and as a result, demand a higher level of service standards from their service providers, which includes intermediaries (Dominique-Ferreira, 2018). The advent of technology has opened new possibilities in direct marketing and direct purchasing of insurance products and services. This has had an impact on the profitability and market share of different insurance intermediaries (Kirkbeşoğlu & Hood, 2018). The advent of technology has raised the risk of disintermediation in the insurance industry.

2.4.2. Disintermediation

Digital technology has allowed for producers broadly, to interface with customers, circumventing the traditional intermediaries (Peukert & Reimers, 2018). Disintermediation is ubiquitous wherever digital presence is found (Maharg, 2016).

Disintermediation is created when the producer of goods and services sells directly to the customers, thereby eliminating the traditional intermediaries from the distribution channel (Lee & Li, 2018). It is the removal or elimination of the middleman from the supply chain (Bernardo & Martins, 2014; Law et al., 2015). Further, the definition was expanded to include the removal of the intermediary from the flow of information from the tripartite network between supplier, intermediary and customer (Marszalek, 2016).

Disintermediation became prevalent in many clerking industries such as travel agents and bank clerks (Maharg, 2016). Advances in the digital technology have also affected the distribution channels within the music industry by creating an easy

access to music by buyers and easy distribution by producers (Bernardo & Martins, 2014), while internet based applications have raised concern over the future and the sustainability of the traditional intermediaries in the hospitality and tourism industry (Law et al., 2015). The role and influence of disintermediation was further explored in the agricultural sector (Kumar, 2014) and within the retail supply chain (Linton, 2018). The market structure of the smartphone industry was reshaped by the key role played by disintermediation (Bicer & Hagspiel, 2016), just as the broader banking industry's processes were impacted by the effects of disintermediation (Marszalek, 2016). Other industries affected by the effect of disintermediation are the printing industry (Lee & Li, 2018), books, movies and television (Waldfoegel & Reimers, 2015) as well as the private equity industry (Fang et al., 2015).

Disintermediation has gained popularity in the financial services sector over the past few years. Crowdfunding can potentially disrupt the traditional equity investing in the equity investment arena (Hurt, 2015) just as bancassurance models have offered banks the opportunity to sell insurance products directly to customers without the need of an intermediary (Marzai, 2018; Sreenish & Kumar, 2017). Institutional investors have also invested directly in private equity, bypassing the traditional structures of involving intermediaries (Fang et al., 2015).

The rise of disintermediation is driven by online platforms and distribution services that allow insurance companies to circumvent traditional intermediaries and sell directly to customers (Law et al., 2015; Peukert & Reimers, 2018). The use of digital technology has given buyers and consumers the option to access information without the involvement of the intermediary (Law et al., 2015). The cost of information and transacting over digital platforms has significantly reduced costs for insurance buyers when compared to transacting via traditional intermediaries (Lee & Li, 2018; Marszalek, 2016; Peukert & Reimers, 2018; Verma et al., 2013; Waldfoegel, 2012; Waldfoegel & Reimers, 2015).

In addition to cost reduction benefits for both the insurance buyers and insurance companies, disintermediation became more prevalent when insurance companies internalised many of the activities traditionally performed by intermediaries (Bernardo & Martins, 2014). Marszalek (2016) further argued that deregulation, globalisation and liberalization have all made it easier to create platforms that create an environment conducive for disintermediation.

Whilst the emergence of digital and online platforms have reduced the cost of production and distribution for insurance companies (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Verma et al., 2013; Waldfogel, 2012; Waldfogel & Reimers, 2015), Shittu (2012) argues that the use of intermediaries mitigate the cost associated with information acquisition. Yu & Chen (2014) support the argument brought forward by Shittu (2014) by adding that not only is the use of intermediaries cost effective, but also provides a critical link between insurance companies and insurance buyers. Lee and Li (2018), however postulate that the increased use of digital technology has heightened the risk of digital disintermediation. The spread of digital technology cannot be ignored as it has affected a variety of industries, it has provides buyers with new options and possibilities (Maharg, 2016; Peukert & Reimers, 2018).

2.5. Digital Technology

Through digital evolution, different industries have found a new way to improve their service offering to their clients and continuously improve the quality of their service offering in terms of both efficiency and effectiveness (Rubbio et al., 2019). Digital technologies have had a deeper impact than initially thought; their pervasiveness and deep impact have in the last few decades affected, and continue to dramatically affect all spheres of business (Lanzolla et al., 2019).

Digitisation refers to the computerisation of systems within any organisation, for purposes of better accessibility. In the insurance industry, the use of digital technologies have resulted in lower transaction and administrative costs, reduced error rate due to lower human intervention and an increase in the customer satisfaction levels (Acharya & Hebbar, 2018). Technology has fundamentally challenged and change the way the insurance business and industry is conducted, as well as force organisations to rethink their processes and roles from a technology enabled perspective. It has proved to not only be essential for business growth, but also for business sustainability in the digital era (Eden, Casey, Burton-jones, & Draheim, 2019; Ganapathy, 2017).

Digital implies different perceptions to different users. It is perceived about the nature and use of technology, the creation and utilisation of new channels to connect and

engage with the customer and a new way of conducting business (Kulkarni, 2017). Digital technologies are classified into four categories being efficiency, connectivity, trust disintermediation and automation technologies (Lanzolla et al., 2019). The categories are non-mutually exclusive.

In addition to lower error rates and improved customer satisfaction levels (Acharya & Hebbar, 2018), technology has helped businesses streamline their operations and processes for better efficiencies and enabled them to explore new lines of business and new business models (Fitzgerald et al., 2013). The uptake in technology has empowered customers by putting them at the centre of their search, evaluation and purchase of insurance products (Dellaert, 2019). The freedom that digital technologies affords customers has exacerbated the risk of disintermediation in the insurance industry (Bouwman et al., 2005; Dominique-Ferreira, 2018; Kirkbeşoğlu & Hood, 2018; Lee & Li, 2018; Willis Towers Watson, 2017). Dellaert (2019) argued that digital technology has allowed for more flexibility for customers in their purchasing decisions than previously possible through traditional means. Dellaert (2019) further postulated that digital technologies would continue to gain popularity as they reduce costs, a view supported by numerous research papers focussing on the impact of digital processes in the distribution channels and supply chain in various industries (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Verma et al., 2013; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young et al., 2016).

Although digital technologies raise questions about organisations' processes, routines, structure and capabilities by which they should innovate (Lanzolla et al., 2019), its benefits can only be fully realised when the organisation's fundamental human resource management element and organisational structures are conducive for technological adoption (Eden et al., 2019). Digital does not merely present an innovative way of selling insurance products, it is an opportunity to assess and satisfy customer needs (Abrahamson, 1991; Edelman & Wright, 2015; Glode & Opp, 2016; Glode et al., 2019), form a connection with customers (Willis Towers Watson, 2017) and reach a new market segment (Acharya & Hebbar, 2018).

Digital plays a crucial role in the pre-purchase, purchase and the post-purchase stages of the insurance products and services. During the pre-purchase stage, digital goes a long way in advertising and publicising customisable insurance products

within easy reach of customers (Kulkarni, 2017). During the purchase stage of the insurance product, digital allows for customers to easily access accurate and reliable information with relative ease in order to make informed decisions (Young et al., 2016) and enjoy the benefits of making those decisions at an overall lower cost (Lee & Li, 2018; Verma et al., 2013; Waldfogel, 2012; Waldfogel & Reimers, 2015). The flexibility offered by digital technology offers insurance companies the ability to know their customers and understand their needs, so these unsatisfied needs can be met (Christensen et al., 2016). During the post-purchase stage, digital technology offers an effective renewal premium tracking, up to date insurance policy issue status and issue tracking; all of which could be done through a convenient digital platform (Kulkarni, 2017).

Digital technology changes are taking place everywhere and at a rapid pace (Fitzgerald et al., 2013), and wherever there is digital presence, there is a propensity for disintermediation (Maharg, 2016). When compared to their counterparts, Maharg (2013) argues that organisations that invest and embrace digital technology are more profitable than those that do not. It is for this reason that digital technology is not merely a channel to improve the cost base within organisations, but also to develop better relationships with a variety of stakeholders, access information with relative ease and ensure business survival (Fitzgerald et al., 2013; Ganapathy, 2017). Technology adoption has the capability to create and distinguish between winners and losers in ways that are measurable such as profit levels, efficiencies and market share (Fitzgerald et al., 2013).

The growth of technological adoption has transformed and challenged traditional business paradigms and has led to the expansion of insurance business across different geographical borders (Ganapathy, 2017). Opportunities for better interaction between the customer and the insurance companies have been created through advances in technology (Ramaswamy & Ozcan, 2018), thereby allowing for restructuring of traditional processes and disintermediation in the distribution channel (Dellaert, 2019). The benefits offered by the adoption of digital technology, in as far as they relate to cost reduction (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young et al., 2016), would be most of benefit to SMMEs as they are sensitive to financial pressures (Mutoko & Kapunda, 2017; Wiid & Cant, 2018; Zondi, 2017).

2.6. Small, Medium and Micro-sized Entities (SMMEs)

In the post-apartheid era, South Africa has experienced many societal and economic challenges which include income distribution across different racial groups, generation of employment opportunities for the majority of the population and stimulating economic growth (Enow & Brijlal, 2014). For these reasons and others, the South African government focused on the creation and the support of Small, Micro and Medium Sized Enterprises (SMMEs) to assist addressing the challenges faced by the country just as they have been regarded as a driving force in the creation job creation and economic growth the world over (Chimucheka, 2015; Enow & Brijlal, 2014). Both the developed and the developing markets around the world have recognised SMMEs as a critical pillar in economic growth. Research has shown how growth in GDP and declines in unemployment rates are partly attributed to the proliferation of the SMMEs (Gumbi & Mnkandla, 2015).

The Department of Trade and Industry (DTI) of South Africa defines SMMEs as any business entity that is separate or distinct. These businesses can include “cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy” (The DTI, 1996, 2008).

The definition and description of SMMEs differs from one country to another based on the revenue levels, asset value base and the staff complement (Ren, Eisingerich, & Tsai, 2015; Zondi, 2017). In the South African context, entities falling within the definition of SMMEs differ depending on the sector and the subsector under which they fall. Generally, entities with revenue levels of up to R50 million, a total full time equivalent of paid employees of less than 200 and a total gross asset value, excluding fixed property, of less than R18 million would be classified as SMMEs (Gumbi & Mnkandla, 2015; The DTI, 1996, 2008; Wiid & Cant, 2018; Zondi, 2017). SMMEs range from formally registered entities to informal entities, as well as non-VAT registered entities. The definition incorporates survivalist enterprises as well as medium enterprises (Wiid & Cant, 2018).

The performance of SMME sector has been considered as one of the good indicators of any country’s economic health, particularly in emerging markets like South Africa

(Xesha, Iwu, & Slabbert, 2014). SMMEs are instrumental in the promotion of economic growth and addressing the challenges of unemployment (The DTI, 2017; Wiid & Cant, 2018; Zondi, 2017), whilst some argue that SMMEs are more important than that, they are in fact the back bone of the economy the world over (Mutoko & Kapunda, 2017; Ren et al., 2015).

Whilst SMMEs are identified to address the challenges of unemployment all over the world, particularly in emerging markets (Wiid & Cant, 2018; Xesha et al., 2014; Zondi, 2017), it has been argued that their importance stretches wider than that. SMMEs also have the potential to address socio-economical facing South Africa (Xesha et al., 2014). It has been argued that SMMEs enable economic growth through poverty alleviation, creation of jobs, social stability and economic diversification (Chimucheka, 2015; Gumbi & Mnkandla, 2015; Wiid & Cant, 2018; Xesha et al., 2014; Zondi, 2017). SMMEs have been the source of livelihood and employment for many people around the world (Mutoko & Kapunda, 2017).

The South African government has recognised the importance and the potential of SMMEs in the context of the economy, and as such proclaimed the development and growth of the SMMEs as a critical success factor as per the National Development Plan (Gumbi & Mnkandla, 2015). The contribution of the SMMEs to the economic growth of South Africa was estimated to be 5.4% per year for the next 15 years (Wiid & Cant, 2018). SMMEs' contribution to the employment rate in South Africa was estimated to be at 56%, with the contribution to the GDP at 36% in 2008 (Gumbi & Mnkandla, 2015). The contributions improved in 2009 with SMMEs contributing 74% of the employment numbers and 39% to the GDP (Chimucheka, 2015), whereas in 2014 SMMEs contribution to employment figures lowered to just over 60% and lower when compared to the global average of 77%.

SMMEs in South Africa are faced with a myriad of challenges which have threatened their survival, thereby resulting in a low survival rate (Mutoko & Kapunda, 2017; Xesha et al., 2014). According to Zondi (2017), new SMMEs in South Africa struggle to survive beyond the five-years, Enow and Brijlal (2014) argue that up to 80% of them do not survive beyond the first three years of operations, whilst Chimucheka (2015) argued that 75% SMMEs in South Africa fail within the first two years of operation. Either way, the survival rate of SMMEs is concerning, considering their importance in the South African economic landscape.

Challenges faced by SMMEs in South Africa can be categorised as internal and external (Zondi, 2017). Internal challenges are generally within the control of the entity and as such, can be resolved relatively easily and within a short space of time. Internal challenges include the entity's processes, structure, reward structures, general management of the organisation and controllable costs. External challenges, which take a longer time to address as they relate to challenges that are outside the control of the entity; include governmental policies put in place for SMMEs, environmental factors, access to markets, lack of skilled staff and access to funding (Mutoko & Kapunda, 2017; Wiid & Cant, 2018; Zondi, 2017).

In their quest to overcome the reality of low SMME survival rates in the initial years of operation (Chimucheka, 2015; Enow & Brijlal, 2014; Zondi, 2017), SMMEs would need to keenly monitor controllable costs. With technology and digital platforms providing cost effective solutions to organisations (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young et al., 2016), it would be beneficial for SMMEs to consider non-traditional ways of distributing their products and services by making use of technology.

2.7. Conclusion

This chapter has presented a review of the literature on innovation and the diffusion of innovation as a theory. Further to this, the review of literature on intermediation, disintermediation and digital technology were presented as they form part of the key constructs of the research project. The chapter has explored the different adoption stages to innovation adoption and their make up throughout the stages (Min et al., 2018; Rogers, 1962, 2002; Zhai et al., 2018). It has explored the definitions of intermediation and disintermediation (Bernardo & Martins, 2014; Ezirim & Amuzie, 2016; Law et al., 2015; Lee & Li, 2018; Maharg, 2016; Marszalek, 2016; McCoy, 2015). It also explored the role of both intermediation and disintermediation, as well as the threats posed to the future and sustainability of intermediation in the South African short-term insurance industry (Bicer & Hagspiel, 2016; Bonner & Eijffinger, 2016; Kumar, 2014; Lee & Li, 2018; Linton, 2018; Manea, 2018; Marszalek, 2016; Waldfogel & Reimers, 2015; Willis Towers Watson, 2017). This chapter then focused on SMMEs, their definitions, their importance and the challenges they face

(Chimucheka, 2015; Enow & Brijlal, 2014; Gumbi & Mnkandla, 2015; Ren et al., 2015; The DTI, 1996, 2008, 2017; Wiid & Cant, 2018; Zondi, 2017). Following this, the challenges of costs facing SMMEs were articulated (Mutoko & Kapunda, 2017; Xesha et al., 2014), contrasted to the convenience and cost efficiency presented by digital platforms and digital disintermediation (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young et al., 2016). All of these constructs present an opportunity to examine the readiness of the intermediary to the advent of digital technology, which may lead to digital disintermediation. This leads to chapter 3, where the propositions underpinning this research study are articulated.

Chapter 3: Propositions

3.1. Introduction

The aim of this research study, as explained chapter 1, was to gain an understanding into the readiness of the traditional intermediaries to the advent of digital disintermediation in the South African short-term insurance industry. This chapter outlines the propositions that formed the basis for this research study. The propositions formed the basis of the data collection method in chapter 4. The propositions have been derived from the literature review conducted in chapter 2.

3.2. Proposition 1

Digital platforms have had a significant impact on the intermediaries' market share and revenues; they are a threat to the sustainability and survival of traditional insurance intermediaries in the long-run

Failure of organisations to build their digital and technological capabilities will leave them at risk of losing market share because customers are increasingly inclined to make use of digital platforms over traditional means to purchase products and services (Willis Towers Watson, 2017). Although the intermediary service providers are an important part of the distribution channel in the insurance market intermediaries' market share has been impacted by the phenomenon of digital platforms (Kirkbeşoğlu & Hood, 2018). The advent of modern technology and communication technology neutralises the inefficiencies in the insurance market (Maas, 2010) and may change the way insurance buyers purchase insurance (Verma et al., 2013).

Digital technology and its changes are taking place everywhere at a rapid pace (Fitzgerald et al., 2013). Wherever there is digital presence, digital disintermediation is a threat to traditional intermediaries (Maharg, 2016). Due the pervasiveness of digital platforms, traditional intermediation channels face the threat of being obsolete (Law et al., 2015; Willis Towers Watson, 2017).

3.3. Proposition 2

Traditional intermediaries are investing in their digital capabilities to future-proof themselves against the prevalence of digital platforms in the insurance industry.

Organisations in the insurance industry realise that they need to deliver digital strategies that are innovative and future-proof, if not, they would run the risk of being obsolete (Willis Towers Watson, 2017); and insurance intermediaries are not spared from the need to transform. Further, research has shown how organisations that adopt and embrace technology are more profitable than their counterparts that have not adopted technology (Maharg, 2016). Technology adoption has the capability to create and distinguish between winners and losers in ways that are measurable such as profit levels, efficiencies and market share (Fitzgerald et al., 2013).

3.4. Proposition 3

Due to the cost benefit and convenience brought about by digital platforms, insurance companies are investing in their digital platforms to gain easy access to clients.

