

**ASSESSING CHALLENGES IN CUSTOMER ATTENTION IN THE INSURANCE  
INDUSTRY: A CASE STUDY OF OLD MUTUAL THOHOYANDOU**



By

**TAKALANI MERCEDES BOLOGO**

**STUDENT NUMBER: 8702618**

A mini-dissertation in partial fulfilment of the requirement for the  
degree of  
**MASTERS OF PUBLIC MANAGEMENT (MPM)**

**OR TAMBO INSTITUTE OF GOVERNANCE AND POLICY STUDIES**

**SCHOOL OF MANAGEMENT SCIENCES**

**UNIVERSITY OF VENDA**

**SUPERVISOR: PROF. M.P KHWASHABA**

**CO-SUPERVISOR: MR.E. MAHOLE**

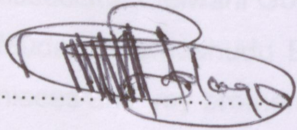
2015

**UNIVEN LIBRARY**

**Library Item : 20170546**



I, Takalani Mercedes Bologo, hereby declare that the mini-dissertation for the degree of Master of Public Management at the University of Venda hereby submitted by me has never been submitted previously for a degree purpose at this or any other university and that is my own work in design and in execution, and all the reference material contained there has been duly acknowledged.



Takalani Mercedes Bologo

Student Number: 8702618

23/09/2016

Date

Firstly I would like to thank God Almighty, God Adonai, and my Heavenly Father who through his love and grace has enabled me to complete this research. I also extend my sincere gratitude to My Spiritual Father, Pastor Phathutshedzo Tshimauswu for encouraging me every step of the way.

Furthermore, I also appreciate my supervisor Prof. M.P Khwashaba and my co-supervisor Mr. M.E.Mahole who tirelessly encouraged and guided me to ensure that this study can be a success.

Lastly I extend my gratitude to my son, Mulalo Rofhiwa NemaKonde, Shumani Mathivha, my associate, Elelwani Goodness Dzhivhuwo and Mudzunga Cynthia Mpilo,,my sisters, Rudzani Mudau ,Wamashudu Bologo and Dakalo Bologo my nephews ,Fulufhelo and Rinavho,my nieces and my brother,Mashudu Moses Bologo who supported me throughout this study.

The insurance industry is facing many challenges and unless the world's population remains insured, the industry will face a crisis. The challenges I face in writing this mini-dissertation are:

This mini-dissertation is dedicated to my late father, Mr. Sirodo Joseph Bologo, my late mother, Nditsheni Esther Bologo, my late sister Mpfuneni Elesby Mudau, My late brother, Nyambeni Welcome Bologo, my late aunt Jabhile Angeline Gama and Hlaleleleni Catherine Ndhlovu, my grandmother.

As a student of insurance, it is therefore very crucial for customers to understand what happens during the process. Failure to do so may result in insurance policies being cancelled or a customer's claims may not be paid.

In order to address this background, this study examined the challenges in customer retention to determine the impact of these challenges on both the business and the industry. Qualitative and Quantitative methods are used in this study. Both methods have advantages and disadvantages, and clearly, none of them can, on their own, capture details and explain reality adequately. Therefore, a balance between the two methods is needed in order to achieve the desired results.

The findings of this study are based on the three themes which arose from the objectives of the study and are Challenges of Retention of Customers, Surrenders and Cancellations of Life Insurance policies based on relationships between the insurer and the customer and Risk Strategies which can be used to improve customer Retention in the insurance industry.

Based on what has been summarised up in this research, the study recommends the following: As challenges affects both the industry and the customer, the insurance industry should be in best practices in order to retain customers, regularly surrenders and cancellations should be addressed by educating customers before they buy the life insurance products and also the industry should have strategies in place to encourage customer retention in the industry.

The insurance industry is presently facing many challenges and across this sector, competition remains intense. The present study seeks to assess some of the challenges it faces in customer retention. In today's highly competitive marketplace, customer retention is a critical success factor. Insurance products are complex in nature and may be considered confusing to customers. Consequently, customers in this industry are often at the mercy of the insurance financial advisor's ethical behaviour in selling of products. It is therefore very crucial for customers to understand what they are purchasing from inception. Failure to this leads to life insurance policies being cancelled or surrendered before they can reach maturity stages.

It is against this background that this study assessed the challenges in customer retention to determine the impact of these challenges to both the customers and the industry. Qualitative and Quantitative methods are used in this study. Both methods have advantages and disadvantages, and clearly, none of them can, by itself, capture, describe and explain reality adequately. Therefore, a balance between the two methods is needed in order to achieve the desired results.

## 1.1 Introduction

The findings of this study are based on the three themes which arose from the objectives of the study and are Challenges of Retention of Customers, Surrenders and Cancellations of Life insurance policies based on relationship between the insurer and the customers and lastly, Strategies which can be used to improve customer Retention in the insurance industry.

Based on what has been summed up in this research, the study recommends the following: As challenges affects both the industry and the customers, the insurance industry should be in best practices in order to retain customers, secondly surrenders and cancellations should be addressed by educating customers before the buy the life insurance products and lastly the industry should have strategies in place to encourage customer retention in the industry.