Digital platforms have provided insurance buyers with the convenience previously not experienced with the use of traditional intermediaries. Digital platforms provide insurers with easier access to the client base (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Kulkarni, 2017). Furthermore, digital platforms offer a cost effective distribution model for clients (Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015).

3.5. Proposition 4

Intermediaries in the South African short-term insurance industry are classified as laggards in the diffusion of innovation adoption model.

Different organisations adopt technological innovation at different stages due to its complexity at times (Currie & Spyridonidis, 2019; Min et al., 2018). Adopters are therefore classified into five categories, the innovators, early adopters, early majority, late majority and laggards; mainly due to the fact that the adoption rate is different amongst social systems (Olufemi, 2018; Rogers, 1962, 2002).

3.6. Conclusion

This chapter has provided the propositions that form the basis of the research project. By providing answers to these propositions, the research is expected to provide better understanding on the readiness of the insurance intermediaries' to the threat of digital disintermediation. The following chapter outlines the methodology used for the research.

Chapter 4: Research Methodology and Design

4.1. Introduction

This chapter outlines the research methodology and design used in this research project to address the propositions in chapter 3. The research project utilised the qualitative approach in gaining an understanding of the insurance intermediaries' readiness to the advent of digital platforms. A qualitative study was selected due to its ability to provide rich insights into the propositions as outlined in chapter 3. Data was collected through semi-structured interviews with intermediaries' employees in the sample. Data was analysed through analysing and categorising emerging themes based on literature in chapter 2. During the course of the research, concerns around reliability, validity, ethical considerations and the limitations of the study were taken into account and these are presented at the end of this chapter.

4.2. Choice of Methodology

The research philosophy for this research project was based on interpretivism, a philosophy that advocates for the need to gain an understanding of the differences between humans in their role as social actors. Interpretivism relates to the study of phenomena in their natural environment with a view to gain an understanding of what is going on in any organisation (Ospina, Esteve, & Lee, 2017; Saunders & Lewis, 2018; Wahyuni, 2012). Interpretivism philosophy concerns itself with hermeneutics and, at the centre of it, aims to solve the problem of meaninglessness or sense making (Romani, Barmeyer, Primecz, & Pilhofer, 2018; Wahyuni, 2012). Interpretivism approach research with an intention to understand the world of human existence, with reality being socially constructed (Mackenzie & Knipe, 2006). In gaining an understanding of the readiness of the intermediaries' readiness, the interpretivism philosophy was preferred as it allowed the research to be immersed in the subject of the study and interact with the actors (Ospina et al., 2017). Further, to preserve the complexity surrounding the intermediaries' readiness, an interpretivism philosophy was deemed suitable as readiness differs from one intermediary's experience and technological adoption, to another (de Villiers, Dumay, & Maroun, 2019; Wahyuni, 2012).

This study followed an inductive approach, which moves from a specific observation to broader generalisations and theories. The study began with specific observations and measures, by observing patterns and repeated occurrences of phenomena and formulating a speculative hypothesis from what has been observed and can be investigated (Saunders & Lewis, 2018). An inductive approach aims to gain an understanding of meanings that humans attach to events as well as offer deep insights into the subject that the insights are being sought (Bansal, Smith, & Vaara, 2018; Saunders & Lewis, 2018). Inductive studies have been found to be useful in research that aims to make sense of, or seeks to make progress in understanding grand challenges (Crane, Henriques, & Husted, 2018). Further to this, inductive studies are preferred for areas of research where there is relatively scant prior research or the research is complex with grand challenges (Bansal et al., 2018). As this research study aimed to gain an understanding of the intermediaries' readiness to digital disintermediation in the South African short term insurance industry, an area with complexity surrounding innovation adoption and little prior research, an inductive study was deemed appropriate.

The methodological choice for this research project was the mono qualitative method, which is using only one research tactic. The mono methodological choice uses a single data collection system (Saunders, Lewis, & Thornhill, 2009). An interpretivism research philosophy is often associated with qualitative research due to the rich insights that can be extracted and the complexity that often surrounds this type of research (Bansal et al., 2018; Crane et al., 2018; de Villiers et al., 2019; Mackenzie & Knipe, 2006; Ospina et al., 2017; Wahyuni, 2012). Qualitative methodological studies incorporate a holistic view of the study context, capture the participants' worldviews and experiences, and illuminates meaning through analysis of themes and patterns (Ospina et al., 2017). Research conducted through a qualitative methodology allows the data to be drawn from observations and abstracted knowledge can be applied beyond the specific context; it fosters a new way of seeing things (Bansal et al., 2018).

Qualitative research is often considered as a well-established methodology to answer the big questions and to understand the social world from experiences, as well as the subjective meanings attached to them (Ospina et al., 2017; Wahyuni, 2012). This methodology therefore provides meaning associated with real life phenomenon which are difficult to attain with numerical data; it seeks to explain how

the world works in practice and in specific contexts (de Villiers et al., 2019; Ospina et al., 2017). Since the objective of this research project was to gain an understanding into the readiness of the intermediaries to the changing technological landscape, which is a big question, in the context of South African insurance industry, a qualitative research methodology was deemed appropriate.

The research project was in the form of an exploratory study as it sought to discover information and new insights about the impact of digital disintermediation in the intermediary industry. The data collection method asked new questions and assessed the topic in a new light (Saunders & Lewis, 2018). The exploratory research assessed patterns emerging from the data gathered and analysed the relationships that could be generalised from the sample group to the broader population (Woo, O'Boyle, & Spector, 2017).

Semi-structured interviews were conducted because they help facilitate the respondents, who are practitioners in the intermediary space, to share their perspectives, experiences and stories regarding the overall readiness of the intermediary to the advent of digital disintermediation (Saunders & Lewis, 2018; Wahyuni, 2012). Interviews are best suited for interpretivism approach to research as they provide rich insights to constructs (Mackenzie & Knipe, 2006; Wahyuni, 2012). Interviews allowed for the collection of data and allowed for a deeper understanding of digital disintermediation to be gained. Since interviews are useful in asking questions about who, what, where, how much, they were deemed is useful and appropriate for exploratory research (Saunders & Lewis, 2018).

The questions asked in the semi-structured interviews had set of themes using predetermined questions; however, these themes will varied in their order. Additional questions were asked during the interviews as appropriate and others omitted (Saunders et al., 2009).

Due to the time constraints of the research project, a cross-sectional design was employed to collect. The cross-sectional research involves the collection of data from participants at a point in time to address the research problem, which is also referred to as a snapshot of the research problem (Saunders & Lewis, 2018).

4.3. Population

Population is defined as the entirety of all possible data values that exist within the study undertaken (Wegner, 2016). It is a complete set of the relevant group members available (Saunders & Lewis, 2018). The population for this study comprised all the insurance intermediaries operating in the South African short-term insurance industry. As the aim of the study is to gain an understanding of the intermediaries in the South African short-term insurance industry to the advent of digital disintermediation, the intermediaries were selected as the population group. Further to this, the intermediaries are the group in the value chain facing the risk of being obsolete, presented by digital technology (Law et al., 2015; Willis Towers Watson, 2017).

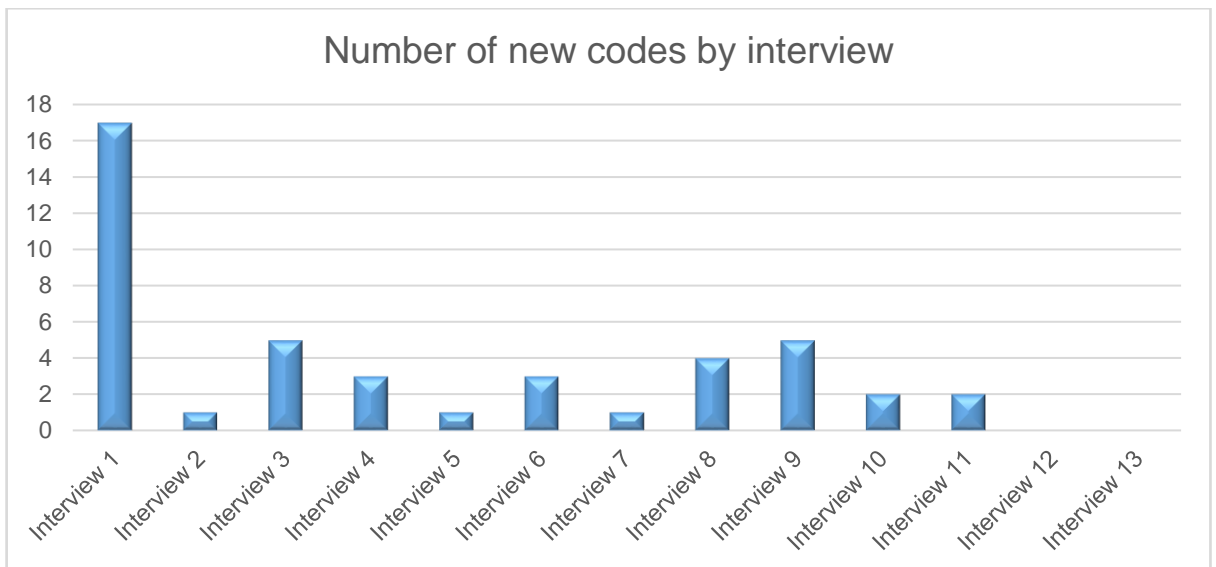
4.4. Sampling Method and Size

A sample is the subset or a subcategory of the data contained in the entire population (Saunders & Lewis, 2018; Wegner, 2016). Given the size of the population of intermediaries operating in the South African short-term insurance industry, and the timelines of this research project, a sample was selected (Saunders & Lewis, 2018; Saunders et al., 2009; Wegner, 2016). The selection of the sample depends on the propositions to be addressed and whether or not the nature of the population and the size thereof is known (Saunders & Lewis, 2018). Since the full list of the population was not known, not all the intermediaries operating in the South African short-term insurance industry have a chance of being selected for the sample; for this reason, a non-probability sampling method was used to select the sample size (Saunders & Lewis, 2018; Saunders et al., 2009; Wegner, 2016).

Purposive sampling was used as a sampling method as the researcher's judgement was used to select the sample from the population (Saunders & Lewis, 2018; Saunders et al., 2009; Wegner, 2016). Purposive sampling is used mainly in qualitative research studies, for non-probability sampling to actively choose those of the participants who will be able to assist in providing insight into the propositions and help meet the research objectives (Saunders et al., 2009; Wegner, 2016). Purposive sampling is also ideal when selecting a small sample size for qualitative data (Saunders & Lewis, 2018).

In order to obtain an understanding of the readiness of the intermediaries to digital intermediation, an attempt was made to interview as many respondents as possible to a point where saturation is reached. Saturation is reached when no new, or very few new insights emerge from additional data collected (Saunders et al., 2009). A total of thirteen interviews were conducted. For purposes of this study, saturation was reached after the 12th interview, after which no new insights were identified. An additional interview was conducted to confirm no new insights could be obtained, thereby confirming that saturation was reached. Figure 2 below shows the number of new codes per interview conducted and the point at which saturation was reached.

Figure 2 Number of new codes per interview



The sample was taken across five different divisions, which included Specialised Risks, Placement and Market Facing, Client Servicing, Sales and Development, as well as the Consulting division. Due to the purposive sampling, not all division were equally represented in the sample group. The individuals who were considered to have the appropriate level of experience were considered for the purposes of the sample. The positions of the individuals within the sample group include Head of Divisions, Practice Lead, Placement Specialists, Sector and Product Specialists, a Regional Business Development Manager, a Generalist and a Team Leader. The number of respondents and the divisions they represent are outlined in Figure 3.

Figure 3 Division and position of chosen sample

Division	Position	Number of Respondents
Specialised Risks	Head of Division	1
	Practice Lead	1
Placement and Market Facing	Head of Division	1
	Placement Specialist	1
Client Servicing	Head of Division	1
	Sector Specialist	2
	Product Specialist	2
	Generalist	1
Sales and Development	Head of Division	1
	Regional Business Development Manager	1
Consulting	Team Leader	1
TOTAL		13

4.5. Unit of Analysis

Figure 4 Details of the unit of analysis

Sample	Unit of Analysis
Type	Intermediaries operating in the short-term insurance industry
Geographical scope	South Africa

The unit of analysis is the component that the researcher is studying. For this research project, the unit of analysis were the insurance intermediaries within the sample. The insurance intermediaries were represented by personnel with experience, whose responses were insightful in gaining an understanding of the effect of digital disintermediation.

4.6. Data Collection Tool

Semi-structured interviews, guided by an interview schedule, were used to collect data, as noted in section 4.2. The interviews were self-administered given the number of participants and the ability to gain access to the participants. The interview questions were open-ended, so as to gain insights. The order of the questions varied depending on the themes and questions being asked to the respondents (Saunders & Lewis, 2018). Figure 5 below outlines the Propositions and the interview questions.

Figure 5 Propositions and Interview Questions

Propositions from Chapter 3	Interview Questions
<p>Proposition 1:</p> <p>Digital platforms have had a significant impact on the intermediaries' market share and revenues. They are a threat to the sustainability and survival of traditional intermediaries in the long run</p>	1. What impact has digital technology had on the intermediaries' business?
	2. How has the insurance intermediary sector performed since the advent of digital platforms?
	3. How has the intermediaries' market share of the SMMEs changed over the last decade as a result of change in insurance buying attitudes driven by digital platforms?
	4. To what extent have clients opted for direct business with insurers in the SMME segment?
	5. What is the response from traditional intermediaries to the advent of digital technology?
<p>Proposal 2:</p> <p>Traditional intermediaries are investing in their digital</p>	6. How important are digital capabilities and platforms to intermediaries and their businesses?

capabilities to future-proof themselves against the prevalence of digital platforms in the insurance industry.	7. What is the response of traditional intermediaries to the advent of digital technology?
	8. To what extent are traditional intermediaries investing in their innovative digital technologies?
	9. How are intermediaries enhancing their technological capabilities to tackle the potential challenge of disintermediation through digital?
Proposition 3: Due to the cost benefit and convenience brought about by digital platforms, insurance companies are investing in their digital platforms to gain easy access to clients	10. What are clients' preferences to use digital platforms when compared to traditional intermediation services?
	11. How much of a concern are costs associated with intermediation services for SMMEs?
	12. How do intermediaries' digital platforms compare to those of the insurers' platforms?
Proposition 4: Intermediaries in the South African short-term insurance industry are classified as laggards in the diffusion of innovation adoption model.	13. How quickly do intermediaries invest in, or adopt new technologies or innovations?
	14. How sizeable is the level of investment in technology for intermediaries?
	15. How do intermediaries equip their staff to prepare them for new technologies or innovations?

4.7. Data Gathering Process

Some of the most useful ways of conducting exploratory research are to search the academic literature, use unstructured observations and making use of semi-

structured and unstructured interviews (Saunders & Lewis, 2018). Mackenzie & Knipe (2006) support Saunder & Lewis's (2018) theory by adding that an interpretivist paradigm, following a qualitative method would use interviews, observations, document reviews and visual data analysis. This research project therefore used semi-structured, open-ended, face-to-face interviews as a data collection tool.

A total of 13 semi-structured interviews were conducted averaging 27 minutes, with the longest interview lasting 36 minutes and the shortest interview lasting 20 minutes. The face-to-face interviews were conducted at participants' offices, a convenient venue for both the interviewer and the participants (Saunders & Lewis, 2012). The audio was recorded and stored on Google Drive. The identified participants were invited via email to take part in the interview process. The purpose of the interview was explained to each of the participants and each signed the consent form beforehand to ensure that the interviews were conducted in an ethical way (Saunders & Lewis, 2018; Saunders et al., 2009). A standard non-disclosure agreement was drafted and made available to each of the participants. Sufficient amount of time was allowed for the participant to review all the necessary documentation before the interview took place, these include interview questions, the standard non-disclosure agreement and the consent form. Each participant was afforded the opportunity to decline taking part in the interview (Saunders & Lewis, 2018; Saunders et al., 2009).

4.8. Data Analysis

Data analysis concerns itself with examining the data collected, with the objective of identifying themes coming out of the data and any new insights from the interviews (Zikmund, Babin, Carr, & Griffin, 2013). Content analysis and thematic analysis are classified as descriptive qualitative approaches to data analysis in research. Content and thematic analysis can be used to analysis qualitative data where the level of interpretation is relatively low (Vaismoradi, Turunen, & Bondas, 2013).

For this research project, data was analysed through a thematic content analysis. Through this analysis, themes and insights were identified which provided insights into the readiness of the intermediaries towards the advent of digital disintermediation in the South African short-term insurance industry. The analysis

was done on a question-by-question basis (Saunders & Lewis, 2018; Saunders et al., 2009; Zikmund et al., 2013). ATLAS.ti was used to analyse the raw audio recordings of the semi-structured interviews.

4.9. Limitations

The nature of an exploratory qualitative research limits the general applicability of the results obtained from data collection and analysis (Saunders & Lewis, 2012, 2018). The reason for the limited generalisation of the results is due to the smaller sample size used in this qualitative research study. The goal of qualitative research is for the knowledge to be transferrable in the context and settings similar to those under which the research was conducted (Saunders & Lewis, 2012, 2018; Saunders et al., 2009).

The research was conducted within the insurance intermediary industry in South Africa. The research focused on the short-term insurance industry; there is therefore a limitation in its applicability to life insurance and in other financial services sector.

The research was conducted at a specific point in time, a cross-sectional time horizon (Saunders & Lewis, 2012, 2018), therefore its findings may be applicable taking into account the time and rate of technological adoption by insurance intermediaries. There may be limited applicability of the findings of this study at a different time.

The sample size may be too low for a pervasive applicability of the results from this research study.

The research study was exploratory in nature, as such; the responses from participants may have been subjective and not conducive for wider application. Further, given that the data was collected through interviews, the views and perceptions expressed by the participants may have not necessarily been a true reflection of reality, the participants may not have been authentic.

Purposive sampling method was used, as such, the sampled participants to this study may not have represented and reflected the perceptions of the entire population.

Some of the pre-existing relationships between the researcher and the participants to this study may have affected the veracity of the responses given by the participants; therefore, the results from the interviews may be skewed.

4.10. Validity and reliability

Validity refers to the extent to which the findings to the study relate to the propositions (Saunders & Lewis, 2012, 2018). For purposes of this research study, the propositions were derived from the review of literature and subsequently grouped into four groups.

To ensure validity and reliability, thirteen semi-structured interviews were conducted to allow participants the freedom to respond freely and openly during the interviews. All the thirteen interviews were conducted face to face in the interviewees' offices. The interviews lasted between 20 to 34 minutes.

4.11. Ethical Considerations

In an effort to ensure that this research study was conducted in an ethical manner, the researcher obtained ethical clearance from the university's Ethics Committee prior to the commencement of the research study. Following this, an interview consent form was obtained and given to the participants to read and sign prior to each interview. The consent forms were sent to the participants in advance to allow them to gain understanding of the interview and ensure confidentiality of the participants. In an effort to ensure anonymity, the names of the participants in the study are hidden.

4.12. Conclusion

This chapter gave an overview of the methodology and the design of this research study. It also highlights the data gathering process, outlines the limitations, validity and ethical considerations. Chapter 5 presents the results of the data collected from the semi-structured interviews.

Chapter 5: Results

5.1. Introduction

This chapter presents the findings obtained from the data collected during the thirteen semi-structured interviews conducted. The results are laid out in accordance with the Propositions that were formulated in chapter 3. The interview questions were formulated in accordance with, and mapped against the Propositions in chapter 3.

This chapter begins with providing a description of the participants in the study, followed by the presentation of the results from the qualitative analysis. The objective of this research is to gain an understanding of the readiness of the insurance intermediaries in the short-term insurance industry in South Africa to the advent of digital disintermediation in the SMME sector, and to understand which adopter group these intermediaries fall under, in the diffusion of innovation model.

5.2. Description of participants and context

Figure 6 Participants and context

Participant	Division	Position
Interviewee 1	Specialised Risks	Head of Division
Interviewee 2	Client Servicing	Sector Specialist
Interviewee 3	Specialised Risks	Practice Lead
Interviewee 4	Sales and Development	Business Development Manager
Interviewee 5	Placement / Market Facing	Placement Specialist
Interviewee 6	Consulting	Practice Lead
Interviewee 7	Client Servicing	Generalist
Interviewee 8	Client Servicing	Product Specialist
Interviewee 9	Corporate	Head of Division
Interviewee 10	Placement / Market Facing	Head of Division
Interviewee 11	Sales and Development	Head of Division
Interviewee 12	Client Servicing	Sector Specialist
Interviewee 13	Client Servicing	Product Specialist

The names of the participants were withheld in order to ensure their anonymity. As noted in chapter 4, the participants were selected from a wide range of divisions and positions, to ensure insights are obtained from different perspectives of the intermediary industry.

A total of thirteen interviews were conducted, all of which are included in this study as they met the selection criteria. Four of the participants, interviewee 2, interviewee 3, interviewee 7 and interviewee 11 were previously employed as short-term insurance underwriters prior to being employed as intermediaries. These participants provided valuable insights from both an underwriting and an intermediary perspective. As an underwriter, interviewee 11 was also involved in digital technology development for the insurance company. The participant led the ground-up establishment of an innovative, technology driven, commercial insurance company for a global insurer. Interviewee 5 and interviewee 10, both in the placement and market facing division previously worked in the client servicing division. The participants' exposure spans across different industries and all have varying degrees of experience in the insurance industry. The participants worked for three different companies in the past twelve months.

All of the thirteen interviews were conducted face to face, recorded, with the participants' consent, and transcribed. Each participant interviewed is a full time employee in a short-term insurance intermediary. All the interviews were conducted in Johannesburg, in a quiet room in the participants' workplace. Prior to each interview, the participants were given the interview questions as well as the interview consent form for them to sign. To further provide clarity about the research, the objectives of the study were explained to the participants prior to each interview.

5.3. Presentation of results

The results are presented as per the propositions presented in chapter 3, supported by three interview questions as mapped out in Figure 5.

5.4. Results for Proposition 1

Proposition 1: *Digital platforms have had a significant impact on the intermediaries' market share and revenues. They are a threat to the sustainability and survival of traditional intermediaries in the long run.*

The aim of this Proposition was to understand to what extent, if any, does the emergence of digital platforms affects intermediaries' business. The interview questions were set up with specific focus on the intermediaries' performance in the form of revenue performance and any changes in market share. In order to remain relevant and maintain market share, the data collected from the participants revealed that intermediaries need to focus on three key aspects; building on advisory services as a differentiator, placing the appropriate level of importance on technology, and proactively crafting the future of the intermediation. The results from each of these aspects are discussed below.

The study found that intermediaries need to prioritise and strengthen their overall advisory services capability, be cognisant of the importance of technology and proactively create the future of intermediation before new players in the industry decide it for them. The reasons for this conclusion are discussed extensively below.

5.4.1. Advisory services as a differentiator

Firstly, nine out of the thirteen participants in the study highlighted the importance of client advice. The data revealed that intermediaries need to prioritise the advisory element, as that will be a differentiator going forward. Most of the participants cited the importance of advisory services and the elements of trust and relationships as being key to maintaining market share and ensuring the survival of the intermediaries to the threat of digital disintermediation.

5.4.1.1. Building of intermediary advisory capabilities

Nine out of the thirteen participants emphasised the importance of advisory services by the intermediary. Insurance intermediaries serve the insurance buyers by providing an insurance needs assessment, and advice on the insurance options ranging from a complete risk transfer approach to self-insurance or retention and other methods of optimising their risk, concluded by counsel on which insurance company to select.

Interviewee 1: *“I think our relevance in terms of our role in allocating capital to risk, and our advice is critical because there’s no advice in the direct model. There’s product but there’s no advice, which we have. So if we can marry the data analytics with the advice and with the technology across our business, it’s very, very powerful.”*

Interviewee 3: *“...but again, the AI and the technology can never create the deal. So even though the AI calculates a premium or whatever the case is and says it’s X amount, someone still has to take that to a client on complex risk, explain to them, because we’re still just humans, what their exposure is, whatever the case is, and say well there, the technology said that, this is your risk profile and this is the price that you pay according to the statistics built into the natural models.”*

Interviewee 5: *“The difference is we as intermediaries are advice givers, that’s the basis of how we work, and that is the basis of our offering to clients, as advice givers. We are the experts and we’re going to help you, Mr Client, whereas an insurer is not an advice giver, they are a product giver. So they provide the product and an easy way to access it. Whether it’s the right or wrong product for you really is neither here nor there. Whereas our product offering is our advice. So, I think it’s a very different space from that perspective. I’m not saying there is no space for that within intermediaries, I think there are, but the product that we sell is advice.”*

The participants further stressed how the provision of advice is crucial to continuously add value to the client. Some of the respondents highlighted the importance of diverse product and service offering to clients, coupled with acting on the best interest of the client.

Interviewee 2: *“That’s what you would actually do because also you would need, what do you call this, an independent person who would make up a decision, because you’d end up going to one particular insurer and that insurer will sell you what they need to sell, forgetting or compromising you as a client’s needs, whereby with a broker, a broker is licensed to sell various insurance products to the client. Although some of them might not be 100% but then you would actually pick the best of all those worlds and try to have a bespoke product for that client.”*

Interviewee 7: *“So I think the main thing that will make us future proof is to continuously differentiate ourselves from the insurer. In terms of additional services provided, from the advisory obviously and consulting etc., from product creation, from*

expanding the number of services or the basket of services that you can provide, I think that is definitely key.”

Interviewee 13: *“Another thing is that we tend to pay more attention to detail, we go an extra mile in making the client pick up things that they wouldn’t have picked up easily had they done the things themselves through the app, or dealt directly with the insurer. So that extra special service or that extra touch that we give to the table is what will probably keep us in the game for some time, even though the apps would still be there. You would still have these clients here and there that would prefer to do things themselves, but at the end of the day you will still have most clients that would look into going through us to do things.”*

Interviewee 10: *“So I think advice will sometimes only become relevant in the event of a difficult claim. I think generally the direct players, straightforward claim will pay the claim. If there’s anything that’s potentially a grey area or a little bit not straightforward they will be looking at it from their perspective not from the clients perspective.”*

The element of advice was seen as a key offering to clients by intermediaries to combat the threat of potential loss of market share and declining revenue due to digital disintermediation. Further, advice was seen as an important enabler to ensuring the sustainability and survival of the intermediary in the long run.

5.4.1.2. Trust and relationships as a driver

The participants made mention of the role relationships and trust play in ensuring that intermediaries remain relevant in the digital age. Intermediaries are usually independent from the insurance companies, as such; their independence provides trust to the insurance buyer. Some of the challenges experienced by insurers are presented by complexity in the regulatory requirements within the insurance industry, long lead times to commercialise new technologies, as well as lack of direct relationship between insurer and insurance buyers due to intermediation.

Interviewee 4: *“So with insurance, insurance is a relationship based business, right? You create relationships with your CFO and they are the ones who appoint you, and then you give them great service and they keep appointing you every single year and all of those things.”*

Interviewee 5: *“And I think that’s what clients pay us for, they pay us for that knowledge and that’s how you build trust, and I think in the intermediary space that face to face and that trust is paramount. If you don’t have that you’ve lost before you even begin.”*

Interviewee 12: *“There’s a level of trust through face to face, the client knowing you, where to find you, if they need your assistance and they know you can either come out to come and sit with them and discuss whatever is on their policy, to discuss their renewal.”*

Whilst, from the interviews, relationships are seen as crucial to the survival of intermediaries, one of the participants noted with concern whether the focus was well placed, given that the focus was not on improving digital capabilities.

Interviewee 6: *“I think in the intermediary space a lot of focus is put on relationships, the focus is not on digital, it’s on that personal touch; and perhaps we need to re-evaluate and look at have the needs changed, do I really need someone to call me and to take me out for golf and coffee and lunch? Is that what a customer actually needs?”*

5.4.1.3. Value add and intermediary independence

To further differentiate themselves, the participants noted that intermediaries need to add value to clients, act on behalf of clients and maintain independence from insurers. Six out of the thirteen participants highlighted these aspects and their importance for intermediaries. Part of the reason to involve an insurance intermediary is to ensure that the insurance market imperfections are removed and that value and benefit are created for the benefit of clients (Maas, 2010).

Interviewee 6: *“I think digital is a value add, it’s something in addition that we can do that is cool, that kind of shows that we are doing something that are peers are not doing. Because the industry, the sector, intermediary services in particular, is not doing amazing things in the digital space.”*

Interviewee 8: *“And as I said before, lower tier clients are all about efficiency. So if my broker is not adding value in my life I will do it directly with the insurer..... people want to do things themselves, and people want to see value, the value that a broker will bring into my life. So if you can’t prove that value, if I can do exactly what you*

can do alone, then I wouldn't – or using a digital platform, then I wouldn't see the value that you bring to me."

Interviewee 10: *"Because the broker will push for the best terms and conditions for the client, the insurer will push for the best terms and conditions for themselves, getting enough to the client."*

5.4.2. Importance of technology to the intermediary

In addressing the advent of digital technologies posing a threat to the intermediaries' market share and survival, the participants of the study emphasised the importance of technology to the intermediary, particularly when serving the SMME segment of the market.

Twelve of the thirteen participants highlighted the importance of technology for the intermediary industry. The participants emphasised how technology enablement would go a long way in ensuring that intermediaries retain their market share and ensure their survival and sustainability. From the twelve participants who highlighted the importance of technology, ten of them focussed on the importance of technology do better deliver intermediary services to the SMME segment.

5.4.2.1. Importance of digital to intermediaries

The data gathered from the interviews showed that participants place importance on digital technologies for intermediaries generally. The participants discussed what benefits could be derived from better digital platforms and how these could improve the manner in which they perform their duties.

Digital evolution has offered different industries a new way to improve service offerings to clients and continuously improve the quality of those services in terms of both efficiency and effectiveness. It has also proved to not only be essential for business growth, but also for business sustainability in the digital era.

Interviewee 1: *"I think that the digitisation of our business specifically around system and ops, so how it enables us to transact easier, impacts our ways of working. But also in terms of client technology, obviously that's another element, and an important element. So how does the client experience your service and your offering, and what*

is their experience of that through your technology, digital offering? Those are the two aspects that I see as being critical.”

Interviewee 7: *“Well for starters I do think it’s playing a major role, because obviously we’re heading to a more technical way of doing things, way of doing business, way of interacting, and everyone is looking for convenience for starters. So obviously if I can do anything from the comfort of my home or comfort of my car, comfort of my bed, at any time, then obviously that’s greatest convenience of all.”*

5.4.2.2. Importance of digital in the SMME segment

Over and above the importance of digital technologies to the intermediary holistically, Ten of the thirteen participants specifically stressed the importance of digital technology in providing services to the SMME market.

Interviewee 2: *“Well there will be some digitalisation, not necessarily for the corporate or the niche markets, but possibly for like your personal line sector and your small commercial sector where everything would be done – or not everything, most of the things are now done digitally.”*

Interviewee 3: *“If you look at the ability to facilitate an app or the likes of an app with insurance products, personal lines is the easiest to do, it’s a bit of a no-brainer. The main reason for that is that it’s very standardised products.”*

Interviewee 5: *“I think in the personal lines, smaller commercial space, I believe that’s where it’s going to have the biggest impact, where it’s easier to place insurance on a standard product. But the moment you start looking at bespoke products that’s where it’s going to be more difficult to move on to digital.”*

Interview 12: *“...digital is more focussed on your personal line type of business, and because of your, how can I put it to you, just advice and so forth coming across from a broker, it’s not really as complicated as when you move on to your business and corporate type of insurance covers. So from that perspective you can easily move to a digital platform but also not completely, because there will still be an element of human intervention”*

Interviewee 10: *“I mean IT has a place across everything in terms of efficiency, being able to deliver at a lower cost using the data you’ve got, but it’s in the smaller space that you will lose more market share by not having it.”*

Whilst the importance of digital technology was articulated by the participants, some of the respondents raised concerns around how technology is prioritised. Some of the participants shared their assessment of how intermediaries deprioritise digital technology development.

Interviewee 2: *“But advancement of technology in terms of your day to day operations or in terms of your output, it’s not really in the forefront of the business. It is there but it could be number five or 10 on the list.”*

Interviewee 4: *“I mean I had a meeting with a company last week and I was blown away by their digital platform, and it was really, really – and I was like, wow, Marsh should actually buy this platform for us and it would really work. But I think that’s where the problem is, is that I don’t think we’re focussing enough on that.”*

One of the participants positioned how technology does not form part of intermediary’s strategic imperatives.

Interviewee 11: *“Whereas my view is that in the intermediary space technology sits alongside the business. So it’s not – we use it for what we have to use it for, and I’m maybe being a little bit harsh. But I think it’s important in order to contrast the varied views – we don’t have a technology native strategy.”*

5.4.2.3. Intermediary aggregators and generation gaps

In addition to the above key aspects obtained from the interviews, some participants also highlighted that additional steps need to be taken for intermediaries to remain relevant and sustainable in the future. Amongst others, participants highlighted the need for intermediaries to create their own aggregators, and be mindful of the generation gaps that exist within the organisations.

In order to be in control of their destiny and ensure their survival, one participant stated that intermediaries need to create their own aggregator capability. The participant believed that through this level of data, intermediaries can provide value to clients and ultimately create a sustainable intermediary industry.

Interviewee 9: *“So the competitive advantage that we will have, and we already have now, is industry aggregated data.....So aggregating that data to pick up trends, to pick up winners and losers in the space, to pick up insurers that have certain appetites for certain segments. That’s the space that we can add an immense amount of value to clients in that space.”*

Two of the participants in the study highlighted the challenges faced by organisations when the staff complement consists of vastly diverse generations. Whilst the one generation might have a healthier appetite to the consumption of technology, the other might not. In their quest to ensure that they remain relevant, intermediaries often need to embrace technology, however, the generational gap within those intermediaries presents an adoption challenge.

Interviewee 8: *“You will have your millennials who are tech savvy, who work very well with technology. Some teach themselves how to use different digital platforms, and then you will have your generation – your more experienced colleagues that will not shift from their traditional ways of doing business. So it becomes a challenge to business selling this uptake of this technology to the more experienced.”*

5.4.3. The future of intermediation

In response to the changing digital landscape, intermediaries need to plan for industry uncertainties that are brought about by digital technologies. In their responses, the participants highlighted three aspects of importance to address in order for intermediaries to remain relevant. The three main aspects emanating from the data gathering process were the changing client base, the future role of the intermediary and the new type of intermediary.

5.4.3.1. Changing client base

The type of insurance buyer is constantly changing. The insurance industry needs to consider how their offering meets the needs of the current insurance buyer. In the insurance industry, the use of digital technologies has resulted in lower transaction and administrative costs, reduced error rates due to lower human intervention and an increase in customer satisfaction levels. The participants highlighted the changing insurance client base. The use of technology is becoming more and more prevalent with the younger insurance buyer and is becoming more valuable than relationships.

Interviewee 3: *“I think what it does is it enables the demographics to be changed in terms of insurance. So an app really, a front key app and that’s really customisable, appeals to a younger age group, an up and coming age group where typically you would not have insurance purchases in that segment if you had to go through a traditional medium such as an insurance broker intermediary.”*

Interviewee 4: *“The next generation that’s coming on is not really that worried about the relationship, they are worried about more of the service and the deliverables.”*

Interviewee 12: *“Our clients are becoming tech savvy and if you look at the next generation now everything is happening digitally.”*

5.4.3.2. Future role of an intermediary

In the digital age, the role of the intermediary has come under question across various industries wherever there is digital presence.

The results from the data gathered through interviews showed that the future of intermediation differs, depending on the segment under consideration. Participants highlighted how digital will have an impact on the SMME segment more than it will on the corporate segment. Most of the participants stressed that digital platforms will have a significant impact on the SMME segment, yet the role of intermediary becoming more significant in the corporate segment.

Interviewee 1: *“So I actually see the role of the intermediary increasing in the long run and less reliance on the actual capital provider, at the end of the day they’re just providing risk capital where it comes from.”*

Interviewee 2: *“But in terms of the corporate and niche it will still remain traditional, or the bulk of the business operations or how business has been done, it will still be done in the traditional way.”*

Interviewee 4: *“But the intermediary will still have his job, because the intermediary still needs to be able to relay the message of the client to the insurers, and make the insurers understand the risk complexities that are there. Because the insurers don’t necessarily have the know-how of each and every single industry.”*

Interviewee 6: *“So when I look into the future of our intermediary business, in the truest sense of what an intermediary is, I do feel that if we do not transform digitally we will not be relevant.”*

Given the changes that are brought about by digital technology, the participants expressed how role of the intermediary would evolve to be a strategic and consultative in nature.

Interviewee 9: *“So what it is going to force us to become is we’re going to have more strategic senior consultative industry experts in our business rather than administration processes and procedures, potentially low level secretarial type functions in our organisation.”*

From the data gathered, it appears as though the role of the intermediary in future will go through an evolution, particularly when it pertains to the SMME segment.

5.4.3.3. New type of intermediary

The short term insurance industry has seen the introduction and the emergence of new types of intermediaries, mainly in the form of technology. The participants in the study highlighted the need for traditional intermediaries to adopt better digital platforms if they want to remain relevant and ultimately be sustainable. Digital technologies have given insurance buyers freedom and control over their insurance decisions, this in turn exacerbated the risk of digital disintermediation.

Interviewee 3: *“So these companies that we’re talking about can’t be viewed as financial services – well they are financial services but they’re not in the insurance business, they don’t own any product. The product is provided to them by their large international, or local but large established traditional insurance and reinsurance markets, they channel through these products through the app to try and facilitate either a new market, speedier transactions, new demographics in terms of client base, and to try and chip away at the likes of direct insurers really.”*

The short term insurance industry is experiencing an introduction of a different intermediary. These are not traditional intermediaries, but rather are technology driven and run. Traditional intermediaries therefore need to have a wider consideration of their industry competitors. The participants articulated the evolving industry and the widening competition in the intermediary industry, which does not only come from traditional intermediaries, but also from a new type of intermediary.

Interviewee 6: *“But I think the fundamental error we make is in thinking that our competition [are other intermediaries] and well – that’s not our – we have a whole*

eco-system to worry about and we can simply be not just replaced but rendered redundant unnecessarily, as an entire sector, or whatever you call it.”

Interviewee 11: *“Then I think on the other end of the scale you’ve got the revolutionaries. More often than not these are start-up businesses or early phase businesses who have the ability to be more agile and to shift their thinking quite quickly...so the new businesses that are coming up in this space are generally not intermediaries, they are generally businesses that are coming out with a view to eat intermediaries’ lunch.”*

5.4.4. Summary of the findings of Proposition 1

The aim of Proposition 1 was to understand to what extent, if any, the emergence of digital platforms affects intermediaries’ business from a market share and revenue perspectives. Further to this, it aimed to understand if digital platforms pose a threat to traditional intermediaries’ sustainability and survival in the long run. In addressing this proposition, it emerged from the data collected that intermediaries need to strengthen and prioritise their overall advisory services as that will be their differentiator from the impending players. Further to this, it emerged from the data that intermediaries need to be cognisant of the importance of technology and proactively create the future of intermediation before new players in the industry decide it for them. The findings, therefore substantially support the proposition.

5.5. Results for Proposition 2

Proposition 2: *Traditional intermediaries are investing in their digital capabilities to future-proof themselves against the prevalence of digital platforms in the insurance industry.*

The aim of this proposition was to understand to what extent, if any, the intermediaries are investing in digital technology. The digital era necessitates for different businesses to invest in their digital capabilities in order to remain relevant in their industries. Taking into account the responses to the importance placed by intermediaries on technology as per proposition 1, the questions in this proposition aimed to understand if intermediaries are investing in technology, and if not, what are some the hurdles prohibiting the investment in digital technologies. Two main

aspects emanated from the data collected with regards to the intermediaries' investment in technology. The participants emphasised the investment in, and the adoption of technology by intermediaries as well as the operational benefits that would be brought about by the potential investments in technology. Each of these key aspects are discussed below.

The findings from data highlighted that even though investment in technology is important for intermediaries, not enough is being done to advance it. The results show that intermediaries do not seem to prioritise investment in technology, even though the benefits brought about by technology are identified. The reasons for this conclusion are discussed extensively below.

5.5.1. Technology investment and adoption by the intermediary

The participants in the study indicated the importance of investment in technology by the intermediary and the adoption of the technology to better service clients.

5.5.1.1. Investment in digital technology

Many participants stated that intermediaries are not making the appropriate investment decisions involving technology. Seven of the participants held the view that the intermediaries are not prioritising technological investments.

Interviewee 1: *"In terms of how much we have invested in that, I think we've not, basically, and it's a big deal for us"*

Interviewee 3: *"Absolutely not. I don't think there's enough at all. Unfortunately, as an intermediary, we don't – any intermediary globally, we don't produce anything that's tangible, so we don't manufacture anything."*

Some of the participants held the view that intermediaries are spending money on technology; however, the investment is not directed at investing in new digital technology. Participants believe that money is spent on aged technology, which does not offer much value from a digital perspective. The participants believe that investment in technology is misplaced.

Interviewee 6: *"That's not the focus for us, like I said. I think if it was a focus then they would be investing in it, right now it's not a focus ...the investment is in the wrong place, that's what I'm saying"*

Interviewee 9: *“...I think that we are extremely nervous of reinvesting in new technology. I think it stops us from being bold. When you look at what we’re spending already on technology it’s a lot of money, and it’s archaic technology, it’s embedded in our business, it’s been there for such a long time.”*

All of the thirteen participants agreed that the investment in technology is not forward looking and as such, it will provide little value in propelling the company forward. Further, the participants shared some light into the hurdles with which the intermediaries are faced, concerning technological investment and adoption.

5.5.1.2. Hurdles to technological advancements

Intermediaries are faced with different challenges when it pertains to investments in technology. Most of the participants in the study listed the cost implications of the technology as a major hurdle to technology investment. The participants noted that organisational financial performance is a key determinant to technological investment decisions within intermediaries.

Interviewee 1: *“As you’re aware, in terms of our earnings, our recent financial performance, it’s tough. So there’s an opportunity cost, capital is – money is scarce. So we’ve really got to, as a business, if we’re going to build an investment case around dropping a chunk of cash into a technology or into a certain system that’s going to benefit a certain part of that business, there’s an opportunity cost to consider...so our hands are slightly tied...”*

Interviewee 2: *“...however looking at the economic climate, not only in South Africa, but globally, there’s certain projects or investments that organisations relook and prioritise at this moment, and most of the organisations, even the ones which are performing quite well, they are going through a cost containment exercise. So certain project Capex might be frozen or just taken and utilised for the ones which actually are escalated to be priority at this current moment.”*

Interviewee 4: *“And I think going forward - but it’s that whole thing of, because nobody has got a system in place at the moment and the development costs are still quite high in terms of the research and development, those costs are still quite high, business don’t want to take that on the chin, that cost on the chin.”*

Other participants lamented the fact that intermediaries do not prioritise investments in technology. When compared to insurers, intermediaries have been perceived as lacklustre in their urgency to prioritise technology investments.

Interviewee 8: *“As intermediaries I don’t think it’s top of our priorities.”*

For global intermediaries, any significant investment, improvement or development of new or current technology needs to follow the pre-determined processes. These processes often delay the implementation processes that aim to accelerate the investment decisions.

Interviewee 5: *“I find being a global sometimes to make any sort of change the red tape inhibits it, because there is such a huge approval system in place that it’s really difficult for just one small portion of a global to go off and do their own thing, because everything has to align with the global view.”*

As stated earlier, the participants expressed how they believe the focus on technology is misplaced. Adding to this, the participants believe that current systems in their organisations are not utilised to their full extent of their capability. Some of the participants have stated how the current platforms are not properly implemented across the business. This has raised a concern to the participants about whether intermediaries have an appreciation of the value provided by digital technologies.

Interviewee 6: *“So we get, I think it was iMap that came from the US, we’ve got pictures, we’ve got some kind of Excel something on it, we’ve got the iPad itself, but it’s never worked. I’ve been here for three years, when I started they were trying to get it to work, it just doesn’t work, and there seems to be a break in, I don’t know if it’s communication or knowledge, or this passing down of how this digital application needs to work that’s just not happening.”*

Interviewee 8: *“...we actually do have a digital platform where clients can access their claim forms from online, where clients can actually even lodge their claim directly with the insurers online, or speak to the brokers online..., but as I said earlier, the implementation of such – it’s great having a platform but whether it’s used is actually another different question. I feel money has been spent creating these platforms, but implementing the actual platform, getting clients to use the actual platform, isn’t working. Or whether maybe the question is, were clients consulted, or*

was market research done before these platforms were created, are they user friendly?”

From the results collected, the level of investment and the rate of technological adoption by the intermediaries is not at the desired level. The low levels of investments and adoption deprive the intermediary the opportunity to take advantage of the operational benefits offered by the adequate investment, adoption and use of digital technology.

5.5.2. Operational efficiency

The participants in the study expressed how the investment and the adoption of technology improves efficiencies in their daily work routines. Of importance, the participants highlighted the operational benefits offered by digital technology, the need for integration between technology and humans, as well as the need for the appropriate level of skills for employees to drive the technology. Each of these aspects are key in ensuring that intermediaries unlock the benefits from improving operational efficiency. These aspects are discussed below.

5.5.2.1. Operational benefits of digital technology

The participants expressed the importance of digital technology in as far as the administrative tasks are concerned. Further to this, the respondents emphasised how digital technology will deliver the most benefits to the SMME segment. Although digital technology is crucial in the SMME segment, the participants emphasised the need to use technology in order to provide advice, as opposed the use of technology instead of providing advice.

Technology has helped businesses streamline their operations and processes for better efficiencies. The participants shared their perception of how technology make their daily tasks administratively easier, allowing for better efficiencies and a better focus on the provision of advice. Efficiencies would be improved through better use of technology on tasks involving the lodging of claims, producing client reports and tracking statuses of claims. More importantly, however would be making use digital technologies for risk assessments of clients, obtaining insurance quotations and the communication of new and emerging risks of which clients need to be aware.

Interviewee 2: *“It would be reporting, reports that clients would require. So for example, claim reports that a client would want on a monthly basis, or on an ad hoc basis, so as opposed to waiting for someone to download a report and then we then send to the client, which is time consuming. We are looking at a couple of days.”*

Interviewee 3: *“So we scan potentially a proposal form into a system, the AI takes all the relevant questions, computes it into a system that’s linked to the insurer. Those quotes are sent directly to the clients, there’s three options based on a standardised proposal form...the only interaction the human did was to place the proposal form by themselves onto the scanner, the contract is concluded.”...” And I think also the real advantage is the human error component is really taken out of the mix when you have a technological solution. “*

Interviewee 4: *“...where digital will come in will be the ease of making the work of the intermediaries easier. And on top of that, once everything is in digital space you can actually do a lot – you will be a lot quicker in getting the policies out to the client etc. But also then it allows us the second part, which is the client will be able to view his portfolio on a digital platform live at the specific time.”*

Interviewee 5: *“...for me digitising would help us to improve our processes and systems, but it wouldn’t change the advice, it would just simply make – the part after the advice simpler. So we give the advice, this is our advice; we suggest you take X, Y, Z policy with X, Y, Z insurer, and let’s process it. That’s where I see digitisation affecting our businesses on the actual processing end, as opposed to the advice end.”*

Interviewee 12: *“...it has to be there, and especially from an administrative point of view. So documentation, invoicing, just communication in general.”*

Although the operational benefits are identified, the participants stressed the importance of investing in the appropriate type and level of technology for the SMME segment so as to manage this segment differently from the larger corporate clients.

Interviewee 3: *“So I think in the lower consumer commercial space I don’t think there has been a huge amount of innovation yet in terms of that. In theory what we should be doing is we should have, for all us as intermediaries, should have low touch technology driven solutions for consumers turning over a certain threshold, in theory*

what we should have across the industry, whereby it generally takes no human interaction.”

The participants of the study also raised the need for integration between technology and human capital for effective delivery of services to the clients.

5.5.2.2. Integration of technology and human capital

The participants expressed the need to incorporate technology in the intermediaries' business, to achieve a mix between technology and human factor. The technology can be used to draw clients' status reports on a monthly basis, while the consultants focuses on providing strategic advice to the client. Further to this, the participants highlighted that with the appropriate digital technology, critical and useful risk information could be easily accessed by the consultants when conducting meetings with clients. This allows for quicker decision making an ease of doing business, thereby improving operational efficiency.

Interviewee 13: *“...we would get to a point where we will have to integrate what we do and the use of applications so that we are still there. We still do what we do; obviously with assistance of technology...I feel that as much as we will still have the applications and technology coming into play, we still need to be there... The client might have an access to technology but he might still overlook one or two things.”*

Interviewee 10: *“I think from the people side, the initial advice, maybe ratification, I think a lot of the policy amendments, adding a vehicle, if you can go online and do it, register your claim, I think the advice around what you're buying when you're buying it. And then at claims stage where things aren't straightforward, I think in that space that's where your biggest advisory comes in.”*

The combination of technology and human capital not only requires the appropriate level of technology, but also the appropriate level of employee skills to drive the technology.

5.5.2.3. Employee skills to drive technology

Most of the participants in the study indicated that intermediaries have the right skillsets to deliver services to clients with the assistance of digital technologies. The

technological ability of intermediaries to utilise the technology ensures that the appropriate level of service can be delivered to clients in the digital era.

Interviewee 1: *“I think do we have the right skillset in terms of our staff to – not staff, do we have the right people in the business to drive a digital solutions in our business? Probably not. Do we have the staff skills to – are our staff skilled enough to adopt technology and use it effectively within our business, absolutely.”*

Interviewee 6: *“I think we have very qualified and skilled individuals in the analytic and predictive analytic space, but the stuff that they’re doing is the stuff that we’ve been doing for the past 10 to 15 years already. It’s not something that’s different... We have the right people, but from a leadership perspective I don’t think we’re where we need to be to be able to drive that digital transformation agenda.”*

Whilst many participants believed that intermediaries have the right level of skilled staff to drive technology, some of the participants held an opposite view. These participants believe that there is not enough training on digital platforms being rolled out by intermediaries.

Interviewee 8: *“The people that are actually pushing the digital platform don’t even have training on the actual digital platform, they don’t know how they work, and therefore they won’t be able to advise clients correctly on how to, for example, lodge a claim, how to view your statement, or how to do online payments and checks.”*

5.5.3. Summary of findings for proposition 2

The data collected through interviews showed that even though investment in technology is important for intermediaries, not enough is being done to advance it. Further, intermediaries do not seem to prioritise their technological investments and the advancement of technology. The participants also articulated the benefits that are brought about by digital technologies, which ultimately allow the intermediaries to focus on strategic advisory services. Therefore, the findings of this study did not support this proposition.

5.6. Results for Proposition 3

Proposition 3: *Due to the cost benefit and convenience brought about by digital platforms, insurance companies are investing in their digital platforms to gain easy access to clients.*

The aim of this proposition was to understand to what extent insurance clients opt for digital platforms, given that they are most cost effective. Further, this proposition aims to understand to what extent insurers invest in their digital platforms and how intermediary digital platforms compare to those of insurance providers. The interview questions were structured with a view to understand the extent to which costs affect insurance buying attitudes, as afforded by digital technologies. From the data collected, the key aspects that emerged were the costs impact on client as well as the prevalence of insurer digital technology and platforms. The results of each of these aspects are discussed below.

The results found the proposition to be invalid. The results reveal that the intermediary's investment in technology will not have an impact on client's intermediary related costs. The reasons for this conclusion are extensively discussed below.

5.6.1. Cost impact on client

The prevalence of technology as a preferred distribution channel has led to the demise of traditional intermediaries in many industries as it reduces costs along the distribution chain.

5.6.1.1. Cost implication on clients

Some of the participants believe that held the view that clients' costs, in the form of fees charged, could reduce should digital platforms be improved and adopted by the intermediary. Some of the costs, as they pertain to reimbursive travel and consultancy fees charged based on the time worked. Digital technologies often free up intermediaries' time since the administrative tasks are performed digitally, therefore less consulting time is spend on low value services, resulting in lower client costs for intermediary services.

Interviewee 2: *“But again, when we view it, I think it will also hinder the fees that we would charge for the client, because in terms of travelling time it’s also factored in the fees that we charge to the client.”*

Interviewee 8: *“Because, as I said, insurers pay brokers commission. So if they go directly with an insurer they won’t need to be paying any broker any commission.”*

Interviewee 10: *“...in the SME space where it’s on commission it’s pretty much cost neutral, anything else where we charge fees it’s based on hours work with individuals. So potentially there can be savings for clients if there’s less hours required. It also helps us to deliver to the client more efficiently, which will have an impact on our own costs and our margins.”*

Participants’ responses were divided, as some believed that an investment by the intermediary in digital technologies would not have any cost implications on clients. Intermediary brokerage is often calculated as a percentage of premium paid by the client to the insurer. Since the insurer determines the premiums to be paid by the client, improvements in intermediary digital platforms would not have a bearing on clients’ costs.

Interviewee 1: *“I don’t see there being any impact on the cost, there shouldn’t be. It shouldn’t impact how we price our services, for example.”*

Interviewee 3: *“As an intermediary doesn’t hold the risk so the rates for the insurance are ultimately dictated to us by the reinsurance costs that the insurance companies have to buy, and again that really reinforces the laggardness and how capital intensive it is.”*

One of the participants went on to argue that if the right digital technologies were in place, clients would not be persuaded to change intermediaries even if the costs were to increase.

Interviewee 4: *“And even if you are a little bit more expensive than the other guys you will still win it because of the fact that you’re giving the client so much more in terms of service, and so much more in terms of what the client gets out of the information that they’ve got in front of them. They don’t have to phone you to say, what’s happening in my business; they can just look it up themselves and then have a discussion with you about how to improve the deliverables that are there.”*

The data collected from participants was varied, with some participants holding the view that costs will decrease when digital technologies are improved, whereas other participants differ with that view. Some of these views, however, are reflective of the efforts that insurers are putting into their digital platforms. Insurer digital platforms have gained traction in the recent past as they aim to build better client relationships, thereby creating the risk of disintermediation.

5.6.2. Prevalence of insurer digital technology and platforms

When asked about the overall client's preferred engagement channels with the intermediary, the participants highlighted the conflicting ways in which clients want to engage with the intermediary. Further to this, the participants made note of the prevalence of the insurer digital platforms as a threat to intermediaries' business.

5.6.2.1. Clients' preferred engagement methods

Some participants have noted that clients are showing a preference to start engaging more with the intermediary with the use of digital technology. This preference by clients could potentially put intermediaries in a precarious position should they not invest and adopt digital technologies.

Interviewee 1: *"I think where we see pressure from clients about technology is in and around how some of the more administrative parts of our service offering. So there I'm really thinking about claims... but is there pressure coming from clients? I would say, yes. Is it a show-stopper now, in terms of, like if you don't have that technology you can't compete? No."*

Interviewee 5: *"where the clients want digitisation is on the more straight forwards. So for example, travel insurance. So a mining house, they have so many executives that travel throughout the year, and rather than a bean counter sitting there and ticking, okay, now you know, they want to be able to go online, load their travel details, or the secretary loads the travel details, spits out an embassy letter, spits out the policy and it's done there."*

The participants however stressed that for the bigger corporate clients, the preference is still to engage in a more traditional manner. Clients within the SMME segment however, prefer a digital offering in engaging with intermediaries.

Interviewee 2: *“They still want to engage in the traditional manner, because of the risks per client, which is your bigger organisations. It’s more complex than to be sort out on digital platforms.”* S

Interviewee 8: *“To be quite honest with you, in my experience and in my pool of clients, clients go back to their default, which is the broker and broker’s contact, one on one contact.”*

Given that clients in the SMME segment are more inclined to want to engagement with insurance intermediaries through digital platforms, the development of insurer platforms becomes a crucial consideration. Insurer digital platforms pose some of the biggest risk of disintermediation in the insurance industry.

5.6.2.2. Disintermediation by insurer platforms

The data collected from interviews revealed that some participants believe that for as long as advice is still require by clients, insurer digital platforms will not disintermediate the traditional intermediaries.

Interviewee 1: *“I think there was concern in the broker space around where the extent of the threat from the direct disintermediated model, but I suspect that the big wins in market share that the direct players had in the early days has flat lined now. I think it’s stabilised at least”...“there’s no risk of disintermediation...wherever there is advice required and it becomes I guess less transactional and more advice driven in terms of our solution, there’s no risk of disintermediation.”*

Interviewee 3: *“But intermediaries, I think what’s guaranteed in the business world in 2019 going forward is change is consistent and it’s inevitable. So I think you’ve got these innovators who are coming through, such as Pineapple and Granadilla who we spoke about, who are actually intermediaries, they are acting as intermediaries and creating and facilitating, and getting commissions on premium back into their larger global or capital intensive carriers.”*

Interviewee 4: *“...we’ve got insurers that have got their own digital platforms, then they say well, instead of you as an intermediary having your own platform why don’t you use ours? But then that’s a slippery slope”*

When asked about the comparison between intermediary and insurer digital platforms, most of the participants in the study categorically stated that intermediary digital platforms are lagging behind those of the insurers'. This disparity further fuels the threat of disintermediation by insurer digital platforms.

Interviewee 7: *"I think it's miles apart and I think insurers are at least 10 years ahead of the intermediaries at this point. Obviously, to the benefit of the insurer, there's obviously economic or financial benefit in them doing away with the intermediary, so obviously from their perspective the motivation to put all these technologies in place is probably a high priority."*

Interviewee 9: *"So the more efficient an insurer comes the more enticing it is for a consumer to go direct."*

Most of the participants stated that the threat of disintermediation is more pronounced in the SMME segment than it is in the corporate segment. This is mainly due to the standardised product and service in that segment, coupled with low level of advice services offered due to great level of standardisation of products.

5.6.3. Summary of findings for proposition 3

The participants did not agree on whether digital platforms would have an impact on the intermediary related costs to clients. All the participants however, agree that insurer digital platforms are more advanced than those of the intermediaries are. This disparity creates a fertile ground for disintermediating the traditional intermediary in the insurance value chain. The findings of this study partly supported the proposition. On the one hand, the interviewees support the proposition as far as insurer investing in their digital platforms; on the other hand, the interviewees did not support the proposition as far as digital technology having an impact on clients' costs.

5.7. Results for Proposition 4

Proposition 4: *Intermediaries in the South African short-term insurance industry are classified as laggards in the diffusion of innovation adoption model.*

The aim of this proposition was to gain an understanding of which adoption group do intermediaries in the diffusion of innovation adoption groups. The questions were

structured with the intention to understand what the intermediaries' attitudes towards digital technology are. Each adoption group to innovation adopts it at a different stage and at a different rate. From the data collected, it emerged that intermediaries are not in the forefront of technology adoption.

The results show that intermediaries are slow in adopting technology, as such, they lag behind in adopting technology. The reasons for this conclusion are discussed extensively below.

5.7.1. Intermediaries lagging behind in digital technology

The participants shared that technological adoption for intermediaries is critical if intermediaries are to compete in the digital age. From the data collected, there was a consensus that intermediaries are not in the forefront of technological development, adoption or investment.

Interviewee 1: *“And there we are not just competing with brokers and their digital capability and offering, but also the direct insurers. So that’s certainly where they’ve gone and jumped on us...I can’t speak globally, I can speak in a South African context. I think we’re miles behind.”*

Interviewee 2: *“We are still far behind. Or we’re, I wouldn’t say far behind because I don’t know what’s really happening with the others, but I will still say we still do things the traditional way.”*

Interviewee 4: *“I think we might be behind the insurers in terms of digital platforms and those type of things.”*

Interviewee 13: *“So I think we’re slightly behind in as far as that is concerned. That is something that we need to look into.”*

Interviewee 8: *“And unfortunately, in the insurance space, it seems like – well in the intermediary space, the uptake is very slow, insurers are overtaking intermediaries...I don’t think intermediaries are that invested in the digital aspects of things, I’m not sure whether it’s in their strategy or in their core outputs”*

From data gathered, it appears as though the participants are in agreement in that insurance intermediaries' uptake and adoption of technology is sluggish. The slow adoption of technology by intermediaries exacerbates the risk of digital

disintermediation by insurance companies. The data collected suggests that intermediaries less often adopt a long-term perspective on digital technology investment.

5.7.2. Long term technological perspective

Some of the participants in the study indicated how intermediaries often adopt a short-term view when it pertains to the adoption and investment in technology. The short-term view often acts as a hindrance to the advancement of technological adoption to the intermediary.

Interviewee 6: *“And I think, for my organisation in particular, we are interested in results now and not so much about results in the future. So it’s going to need a complete change in organisational culture and probably change in leadership as well, to drive this digital agenda.”*

Interviewee 8: *“So in the intermediary space I think people are reluctant, or management or implementers, they are reluctant to push or to spend because they are not futuristic, they are not looking at the long term saving.”*

Interviewee 9: *“And I think that there is always a focus on short term results versus long term value and unlocking long term value over time. I think in a shareholder intermediary, an intermediary that’s on the stock exchange, we are very, very focussed on short medium term results for shareholder value.”*

The focus on short-term results appears to be an inhibitor to technological advancements for the intermediaries. Insurance companies and new market entrants continue to pose a threat to the sustainability and the survival of the traditional insurance intermediaries in the SMME segment.

5.7.3. Summary of findings for proposition 4

The data collected from the participants indicate that intermediaries often lag behind the insurers in the adoption and investment of technology. The data suggests that insurer digital platforms are more advanced than those of the intermediary. Whilst the intermediaries in general are not in the forefront of technological adoption, the find has found that the technology being used by intermediaries still serves a purpose. Furthermore, smaller intermediaries are more agile in making investment decisions

than the larger intermediaries. The intermediaries are therefore broadly classified as late majority in the diffusion of innovation. Therefore, the findings do not support the proposition.

5.8. Conclusion

This chapter has presented the findings from the interviews based on the propositions as outlined in chapter 3. The overall aim of Proposition 1 was to gain an insight into the extent to which intermediaries are affected by the emergence of digital technology, from a market share and revenue perspective. Further, it aimed to understand if digital platforms pose a threat to the sustainability and the survival of traditional short term insurance intermediaries in the long run.

From the results gathered through interviews, it emerged that traditional intermediaries' performance has been affected in the SMME segment. This is influenced by the drive by insurers and new market payers investing in their digital capabilities. The data showed that digitisation has a role to play in, and has affected the SMME segment across most traditional intermediaries. The new market players, as well as the development of insurer digital platforms have become a competitor to traditional intermediaries, particularly in an environment of changing client base.

The results indicated that, to position themselves as the go-to channel, the intermediary needs to strengthen their advisory services as that would be their differentiator from digital technologies. The results also show that intermediaries need to be cognisant of the importance of technology to their business and proactively create the future of intermediation so as to counter new market players and ever-growing insurer platforms.

The aim of Proposition 2 was to understand to what extent intermediaries invest in digital technology. This was followed by examining some of the hurdles experienced by intermediaries in their quest to invest in, and adopt digital technologies. The results showed that some intermediaries consider digital technologies as important in their business.

The results revealed that even though investment in technology is considered as an important aspect for intermediaries, not enough is being done to advance it. Results

show that intermediaries do not prioritise investments in, and the advancement of digital technology. The data also emphasised the benefits that intermediaries could take advantage of, if investments in digital technologies are prioritised.

The aim of Proposition 3 was to understand to what extent do insurance clients prefer digital platforms, given that they are most cost effective. Further, this proposition aims to understand how intermediary digital platforms compare to those of insurance providers.

From the data gathered, it emerged that there are opposing views on whether clients' costs would be affected by the introduction of digital technologies by the intermediary. Although the results regarding clients' costs were split, they were consistent in that insurer digital platforms are more advanced than those of the intermediaries are. The disparity in these digital technologies creates a fertile ground for disintermediating the traditional intermediary in the insurance value chain.

Proposition aimed to understand which adopter group does the intermediary fall in the diffusion of innovation model. The results were conclusive that insurer digital technologies are much more advanced than those of these intermediaries. In addition to this, the results indicate that the intermediary often lacks a long term perspective when it comes to adopting and investing in technology.

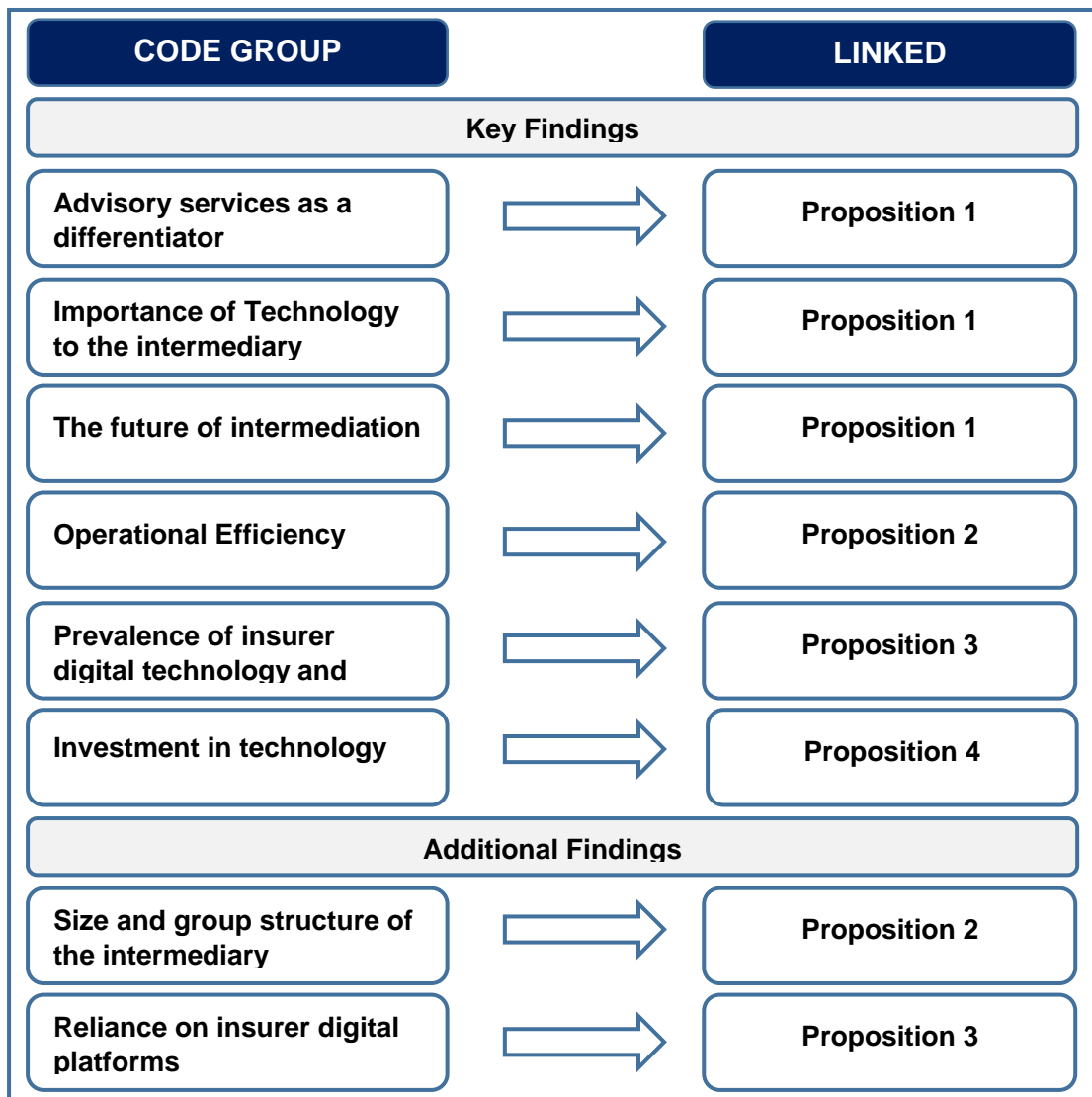
The following chapter will discuss these results.

Chapter 6: Discussion of results

6.1. Introduction

This chapter proceeds with the detailed discussion of the results from semi-structured interviews presented in chapter 5. The results discussion is tiered into two levels, the key findings and additional findings. Both the key and additional findings were coded into groups, which were linked to the propositions as outlined in chapter 3. The code groups were created based on the participants' frequency and emphasis of issues during data collection. The insights obtained through the findings, were compared and contrasted to the current literature in order to address the propositions as outlined in chapter 3. Figure 7 below shows the key and additional findings per group code and the link to the proposition as set out in chapter 3.

Figure 7 Findings per code groups linked to propositions



6.2. Key findings

There were six key findings in this study. The findings, as outlined in figure 7 were; advisory services as a differentiator, importance of technology to the intermediary, proactively crafting the future of intermediation, role of technology in improving operational efficiency, the prevalence of insurer digital technology platforms, as well as the investment in technology by the intermediaries. The key findings emanated from data gathered in chapter 5 based on multiple interviewees repeatedly highlighting them. Each of these findings and their value on digital disintermediation are discussed in the sections below.

6.2.1. Discussion on Proposition 1

Proposition 1: *Digital platforms have had a significant impact on the intermediaries' market share and revenues. They are a threat to the sustainability and survival of traditional intermediaries in the long run.*

This section sought to understand to what extent, if any, the emergence of digital technologies affects intermediaries' business. This section further sought to understand to what extent are these digital technologies a threat to the sustainability and survival of traditional intermediaries. There were three code groups linked to this proposition, as shown in Figure 7.

The findings from the study substantially supported the proposition. The study concluded that digital technologies have had a negative impact on traditional intermediaries' the market share and revenues. The study further shows that the trend will continue for as long as the intermediaries do not adopt digital technology. Furthermore, the study concludes that these digital technologies are a threat to the sustainability and survival of the traditional insurance intermediaries in the long run. The findings specifically stress that the threat to the traditional insurance intermediary's survival is more pronounced in the SMME segment.

6.2.1.1. Advisory services as a differentiator

Prominent scholars on intermediation have highlighted the importance of the intermediary within the distribution channel across different industries (Bonner & Eijffinger, 2016; De Moraes et al., 2019; Gottardi et al., 2019; Harris et al., 2018; Manea, 2018; McCoy, 2015; Phelan, 2017). Scholars have postulated how

intermediaries not only facilitate trade between the demand and supply side, but also add value by providing advice (Ezirim & Amuzie, 2016; Maharg, 2016). The advice intermediaries provide help bridge the deep information asymmetries between buyers and suppliers (Bernardo & Martins, 2014; Dominique-Ferreira, 2017, 2018; Eckardt & Rathke-Doppner, 2010; Shittu, 2012).

The findings from the study confirm the importance of advisory services in the intermediary space. The study found that digital technology can neither provide advice nor structure bespoke deals for clients, in its current form. It is for this reason that the provision of bespoke advisory services would ensure the relevance, sustainability and survival of the intermediary.

Key scholarship on intermediation highlighted that the level of specialised knowledge of intermediaries about insurance products and services adds value to the clients' purchase decisions (Cummins & Doherty, 2006; Weber, 2014). The findings from the study support the assertion. Additionally, the findings go further to highlight that intermediaries can add value to the clients by providing holistic risk related services. Whilst the role of intermediary has predominantly been around insurance placement, the study has found that intermediaries can also assist clients with valuation services, risk retention strategies and risk management services.

With service advisory services being paramount to the role played, and function fulfilled by the intermediary, clients get to benefit from a full spectrum of risk management and mitigation offerings from intermediaries. In their current state, digital technologies and insurers do not yet possess the capabilities to offer a full spectrum of risk related services at the level that the intermediary offers. In order to protect market share and ensure sustainability, traditional intermediaries need to leverage off their provision of holistic risk advisory services these services and offerings will be the traditional intermediaries' differentiator in the digital era.

Trust and relationships as a driver

Scholars highlighted that intermediaries are usually independent from the insurance companies, as such, their independence provides trust to their clients (Weber, 2014). They further highlight that some of the challenges experienced by insurers is lack of direct relationship between themselves and the insurance buyers due to intermediation (Willis Towers Watson, 2017). The findings from the study confirm

that the independence of the intermediary from the insurer creates trust between client and intermediary.

The findings of the study affirm that insurance is based on relationships, a foundation on which trust is built. The findings further highlight the importance of trust and relationships for reappointment as a service provider, thereby enabling the intermediary to maintain its market share and its relevance in the distribution channel. Furthermore, the findings revealed that an element of face to face interactions with clients play a key role in solidifying client relationships.

Some of the findings however, challenge the level of prioritisation placed on building client relationships as opposed to investment in technology. Participants in the study have expressed how the focus on personal touch and relationships with clients will soon be less important as the client base changes over time, placing importance on speedy deliver and technology. Scholars have also argued that technology will not only be a channel to improve cost base for organisations, but also develop better relationships with various stakeholders, which includes clients (Fitzgerald et al., 2013; Ganapathy, 2017). Some of the findings support this proposition by the scholars, as articulated in chapter 5.

Role of intermediaries in adding value to clients

Key scholars on intermediation argue that part of intermediaries' role in the distribution channel is to remove prevalent market imperfections and address the challenge of deep information asymmetries between the producer and the client (Dominique-Ferreira, 2017, 2018). Further to this, scholars posit that the involvement of intermediaries in the distribution channels adds value to the client (Eckardt & Rathke-Doppner, 2010; Maas, 2010). Value is added through more economical placement strategies, efficient risk management strategies and better risk finance optimisation. The findings of the study support the arguments put forth by Dominique-Ferreira (2018) based on the fact that part of intermediaries' role is to bring to the attention of the client as much information as possible before insurance related decisions can be made. The findings of this study further support Eckardt and Rathke-Doppner (2010) as well as Maas (2010) by elaborating that intermediaries add value through efficient insurance placement, expert risk advisory services and risk finance optimisation. The study also emphasised that the value adding services are more critical in the SMME segment.

The scholarly argument and the findings of this study are in agreement that digital technologies are fundamental in the role of the intermediary in creating value for clients. The findings of the study further reiterate that through adding value to clients, intermediaries can future-proof themselves against digital disintermediation.

6.2.1.2. Importance of technology to the intermediary

Scholars on technology have found that digital innovation and technology is important as it impacts the organisations' market share (Kirkbeşoğlu & Hood, 2018). Further to this, scholars have found that organisations that adopt and embrace technology are more profitable than their counterparts that have not adopted technology (Maharg, 2016). The findings from the study confirm that the adoption of technology plays a critical role in helping intermediaries retain clients and consequently, their market share. The findings added a new perspective around the importance of technologies as they pertain to the SMME segment. The participants highlighted how technology plays a critical role in servicing the clients' needs. All the participants agree that technology adoption will go a long way in ensuring the sustainability and survival of the intermediary in the digital age.

Through digital evolution, different organisations across different industries have found a new way to improve their service offering to their clients and continuously improve the quality of their service offering in terms of both efficiency and effectiveness (Rubbio et al., 2019). Digital technologies have had a deeper impact than initially thought; their pervasiveness and deep impact have in the last few decades affected, and continue to dramatically affect all spheres of business (Lanzolla et al., 2019). The findings of the study support the propositions by these scholars, however, the findings further emphasise that the impact of digital technologies will have a significant impact on the SMME segment and much less impact on the corporate segment. Although some participants in the study cautioned that although digital technology poses a threat of disintermediation in the SMME segment, it is not unimaginable for the impact to be felt in the corporate segment in the near future. For traditional intermediaries to protect their market share and ensure their sustainability and survival, technology will be a key enabler.

Importance of digital technology to the intermediary in the SMME segment

Key scholars on digital technology highlighted its advantages in the insurance industry through increased customer satisfaction levels (Acharya & Hebbar, 2018). Furthermore, digital technology has forced organisations to rethink their processes from a technology enabled perspective in the digital era, so that they can be sustainable (Eden et al., 2019; Ganapathy, 2017). The findings from study support the assertions by the scholars and further emphasis the need this importance in the SMME segment. The study also found that intermediaries do not prioritise investment in technology and often, technology does not form part of the intermediaries' strategies.

Creation of insurance aggregators by intermediaries

During the data collection process, the participants expressed the need for intermediaries to create their own digital aggregator platform. This insight was unexpected as at the beginning of the study. A digital aggregator will enable clients to obtain indicative insurance quotation from the intermediary platform. Given that the intermediary has access to, and has a relationship with the insurance market, they can make use of the data already in their possession to create an aggregator. The study found that a digital insurance aggregator would serve the ever-changing client base, particularly the SMME segment.

6.2.1.3. The future of intermediation

Prominent scholars have highlighted how the role of traditional intermediation has come under question across a variety of industries wherever there is digital presence (Clemons et al., 2002; Peukert & Reimers, 2018). The findings of the study have supported this proposition as far as the SMME segment is concerned. The findings have, however, highlighted that digital technology will play a less critical role in the corporate segment where traditional transacting is still dominant.

Scholars postulate that the future of traditional intermediation is threatened by the emergence of digital technologies (Maharg, 2016). Further, they posit that these technologies present significant threat to disintermediation and render traditional intermediaries obsolete (Law et al., 2015; Willis Towers Watson, 2017). The findings from the study support this view, particularly on the SME segments of the client base.

New market players

The short term insurance industry has seen the introduction of new types of intermediaries in the form of technology. Due to these technologies, insurance buyers can take control of their insurance decisions. This exacerbated the risk of digital disintermediation (Bouwman et al., 2005; Dellaert, 2019; Dominique-Ferreira, 2018; Kirkbeşoğlu & Hood, 2018; Lee & Li, 2018; Willis Towers Watson, 2017). The findings support these findings and add that some of the new market players are the insurers who create and sell the insurance product. The study highlighted the need for traditional intermediaries to adopt better digital platforms if they want to remain relevant and ultimately be sustainable.

6.2.1.4. Summary of discussion on Proposition 1

This section sought to examine if the proposition was accurate. This section sought to understand the impact that digital technology has had on the traditional intermediaries' market share and revenues. Further to this, it aimed to gain an understanding as to whether these digital platforms are a threat to the sustainability and survival of the intermediary in the long run.

Key scholars have postulated that digital technologies have had an impact on the intermediaries' business and pose a threat of disintermediation. The study substantiated the assertions provided by the scholars, however, it highlighted that this impact would be more pronounced in the SMME segment. Whilst this is the consensus in the study, some participants cautioned that the corporate segment is soon to be impacted as well.

Therefore, the study concludes that digital technologies have a negative impact on traditional intermediaries' market share, for as long as those intermediaries do not adopt digital technology. Furthermore, the study concludes that these digital technologies are a threat to the sustainability and survival of the traditional insurance intermediaries. The findings specifically stress that the threat to the traditional insurance intermediary's survival is more pronounced in the SMME segment.

6.2.2. Discussion on Proposition 2

Proposition 2: *Traditional intermediaries are investing in their digital capabilities to future-proof themselves against the prevalence of digital platforms in the insurance industry.*

The aim of this proposition was to understand to what extent, if any, the intermediaries are investing in digital technology. The digital era necessitates for different businesses to invest in their digital capabilities in order to remain relevant in their industries. From the study, the key insight was the level of improvement in the operational efficiency of the intermediary. This is brought about by the investment in, and adoption of digital technologies.

Maharg (2016) argues that organisations that invest in technology are more profitable than those that do not. Technology adoption has the capability to distinguish between winners and losers from a profitability, efficiencies and market share perspective (Fitzgerald et al., 2013). Whilst these scholars highlight the importance of investing in technology, the study found contradictory views on the intermediaries' investment attitudes towards technology.

The study found that some participants believe that intermediaries invest in technology, whereas the majority of the participants in the study held a contradictory view. Ten of the thirteen participants believe that intermediaries do not commit enough resources towards investment in technology. For those that believed that investment is made towards technology, they were not persuaded that it is directed at the right technology. Most of the funds were committed towards maintenance of current and outdated technology and not new technology. The study uncovered multiple operational benefits of investing in digital technology.

The study concluded that even though the importance of digital technologies is articulated and well documented by prominent scholars, the study did not support the proposition. The reason for this conclusion is extensively discussed below.

6.2.2.1. Operational benefits of digital technology

Key scholars have highlighted that the advent of digital technology in the recent years has not only led to improved customer satisfaction levels, but also led to streamlined business operations and processes for better efficiencies (Acharya & Hebbar, 2018;

Fitzgerald et al., 2013; Rubbio et al., 2019). The findings in this study confirms these propositions by scholars.

The study further articulated how digital technology would be of benefit to the intermediary from an operational perspective. Digital technology would be of value to the intermediary as far as most of the administrative tasks are concerned. Processes such as generation of claim reports, drafting of proposal forms that are linked to the insurer, sending quotations to clients and the creation of invoices would be done more efficiently with a lower risk of human error. Following the successful performance of these administrative tasks, the relevant documentation can be stored digitally for ease of access by clients, conveniently and in real time.

The study has revealed how, most importantly, the use of digital technology can free up time resources for intermediaries to dedicate towards an understanding of clients risk and formulating strategic risk advice. Overall, the study has highlighted how the use of digital technology can improve processes and systems, thereby making these processes more efficient.

6.2.2.2. New business models and technology integration with human capital

New business models

Scholars have found that in recent years, technology has enabled businesses to explore new and innovative business models (Acharya & Hebbar, 2018; Fitzgerald et al., 2013; Rubbio et al., 2019). The study supports the assertions by the scholars and adds that these models have resulted in cost effective processes, which are ideally suited to serve the SMME segment. The study also found that in the SMME segment, there has not been adequate innovation and digital technologies in the past few years. This is an area of potential opportunity for the intermediary.

Integration between technology and human capital

Key scholars on technology posit that the benefits of technology can be only be fully realised when the organisation's fundamental human resource management element and organisational structures are conducive for technological adoption (Eden et al., 2019). Whilst technology can be effectively utilised for administrative and repetitive tasks for better efficiencies, human capital can focus on understanding the clients'

needs and providing solutions to problems that previously either had inadequate solution, or no solution at all (Christensen et al., 2016).

The study supports the findings and further add that with the use of digital technology, human capital can be better utilised at providing strategic advisory services, which would be the intermediaries' differentiator.

6.2.2.3. Summary of discussion on Proposition 2

This section sought to examine if Proposition 2 was accurate. It sought to understand if traditional intermediaries invest in digital technologies. Scholars postulated that investment in technology is crucial as it improves organisational efficiencies, helps maintain market share, distinguish between winners and losers, and results in organisations being more profitable than they otherwise had they not invested in technology (Fitzgerald et al., 2013; Maharg, 2016). The findings of the study highlight the benefits of investing in digital technology and how technology could be incorporated into the daily functions of the intermediary.

The study concludes that even though the importance of digital technologies is articulated and well documented by prominent scholars, and supported by this study; traditional intermediaries are not investing in their digital capabilities to future-proof themselves against the prevalence of digital platforms in the insurance industry.

6.2.3. Discussion on Proposition 3

Proposition 3: *Due to the cost benefit and convenience brought about by digital platforms, insurance companies are investing in their digital platforms to gain easy access to clients.*

This section sought to examine if Proposition 3 was accurate. It further sought to understand to what extent insurance clients opt for digital platforms, given that they are most cost effective. Further, this section aimed to understand to what extent insurers invest in their digital platforms and how intermediary digital platforms compare to those of insurance providers. The key insights in this section were the cost implications on clients, as well as the prevalence of insurer digital platforms.

The findings of the study partially support the proposition. The study shows that improvements or investments in digital technologies do not yield cost benefits to

clients. On the other hand, the findings supported the proposition as far as insurers investing in digital technologies. These conclusions are extensively discussed below.

6.2.3.1. Cost implications on clients

Prominent scholars on digital technologies have highlighted how these technologies have decreased the transition costs in the distribution channels in different industries. The scholars further postulate that the prevalence of digital technologies as a distribution channel has led to the demise of traditional intermediaries as it reduces the cost of transacting along the distribution chain (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young et al., 2016).

The findings of this study disconfirm on a broad basis the propositions made by the scholars. Some of participants support the assertion that client costs will be reduced by the introduction of digital technology, particularly as they relate to consultant's reimbursive travel allowance and related costs. The consensus, however is that these costs are insignificant to the total intermediary costs.

The study found that the majority of the participants believe that client costs will not be affected by the introduction of digital technologies by the intermediary. Intermediary related costs for clients are calculated as a percentage of the premiums payable to the insurer. The clients' risk profile, from which premiums are calculated and derived, is not affected or influenced by the implementation of digital technologies by the intermediary. Since the intermediary does not carry the insurance risk, but merely acts as a middleman, improvements in their internal structures and processes will affect clients' costs.

The findings from the study adds a new perspective to the costing model of intermediaries. Whilst the costs associated with insurance intermediaries' services overall are not affected by the implementation of digital technology, client's costs for other consultancy service offered by the intermediaries could be reduced as a direct result of digital technology introduction. This cost reduction however is inconsequential when compared to the total intermediary related costs for clients. For this reason and others, intermediaries are less inclined to invest in digital technology, as it does not offer significant direct cost advantages to the clients.

As far as the costs to clients is concerned, this study disconfirms the scholars' propositions. The study goes further to highlight that, irrespective of the segment, whether SMME or corporate, the cost implication are similar as far digital technology implementation by the intermediary is concerned.

6.2.3.2. Prevalence of insurer digital platforms

Scholars have emphasised the rate at which insurers are investing in their digital infrastructure, to build digital platforms. Digital platforms enable real-time processes and foster interaction with customers as well as potential customers (Cappiello, 2018). In the insurance industry, insurers have traditionally not had a relationship with clients. The relationship existed between client and intermediaries, and between intermediaries and insurers (Willis Towers Watson, 2017). Because technology provides organisations with an opportunity to develop better relationships with clients, insurers make a concerted effort to invest in their digital technology (Fitzgerald et al., 2013; Ganapathy, 2017).

The findings from study affirm the assertion made by the scholars with regards to insurers' investment in digital technologies. The study further supports the scholars' assertions by adding that insurer digital platforms are more advanced than those of the intermediaries are.

The study also highlighted that clients have a strong preference to using technology when dealing with the intermediaries, particularly in the SMME segment. Furthermore, the study stressed how for the bigger corporate clients still prefer to engage with intermediaries a traditional manner.

The study has found that the level of advancement of insurer digital platforms, when compared to those of the intermediary, is of concern to the participants in the study. Although the study has found that the threat of digital disintermediation is low wherever advice is required, the participants stressed that in the SMME segment, where the products are standardised and the level of advice is basic, digital disintermediation is a real threat.

6.2.3.3. Summary of discussion on Proposition 3

This section sought to examine if Proposition 3 was accurate. It sought to understand to what extent insurance clients opt for digital platforms, given that they are most cost

effective. The proposition also aimed to understand the level of insurers' investment in digital platforms. The insurer platforms were compared to those of the intermediary in their current form to understand how far advanced are the insurer digital platforms.

Whilst key scholars have posited that digital technology reduced the cost along the distribution chain (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young et al., 2016), the study disconfirmed this assertion. The study further added that in the insurance industry, intermediary costs are a percentage of premiums, based on the clients' risks profile. Although digital technology will have a positive impact on other consulting services offered by the intermediary, the cost reductions are insignificant when compared to the total intermediary related costs. It is for this reason that the study disconfirms the assertions proposed by scholars as far as the short-term insurance intermediary related costs are concerned.

In effort to reach and foster relationships with clients or potential clients, insurers have invested in their digital platforms. This allows insurers to reach a customer base which was traditionally mainly reached by the intermediary (Cappiello, 2018; Fitzgerald et al., 2013; Ganapathy, 2017; Willis Towers Watson, 2017). The study has found that insurer digital platform are more advanced than those of the intermediaries. This is due to the fact that insurers invest in their digital platform more than the intermediaries do. This creates a threat of digital disintermediation in the SMME segment, where the client is more inclined to use digital technology as an avenue to transact.

6.2.4. Discussion on Proposition 4

Proposition 4: *Intermediaries in the South African short-term insurance industry are classified as laggards in the diffusion of innovation adoption model.*

This section sought to examine if Proposition 4 was accurate. It sought to understand which of the adoption groups are intermediaries classified in the diffusion of innovation model proposed by Rogers in 1962. Different organisations adopt technological innovations at different stages and at different rates.

This proposition was not supported by the findings. Whilst intermediaries are not in the forefront of technological innovations, they utilise some technology, albeit

archaic. Further, the study shows that smaller intermediaries have less authorisation levels to make an investment decision when compared to the larger intermediaries. The intermediaries are categorised as late majority in the diffusion of innovations theory.

6.2.4.1. Challenges with Diffusion of Innovation

Prominent scholars on the diffusion of innovation highlight how challenging it often is for innovation to gain widespread acceptance, even though its advantages are apparent (Min et al., 2018). The findings from the study provide a prospect that add to the scholars' propositions. The study found that the importance and the advantages of adopting digital technology are well articulated and understood by intermediaries. As stated above, some of the benefits emanating from digital technology are simplifying processes such as generation of claim reports, drafting of proposal forms that are linked to the insurer, sending quotations to clients and the creation of invoices would be done more efficiently with a lower risk of human error. The successful performance of these administrative tasks by technology allows for the relevant documentation to be stored digitally for ease of access by clients, conveniently and in real time. Despite this realisation, the study found that intermediaries are not adopting digital technologies at the necessary rate, predominantly as far as servicing the SMME segment is concerned.

Furthermore, scholars add that the challenges experienced in the diffusion of innovation are attributed to the fact that diffusion in its nature, is no-linear and complex (Currie & Spyridonidis, 2019). The study, therefore, affirms how even though the advantages of diffusing an innovation is clear, the implementation is often met with challenges. The study has found that the investment in, and adoption of digital technology within intermediaries faces various hurdles. The study identified some of the challenges to be relate to the investment costs associated with digital technology. The findings of the study highlighted that intermediaries are under financial pressure and as such; investment in digital technologies has been financially unaffordable.

Further to this, the study has found that investment in, and adoption of digital technologies is not a priority for the intermediaries. Findings show that, since the intermediary does not own the insurance product and is merely a conduit, investment in technology has been given the appropriate level of prioritisation. The findings also

reveal that intermediaries do not have a technology centric strategy. The findings further suggest that most intermediaries do not have a long-term view on the adoption of technology.

6.2.4.2. Diffusion of Innovation adopter groups

Since different organisations adopt innovation in different stages and at different rates, prominent scholars on diffusion of innovation proposed five distinct adoption groups. The five distinct categories in which innovation adopters fall under are the innovators, early adopters, early majority, late majority and laggards (Olufemi, 2018; Rogers, 1962, 2002).

Innovators are typically the originators of the innovation and are the first to adopt the innovation. They have a high appetite for taking risks. Early adopters are the first group to adopt the innovation and often consists of a number of organisations that embrace emerging trends. Early majority are concerned with evidence and proven usefulness of any innovation before they can adopt it. They spend a considerable amount of time deliberating on the new idea before they can fully adopt it. The late majority have a high level of scepticism towards change and need to be convinced of the utility of the innovation before adopting it. The laggards are the last group to adopt any type of innovation. They have the highest levels of scepticism and aversion to change. Laggards are often challenging to convince to adopt innovation, will only adopt innovation when everyone around them has adopted the innovation (Olufemi, 2018; Rogers, 1962, 2002).

The findings in this study highlight that intermediaries are not in the forefront in regards to adopting technological innovations. Ten of the thirteen participants in the study firmly stated that intermediaries' digital platforms are lagging behind those of the insurers'. From the participants of this study, the researcher found that insurance intermediaries in general are slow to invest in, and adopt digital technologies. Whilst most participants are of the opinion that intermediaries lag behind with regards to technological adoption, some of the participants highlighted that some intermediaries are making positive strides. Most of the intermediaries making positive strides in technological adoption are small to medium sized intermediaries. The majority of the larger intermediaries' technology lag behind, not just insurer technology, but also smaller intermediaries' technology. For these reasons, intermediaries are neither innovators nor early adopters.

As stated before, most of the intermediaries dedicate financial resources to maintaining archaic and inefficient technology. The study has found that intermediaries do not invest in current technology that is suitable to meet the needs and demands of the digital era. The financial resources are therefore misplaced. For these reasons, and the fact that intermediaries do not have a technology centric strategy, the intermediaries are not classified as early majority.

Most of the larger intermediaries continue utilising archaic technology that provide very little value by way of technological solutions for today's problems. The respondents to this study highlight that the internal processes and authorisation process are in favour of investing in tried and tested technology, as opposed to new technology. The study found that the larger intermediaries do not invest, or are slow to invest in new technology. The study has found that the smaller intermediaries relatively invest more in technology. Insurance intermediaries are therefore classified as the late majority.

6.2.4.3. Summary of discussion on Proposition 4

This section sought to examine if Proposition 4 was accurate. It sought to understand which adopter group insurance intermediaries fall under, as per the diffusion of Innovation model. Different organisations adopt technological innovations at different stages and at different rates (Olufemi, 2018; Rogers, 1962, 2002). The results of the study highlighted that intermediaries invest less in technology when compared to insurers. Intermediaries are faced numerous challenges with regards to investing in technology. Some of the challenges, the study found, are financial constraints facing intermediaries. Further, intermediaries do not have a technology centric strategy, as such, technology is a priority to intermediaries and therefore technology is only considered from a short term perspective.

Although smaller intermediaries have a more proactive technological investment strategy when compared to larger intermediaries, the study found that intermediaries are generally reactive to the advent of different technological innovations. In the whole, intermediaries do dedicate financial resources to technology, however, this is not at the desired level, nor is it channelled to new and emerging technology to address today's challenges. It is for this reason that short-term insurance intermediaries in South Africa are categorised as late majority in the Diffusion of Innovation model.

6.3. Additional findings

Beyond the key findings discussed above, two additional findings were observed during the data gathering process. It became clear that the size and structure of the intermediary, as well as reliance on insurer digital platforms are two of the factors affecting the intermediaries' adoption of, and investment in digital technology. The findings were coded and linked to the relevant proposition of this study, as shown in Figure 7.

6.3.1. Size and group structure of the intermediary

The study, through the interviews, found that the size and the ownership structure of the intermediary play a pivotal role in investment decision as well as the processes involved. The findings suggest that larger intermediaries have well established, strict policies and procedures. These policies and procedures often slow down the process around investment in technology and adoption of technology. Corporate red tape necessitates for all the appropriate level of authorisations to be obtained prior to any investment decision made final. Smaller intermediaries have less red tap to cater for, as such, technological investment decisions are made quicker.

The study has also found that the organisational structure of the intermediary plays a critical role in the organisations' digital technology decision. The study stresses that global intermediaries, with ownership based in either the America or Europe have more protocols to follow before the investment case reaches the appropriate level of attention. These views provide a new consideration in as far investments in digital technology for intermediaries is concerned. Intermediaries with less complicated ownership structure, particularly if they are a South African intermediary, have less management layers, leading to quicker decision making.

Because they are part of a global intermediary, larger intermediaries benefit from the latest technology as developed in either the Americas or Europe. However, the study has found that the deployment of technology by global intermediaries is not equitable throughout the world. The study has found that South Africa is of the geographies that does not get the benefit of the full technological potential whenever it is developed. Global intermediaries do not equitably share technology. Furthermore, regional branches have very little latitude to develop and localise their own technology.

6.3.2. Reliance on insurer digital platforms

The study has found that, since insurers have superior digital technologies, they allow the intermediaries to utilise them, as long as the client is placed with particular insurer. This creates independence challenges for the intermediary. Insurers use this avenue to create better relationships with the ultimate clients, a relationship would otherwise be owned by the intermediary. Further, the insurer uses these digital platforms to create loyalty with clients.

Given that intermediaries do not have sophisticated digital platforms, reliance on insurer platforms is created. This creates conditions ripe for disruption and potentially digital disintermediation.

6.4. Conclusion

This chapter has presented the detailed discussion of the results of data geared in chapter 5. The discussion was tiered into two separate section being the key findings and additional findings. The findings were linked to the propositions as detailed in chapter 3. In this chapter, the insights obtained in chapter 5 were compared and contrasted to scholars' propositions and assertions.

Scholars have posited that digital technologies have had an impact on the intermediaries' business and pose a threat of disintermediation. The study substantiated the assertions provided by the scholars, however, it highlighted that this impact would be more pronounced in the SMME segment.

Scholars postulated that investment in technology is crucial as it improves organisational efficiencies, helps maintain market share, distinguish between winners and losers, and results in organisations being more profitable than they otherwise had they not invested in technology (Fitzgerald et al., 2013; Maharg, 2016). The study found that even though the importance of digital technologies is identified by scholars, and supported by findings of this study; traditional intermediaries are not investing in their digital capabilities to future-proof themselves against the prevalence of digital platforms in the insurance industry.

Whilst key scholars have posited that digital technology reduced the cost along the distribution chain (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young et al., 2016), the study disconfirmed this assertion. The study found that in the insurance intermediary space, the intermediary related costs are not linked to the level of either investment or adoption of technology by the intermediary.

In an effort to reach and foster relationships with clients, insurers have invested in their digital platforms for better client reach (Cappiello, 2018; Fitzgerald et al., 2013; Ganapathy, 2017; Willis Towers Watson, 2017). As a result, the study has found that insurer digital platforms are more advanced than those of the intermediaries'.

Different organisations adopt technological innovations at different stages and at different rates (Olufemi, 2018; Rogers, 1962, 2002). The results of the study highlighted that intermediaries invest less in technology when compared to insurers. Intermediaries are faced with numerous challenges concerning investing in technology. Further, although smaller intermediaries have a more proactive technological investment strategy when compared to larger intermediaries, the study found that intermediaries are generally reactive to the advent of different technological innovations. Insurance intermediaries are therefore categorised as late majority in the Diffusion of Innovation model.

Summary of propositions, findings and conclusions

This chapter mainly focussed on the discussion of the results of this study. The main objective and purpose of this study were discussed in chapter 1. Chapter 2 reviewed the related literature and uncovering what is already known about digital disintermediation, technology, innovation and the theory of Diffusion of Innovation. The literature review in chapter 2 led to the formulation of the propositions in chapter 3. Chapter 4 outlined the research approach and the research method. The research method informed the manner in which data was collected. The results of the data collected were presented in chapter 5. Figure 8 below shows the summary of the propositions, related findings per proposition and the conclusion based on the literature review and the data collected.

Figure 8 Summary of propositions, findings and conclusions

Proposition 1	
Digital platforms have had a significant impact on the intermediaries' market share and revenues. They are a threat to the sustainability and survival of traditional intermediaries in the long run.	
Findings	Conclusion
Digital technologies have had a negative impact on the intermediaries' market share and revenues. The impact is more pronounced in the SMME segment. Digital technologies pose a threat to traditional intermediaries' survival and sustainability.	The findings extensively support the proposition.
Proposition 2	
Traditional intermediaries are investing in their digital capabilities to future-proof themselves against the prevalence of digital platforms in the insurance industry.	
Findings	Conclusion
Although the importance and benefits of digital technologies are articulated, traditional intermediaries are not investing in their digital capabilities to future-proof themselves against the prevalence of digital platforms.	The findings do not support the proposition.
Proposition 3	
Due to the cost benefit and convenience brought about by digital platforms, insurance companies are investing in their digital platforms to gain easy access to clients.	
Findings	Conclusion

<p>Investment in, and adoption of digital technologies do not have a bearing on the clients' intermediary related costs. Insurance companies are, however, investing in their digital technologies and capabilities.</p>	<p>The findings partially support the proposition. Findings contradict the assertion that there are cost benefits for the clients' investment in technology is increased. The findings support the assertion that insurers invest in their digital platforms to gain access to clients.</p>
<p>Proposition 4</p>	
<p>Intermediaries in the South African short-term insurance industry are classified as laggards in the diffusion of innovation adoption model.</p>	
<p>Findings</p>	<p>Conclusion</p>
<p>Due to less internal procedures and approvals, smaller intermediaries are more proactive in their investment decisions and adoption. Both, however, are faced with financial challenges.</p>	<p>The findings disconfirm the proposition.</p>

For reasons mentioned above, the traditional South African short-term insurance intermediary is ripe for digital disintermediation by either insurance companies or new type of intermediary, in a digital form. This study has showed that the traditional South African short-term insurance intermediary is not ready for the threat of digital disintermediation. Further to this, the South African short-term insurance intermediaries are classified as the late majority in the Diffusion of Innovations model.

It critical for intermediaries to ready themselves for the digital era. Technology is ubiquitous and if the intermediary is not ready, they will be obsolete. This study therefore proposes a technology enabled intermediary framework.

The following chapter presents the conclusions, the proposed model and the recommendations of this research study.

Chapter 7: Conclusion and recommendations

7.1. Introduction

This study set out to gain an understanding into the readiness of the South African short-term insurance intermediaries to the advent of digital disintermediation in the SMME segment. Further, it set out to understand which adopter group these intermediaries fall under, in the Diffusion of Innovations model as proposed by Rogers (1962).

As put forward in chapter 1, the advent of technology in recent years has led to improved customer satisfaction levels, streamlined business operations and processes for better efficiencies, and enabled organisations to explore new business models (Acharya & Hebbbar, 2018; Fitzgerald et al., 2013; Rubbio et al., 2019). The pervasiveness of technology has empowered buyers with knowledge and by placing them at the centre of all their buying decisions across the value chain. This has led to an uptake in direct purchasing by buyers thereby exacerbating the risk of disintermediation (Bouwman et al., 2005; Dellaert, 2019; Dominique-Ferreira, 2018; Kirkbeşoğlu & Hood, 2018; Lee & Li, 2018; Willis Towers Watson, 2017).

To this end, the financial services sector has experienced an emergence of new technology innovations, which have disrupted current processes, increased transparency and provided more clarity of information (Gomber, Kauffman, Parker, & Weber, 2018; Gozman et al., 2018). Unlike initially thought, innovations are no longer seen as primarily processes of discovery and creation, but have evolved to involve processes of learning and improvements (Mytelka & Smith, 2002; Rogers, 2002).

In recent years, technology has been attributed with the risk of disintermediation across different industries. This is achieved by making the connection between the buyer and producer easier, through the pervasive technological presence (Clemons et al., 2002; Peukert & Reimers, 2018). The prevalence of technology as a preferred distribution channel has led to the demise of traditional intermediaries in many industries as it reduces costs along the distribution chain (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young et al., 2016).

This chapter presents the conclusions to this research study by summarising the principal research findings, their implications for management and other stakeholders, highlighting limitations in this research and then suggesting areas for future research.

7.2. Research findings

This exploratory study has successfully addressed the research problem set out in chapter 1, through the understanding of scholarly literature addressing what is known regarding the research problem. These scholarly literatures were discussed in chapter 2. The key findings for this study can be summarised into the propositions as formulated in chapter 3. These findings are discussed below.

7.2.1. Findings for Proposition 1

Advisory services as a differentiator

The critical role that intermediaries play in the distribution channel has been extensively examined across different industries (Bonner & Eijffinger, 2016; De Moraes et al., 2019; Gottardi et al., 2019; Harris et al., 2018; Manea, 2018; McCoy, 2015; Phelan, 2017). They help facilitate the trade between the client and the producer, while adding value to the clients during the process (Ezirim & Amuzie, 2016; Maharg, 2016).

Insurance contracts are complex in nature and the complexity is further exacerbated by the intangible nature of the products and services offered by the insurance companies (Yu & Chen, 2014). For this reason, a knowledgeable party is required to assist insurance buyers in making insurance decisions. The level of specialised knowledge that intermediaries have, adds value to the clients' purchase decisions (Cummins & Doherty, 2006; Weber, 2014). These intermediaries help bridge the deep information asymmetries between buyers and suppliers (Bernardo & Martins, 2014; Dominique-Ferreira, 2017, 2018; Eckardt & Rathke-Doppner, 2010; Shittu, 2012). One of the key findings affirm that intermediaries need to build and solidify their holistic bespoke risk related advisory services. Since digital technology in its current form cannot offer holistic bespoke risk related advisory services, this capability would be a differentiator for traditional insurance intermediaries. Whilst the role of intermediary has predominantly been around insurance placement, the study

has found that intermediaries can also assist clients with valuation services, risk retention strategies and risk management services.

The insurance industry in South Africa is still significantly reliant on trust and relationships built between client and intermediary. To this end, one of the key findings was the need for intermediaries to nurture the relationships they currently have with their clients. These relationships are the foundation from which trust is built. Further, value-adding services would differentiate the traditional intermediary advisory services from the digital intermediaries.

Importance of technology to the intermediary

Digital innovation and technology play a crucial part in organisation as it impacts the organisations' revenues and market share (Kirkbeşoğlu & Hood, 2018). Technology offers a competitive advantage as organisations that adopt and embrace technology are more profitable than their counterparts that have not adopted technology (Maharg, 2016). This study has found that despite the advantages brought about by technology, intermediaries are not investing enough on technology, particularly on new technology.

The future of intermediation

The role of traditional intermediation has come under question across a variety of industries wherever there is digital presence (Clemons et al., 2002; Peukert & Reimers, 2018). The study has found that digital technologies pose a threat to the survival of the traditional intermediaries, particularly in the SMME segment. In the SMME segment, these technologies present a significant threat to disintermediation and render traditional intermediaries obsolete (Law et al., 2015; Willis Towers Watson, 2017). However, the study found that the corporate segment is still traditional in the manner in which insurance transactions are carried out.

The short term insurance industry has also seen the emergence of new types of intermediaries in the form of technology. These technologies pose a threat to the survival of traditional intermediaries. Due to these technologies, insurance buyers can take control of their insurance decisions. This exacerbated the risk of digital disintermediation (Bouwman et al., 2005; Dellaert, 2019; Dominique-Ferreira, 2018; Kirkbeşoğlu & Hood, 2018; Lee & Li, 2018; Willis Towers Watson, 2017).

The overall key finding for Proposition 1 is that Digital technologies have had a negative impact on the intermediaries' market share and revenues. The impact is more pronounced in the SMME segment. Digital technologies pose a threat to traditional intermediaries' survival and sustainability.

7.2.2. Findings for Proposition 2

Organisations that invest in technology are more profitable than those that do not. Technology adoption has the capability to distinguish between winners and losers from a profitability, efficiencies and market share perspective (Fitzgerald et al., 2013). The advent of digital technology in recent years has not only led to improved customer satisfaction levels, but also led to streamlined business operations and processes for better efficiencies (Acharya & Hebbar, 2018; Fitzgerald et al., 2013; Rubbio et al., 2019).

The study also found that technology has offered organisations an opportunity to explore new and innovative business models (Acharya & Hebbar, 2018; Fitzgerald et al., 2013; Rubbio et al., 2019). Furthermore, the study found that the benefits of technology can be only be fully realised when the organisation's fundamental human resource management element and organisational structures are conducive for technological adoption (Eden et al., 2019). Whilst technology can be effectively utilised for administrative and repetitive tasks for better efficiencies, human capital can focus on understanding the clients' needs and providing solutions to problems that previously either had inadequate solution, or no solution at all (Christensen et al., 2016).

Although the importance and benefits of digital technologies are articulated, traditional intermediaries are not investing in their digital capabilities to future-proof themselves against the prevalence of digital technology platforms.

7.2.3. Findings for Proposition 3

Whilst key scholars have posited that digital technology reduced the cost along the distribution chain (Clemons et al., 2002; Gomber, Kauffman, Parker, & Weber, 2018; Gomber, Kauffman, Parker, Weber, et al., 2018; Lee & Li, 2018; Waldfogel, 2012; Waldfogel & Reimers, 2015; Young et al., 2016), the study disconfirmed this assertion. The study further added that in the insurance industry, intermediary costs are a percentage of premiums, based on the clients' risks profile. Although digital

technology will have a positive impact on other consulting services offered by the intermediary, the cost reductions are insignificant when compared to the total intermediary related costs.

In effort to reach and foster relationships with clients or potential clients, insurers have invested in their digital platforms. This allows insurers to reach a customer base which was traditionally mainly reached by the intermediary (Cappiello, 2018; Fitzgerald et al., 2013; Ganapathy, 2017; Willis Towers Watson, 2017). The overall key finding by the study suggests that insurers are investing substantially in their digital technologies, and intermediaries' investment in technology does not have a bearing on intermediary related costs.

7.2.4. Findings for Proposition 4

Different organisations adopt technological innovations at different stages and at different rates (Olufemi, 2018; Rogers, 1962, 2002). The results of the study highlighted that intermediaries invest less in technology when compared to insurers. This is due to numerous challenges with intermediaries are faced as it pertains to investing in technology. Some of the challenges, the study found, are financial constraints facing intermediaries. Further, intermediaries do not have a technology centric strategy, as such, technology is a priority to intermediaries and therefore technology is only considered from a short-term perspective.

Although smaller intermediaries have a more proactive technological investment strategy when compared to larger intermediaries, the study found that intermediaries are generally reactive to the advent of different technological innovations. It is for this reason that short-term insurance intermediaries in South Africa are categorised as late majority in the Diffusion of Innovation model.

7.2.5. Overall research findings

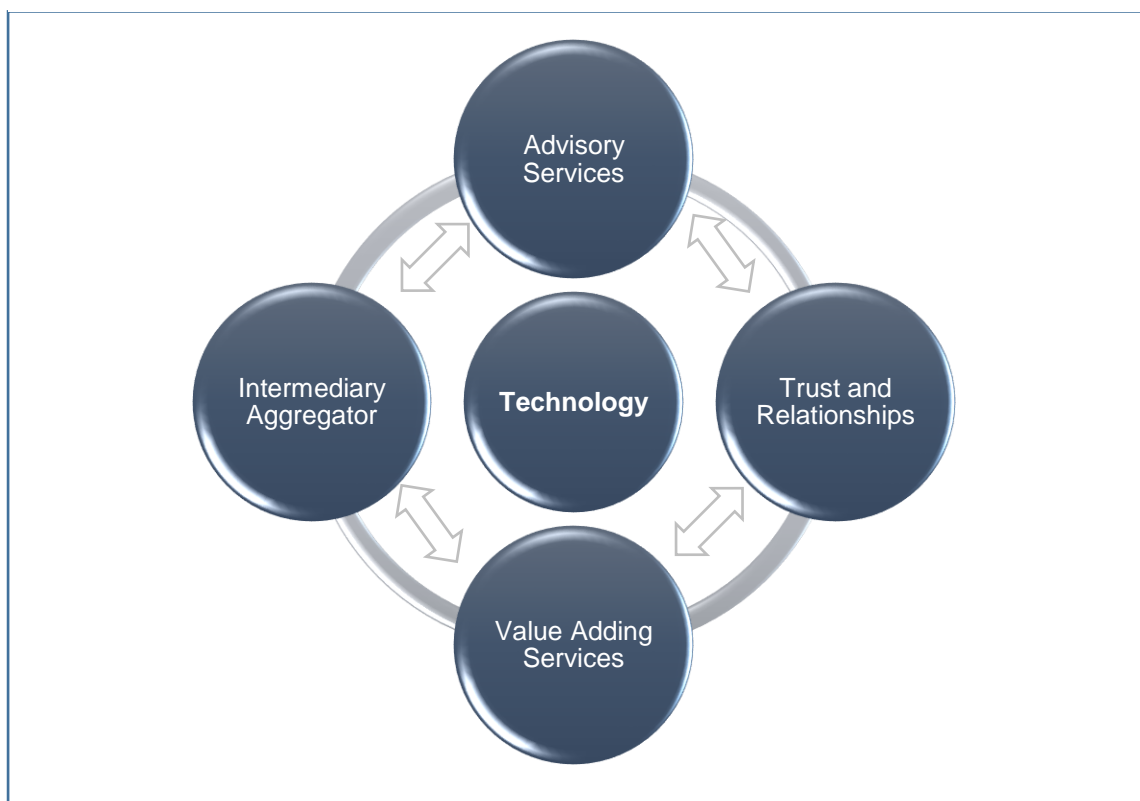
For reasons mentioned above in this chapter, and highlighted in chapter 6; the traditional South African short-term insurance intermediary is ripe for digital disintermediation by either insurance companies or new type of intermediary, in a digital form. This study has showed that the traditional South African short-term insurance intermediary is not ready for the threat of digital disintermediation. Further to this, the South African short-term insurance intermediaries are classified as the late majority in the Diffusion of Innovations model.

As a result of the findings of the study, a framework is proposed. The proposed framework aims to build a future-proof business model for intermediaries, fusing technology, intermediaries' capabilities and emerging enablers. The framework is discussed in the following section.

7.3. A proposed framework

This section presents a proposed framework aimed at building a future-proof business model for intermediaries. The proposed framework is based on the findings of this study and the review of the literature. It is underpinned by the current competitive advantage of the intermediary, as well as incorporating digital technology.

Figure 9 Proposed technology enabled intermediary framework



The future of the intermediary is being questioned. Technology is pervasive and digital disintermediation is a threat wherever there is a digital footprint. The proposed framework aims to create a model that blends digital technology, intermediaries'

capabilities and emerging enablers. This framework is underpinned by a technology centric strategy. This framework aims to address the threat of disintermediation by digital platforms.

The intermediaries' capabilities and emerging enablers were informed by the findings from the data collection process, presented in chapter 5 and further discussed in chapter 6. The fundamental factor of the proposed framework is the technology and its capabilities. All the different elements of the framework around, and with technology. Although the results of the study highlighted the focus to be on SMMEs the model is scalable to cater for different segments in the insurance market.

The different elements of the proposed technology enabled intermediary framework are:

Intermediaries' capabilities

- Trust and relationships
- Value adding services

Emerging enablers

- Intermediary aggregators
- Advisory services

Each of these components are discussed below.

7.3.1. Trust and relationships

The study has shown how insurance intermediaries have been able to grow their business and retain clients based on the power of their relationships. The participants have emphasised the importance of client relationships as one of the key capabilities that intermediaries have. As stated before, digital technology in its current form does not offer the comfort of relationships insurance clients and intermediaries have gotten accustomed to. For this reason, by solidifying relationships with clients, intermediaries would lessen the threat of disintermediation by digital platforms.

Long-standing, nurtured client relationships are critical. These relationships, in combination with a proven record of accomplishment in delivering intermediary

services would result in loyalty with clients. Trust and relationships are therefore a critical component to the proposed technology enabled intermediary framework.

7.3.2. Value adding services

The findings from the study highlighted how intermediaries have been adding value to clients. The value intermediaries add to client is both financial and non-financial. Value is added through an array of services offerings to clients; these include more economical placement strategies, efficient risk management strategies and better risk finance optimisation.

Economical placement strategies include finding a reliable insurer, with a proven track record for the client. These placements are critical specifically in instances of a loss event. Further to this, the placement strategies focus on placement that offer the most value to the clients. Efficient risk management strategies are in the form of placing sustainable risk management measures that are fully owned and managed by the clients. Through this strategy, the intermediary may not need to be fully involved in the process, as this will be fully run by the client.

Risk finance optimisation is concerned with finding the ideal point for a mix of risk transfer and risk retention. Risk transfer is concerned with paying a premium for another party to take the risk of an insured event such as fire, floods, theft and others. Risk transfer often refers to insurance premiums paid over the insurer. Risk retention refer to the portion of risk that the client retains in the business, and as such, is exposed to the risk. The framework suggests that through the use of technology, the intermediary would be able to find the ideal risk financing optimisation point.

These value-adding services would play a crucial part in addressing the risk of digital disintermediation, either by insurers or by new market players.

7.3.3. Intermediary aggregators

The creation of an independent insurance intermediary aggregator was highlighted as a crucial component if intermediaries are to survive the digital era. The technology enabled intermediary framework therefore proposes a digital aggregator, in line with addressing the threat of disintermediation by a digital platform.

A digital intermediary aggregator is a platform on which clients can obtain insurance quotation whether on-line, through a mobile application or other means of digital

technology. Whilst there are insurance aggregators and comparison tools already in existence in South Africa, none of them is independent of the insurers. An aggregator created and managed by an independent insurer would bring some credibility to the information produces and potentially experience an uptake in use by clients. An aggregator would also cater to a changing client base, particularly in the SMME segment as discussed in chapter 5.

A digital independent insurance intermediary aggregator, as suggested by the proposed technology enabled intermediary framework, is a key emerging enabler emanating from the data collection process. An intermediary aggregator would give the intermediary an opportunity to own the comparison process and appeal to a new type of client, thereby making the intermediary future-proof.

7.3.4. Advisory services

As mentioned before, the insurance business is complex in nature. The intermediary possesses a wealth of knowledge and experience to offer to clients. The deep knowledge asymmetries that exist in the insurance industry place intermediaries in an ideal position to commoditise their skillsets. The proposed framework suggests that intermediaries position themselves as risk advisors and not merely as insurance intermediaries.

Through the proposed model, intermediaries can offer a full spectrum of risk management and mitigation services to clients. The delivery of these services should be through digital technology so that intermediaries can leverage off the advantages brought about by digital technologies. In their current state, digital technologies and insurers do not yet possess the capabilities to offer a full spectrum of risk related services at the level that the intermediary do. In order to protect market share and ensure sustainability, traditional intermediaries need to leverage off their provision of holistic risk advisory services these services and offerings will the traditional intermediaries' differentiator in the digital era.

7.3.5. Conclusion

The proposed framework is multidirectional, meaning it does not adopt one direction. This allows for the different elements of the framework to interface with each other seamlessly. Further, the elements are not ranked; as such, none of the elements is

better than the other. The proposed technology enabled intermediary framework allows for a feedback loop, thereby creating opportunities for continuous improvements. The proposed framework is dynamic and scalable to cater for both the SMME segment and the corporate segment. Fundamentally, the proposed framework is underpinned by technology, working in conjunction with the intermediaries' current capabilities. This framework will contribute towards making intermediaries future-proof and ensure the survival and the sustainability of the intermediary.

7.4. Implications for business

This research study has highlighted pragmatic ways in which digital technologies pose a threat to the sustainability and the survival of the traditional insurance intermediary in the South African context. Further to this, the study has given an account of the intermediary readiness to the advent of digital technologies. In addition to the proposed technology enabled intermediary framework above, this study also provides implications for business. These are:

- Internal policies and procedures can hamper the speed at which investment decisions are made. These would include investment authorisation stages and levels, and corporate red tape.
- Technological improvements and investments address two different needs. Improvements in technology is concerned with making the current technology's performance better. As the study has shown, improvement in technology may be directed to archaic technology that provides very little value in addressing operational efficiencies needed in today's fast pace world. Technological investment on the other hand, is more forward-looking. It refers to investments in new technology to address current and future problems.
- Reliance on insurer digital platforms take away the intermediaries' leverage. The use of insurer platforms improves the relationship between insurer and client, a key element for intermediary to differentiate themselves.

7.5. Limitations

The nature of an exploratory qualitative research limits the general applicability of the results obtained from data collection and analysis. Further to this, the limitations of the study are as follows:

- The smaller sample size limits the generalisation of the study to other contexts.
- The research was conducted within the context of South Africa, which limits the applicability to other countries
- The study was conducted with a focus on the short-term insurance industry; there is therefore a limitation in its applicability to life insurance and in other financial services sector.
- The research was conducted at a specific point in time, a cross-sectional time horizon, therefore there may be limited applicability of the findings of this study at a different time.
- The research study was exploratory in nature, as such; the responses from participants may have been subjective and not conducive for wider application.
- Due to nature of the qualitative study, researcher and participants' bias may have affected the research.
- Purposive sampling method was used, as such; the sampled participants to this study may not have represented and reflected the perceptions of the entire population.
- Pre-existing relationships between the researcher and the participants may have affected the veracity of the responses given by the participants; therefore, the results from the interviews may be skewed

7.6. Recommendations for future research

Based on the insights obtained from this study, the following topics are recommended for future research:

- Effect of digital technology in the life insurance industry
- Leadership qualities needed for the digital era in the short-term insurance industry
- The role of client relationships in the age of technology

- Organisational differentiation in the age of digital disintermediation
- The effect of corporate bureaucracy on organisational adaptability and agility

7.7. Conclusion

This research has provided new insights into the insurance intermediary's readiness to digital disintermediation. Further to this, it provided insight into the classification of the insurance intermediaries in the Diffusion of Innovations model. Through an exploratory, qualitative research with thirteen interviews, insights were derived and analysed.

Chapter 1 introduced the research problem and the purpose, followed by the review of literature in chapter 2. This led to the formulation of the propositions as outlined in chapter 3. The study was guided by the research design and methodology set out in chapter 4, followed by the presentation of results in chapter 5. The literature review in chapter 2 and the results in chapter 5 were compared and contrasted in chapter 6. This chapter provided the conclusion to the study and made recommendations for future studies.

As stated in section 1.4, the purpose of this research was twofold. The first was to gain an understanding of the readiness of the insurance intermediaries in the short-term insurance industry in South Africa to the advent of digital disintermediation in the SMME sector. The second was to understand in which adopter group these intermediaries are classified, in the diffusion of innovation model as proposed by Roger (1962).

Based on the data collected, the study concludes that the South African short-term insurance intermediaries are not ready for the advent of digital disintermediation in the SMME segment. Further to this, the intermediaries are classified as late majority in the Diffusion of Innovations model.

The study has therefore successfully fulfilled its purpose.

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Annexure A: Interview schedule

Research Topic: Digital disintermediation in the South African short-term insurance industry – Readiness of the intermediary

Proposition 1: *Digital platforms have had a significant impact on the intermediaries' market share and revenues. They are a threat to the sustainability and survival of traditional intermediaries in the long run.*

1. What impact has digital technology had on the intermediary business?
2. How has the insurance intermediary sector performed since the advent of digital platforms?
3. How has the intermediaries' market share of the SMMEs changed over the last decade as a result of change in insurance buying attitudes driven by digital platforms?
4. To what extent have clients opted for direct business with insurers in the SMME segment?
5. What is your assessment of the effect digital technology on traditional intermediaries?
6. What is the response from traditional intermediaries to the advent of digital technology?

Proposition 2: *Traditional intermediaries are investing in their digital capabilities to future-proof themselves against the prevalence of digital platforms in the insurance industry.*

7. How important is digital capabilities and platforms to intermediaries?
8. What is the response from traditional intermediaries to the advent of digital technology?
 - a. How do intermediaries position themselves in the age of possible disintermediation?
9. To what extent are traditional intermediaries investing in their innovative digital technologies?
10. How are intermediaries enhancing their technological capabilities to tackle the potential challenge of disintermediation through digital?

Proposition 3: *Due to the cost benefit and convenience brought about by digital platforms, insurance companies are investing in their digital platforms to gain easy access to clients.*

11. What are clients' preferences to use digital platforms when compared to traditional intermediation services?
12. How much of a concern are costs associated with intermediation services for SMMEs?

Proposition 4: *Intermediaries in the South African short-term insurance industry are classified as laggards in the diffusion of innovation adoption model.*

13. How quickly do intermediaries invest in, or adopt new technologies or innovations
14. How sizeable is the level of investment in technology for intermediaries
15. How do intermediaries equip their staff to prepare them for new technologies or innovations

Annexure B: Ethical clearance

**Gordon
Institute
of Business
Science**
University
of Pretoria

31 July 2019

Maroga Edwin

Dear Edwin

Please be advised that your application for Ethical Clearance has been approved.

Please ensure accuracy and consistency across documents re data collection methodology as interview schedule/protocol, not survey or other qaunt tools as you currently use.

You are therefore allowed to continue collecting your data.

Please note that approval is granted based on the methodology and research instruments provided in the application. If there is any deviation change or addition to the research method or tools, a supplementary application for approval must be obtained

We wish you everything of the best for the rest of the project.

Kind Regards

GIBS MBA Research Ethical Clearance Committee

Annexure D: Copyright declaration form

**Gordon Institute
of Business Science**

University of Pretoria



19.1 COPYRIGHT DECLARATION FORM

Student details			
Surname:	Maroga	Initials:	E T
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Qualification details			
Degree:	MBA	Year completed:	2019
Title of research:	Digital disintermediation in the South African short-term insurance industry – Readiness of the intermediary		
Supervisor:	Anthony Prangley		
Supervisor email:	prangleya@gibs.co.za		
Access			
A.	My research is not confidential and may be made available in the GIBS Information Centre and on UPSpace.		
I give permission to display my email address on the UPSpace website			
Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
B.	My research is confidential and may NOT be made available in the GIBS Information Centre nor on UPSpace.		
Please indicate embargo period requested			
Two years	<input type="checkbox"/>	Please attach a letter of motivation to substantiate your request. Without a letter embargo will not be granted.	
Permanent	<input type="checkbox"/>	Permission from the Vice-Principal: Research and Postgraduate Studies at UP is required for permanent embargo. Please attach a copy permission letter. Without a letter permanent embargo will not be granted.	
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Signature:			Date: 08 November 2019
Supervisor signature:			Date: 8 November 2019