## 1.2 Objectives of the Study

## 1.10 Reference Techniques

## 1.11 Definitions of Operational Terms

## 1.12 Organization of the Study

2.1 Introduction.....	10
Declaration.....	i
Acknowledgement.....	ii
Dedication.....	iii
Abstract.....	iv
Table of contents.....	v
List of Tables.....	vi
List of Graphs.....	ix
List of Acronyms.....	x

2.2 Technology..... 10

**CHAPTER 1: BACKGROUND OF STUDY**..... 20

2.2.5 Unethical behavior of Financial Advisors in Selling insurance..... 21

1.1 Introduction.....	1
1.2 Background and Rationale.....	2
1.3 Problem Statement.....	3
1.4 Aim of the Study.....	4
1.5 Specific Objectives.....	4
1.6 Research Questions.....	5
1.7 Significance of the Study.....	5
1.8 Delimitation of the Study.....	6
1.9 Limitations of the Study.....	6
1.10 Reference Techniques.....	6
1.11 Definitions of Operational Terms.....	7
1.12 Organization of the Study.....	8

3.1 Introduction.....	20
3.2 Research Design.....	20
3.3 Research Methodology.....	20

## CHAPTER 2: LITERATURE REVIEW



2.1	Introduction.....	10
2.2	Understanding the Basics of insurance.....	10
2.3	South African Financial Services: Overview.....	12
2.4	Life Insurance Overview.....	14
2.5	The Role of Insurance Industry in South Africa.....	15
2.6	Old Mutual Perspective.....	16
2.7	Factors leading to Challenges in the Insurance Industry.....	16
2.7.1	Globalization.....	17
2.7.2	Consumer behaviour.....	18
2.7.3	Technology.....	19
2.7.4	Regulations.....	20
2.7.5	Unethical behavior of Financial Advisors in Selling insurance.....	21
2.7.6	Reputation.....	22
2.7.7	Trust.....	23
2.7.8	Fraud.....	24
2.8.	Life Insurance Surveys in South Africa.....	25
2.8.1	2013 Survey Report in Life Insurance Industry.....	25
2.8.2	2014 Survey Report in Life insurance Industry.....	26
2.8.3	2015 Survey Report in Life insurance Industry.....	27
2.9	Importance of Retention of customers in the insurance industry.....	29
2.10.	Conclusion.....	31

## CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1	Introduction.....	32
3.2	Research Design.....	32
3.3	Research Methodology.....	32

3.4 Study Area.....	33
3.5 Population of the study.....	33
3.6 Sampling .....	33
3.6.1. Sampling methods .....	34
3.6.2 Sampling size.....	34
3.7 Data Collection.....	34
3.8 Data Analysis.....	35
3.9 Ethical Consideration.....	37
3.9.1 Informed Consent.....	37
3.9.2 Anonymity.....	37
3.9.3 Confidentiality.....	37
3.10 Conclusion.....	38

#### **CHAPTER 4: DATA PRESENTATION, ANALYSIS AND INTERPRETATIONS**

4.1 Introduction.....	39
4.2 Analysis of Data collected through Questionnaire.....	39
4.3 Analysis of Data collected through Interviews.....	49
4.4 Conclusion.....	54

#### **CHAPTER 5: FINDINGS, CONCLUSION AND RECOMMENDATIONS**

5.1 Introduction.....	55
5.2 Main Findings of the Study.....	55
5.3 Conclusion.....	58
5.4 Recommendations of the study.....	59
5.5 Recommendations and Future Studies.....	60

5.6 List of References.....	61	
5.7 Appendix		
Table 4.1	Age of respondents	40
Table 4.2	Gender of respondents	40
APPENDIX A:	Letter of permission to conduct study.....	67
APPENDIX B:	Letter to Respondents.....	68
APPENDIX C:	Instrument :Questionnaire.....	69
APPENDIX D:	Instrument :Interview Schedule.....	70
Table 4.3	Polices	70
Table 4.4	Retention of insurance policies affects both the customer and the industry	70
Table 4.5	Awareness towards the value of retaining insurance policies is low	70
Table 4.6	Knowledge and understanding of insurance is low	70
Table 4.7	Most customers cancel/surrender their insurance policies within 1 year	70
Table 4.8	There is no much trust between customers and insurance industry	70
Table 4.9	Lack of transparency during sales leads to high customer complaints	70
Table 4.10	Customers and intermediaries are slow to take advantage of digital insurance products	70
Table 4.11	Old Model should drive to include customers who are not active	70
Table 4.12	Old Model should drive to include customers who are not active	70
Table 4.13	Customer should be encouraged to take advantage of digital insurance products	70
Table 4.14	Old Model should drive to include customers who are not active	70

65  
66  
67  
70

## LIST OF TABLES

Table 4.1	Age of respondents.....	40
Table 4.2	Gender of respondents.....	40
Table 4.3	Position of respondents.....	41
Table 4.4	Retention of insurance policies is a serious challenge in the insurance Industry.....	42
Table 4.5	There is still lack of commitment towards agreed terms of insurance Policies.....	42
Table 4.6	Retention off insurance policies affects both the customers and the industry .....	43
Table 4.7	Awareness towards the value of retaining insurance policies is not enough .....	43
Table 4.8	Knowledge and understanding of insurance is of importance.....	44
Table 4.9	Most customers cancel/surrender their insurance policies within the first years .....	45
Table 4.10	There is no much trust between customers and financial advisors in the insurance industry.....	45
Table 4.11	Lack of transparency during sales leads to surrenders and cancellations.....	46
Table 4.12	Surrenders and cancellations are due to lack of understanding the importance of insurance policies.....	46
Table 4.13	Old Mutual should strive to educate customers towards retention .....	47
Table 4.14	Old Mutual should invest more in maintaining relationship with its customers .....	47
Table 4.15	Emphasis towards insurance maturity should be given more attention.....	48
Table 4.16	Old Mutual can still do more to encourage retention of life insurance policies towards maturity terms.....	48

<b>Graphs</b>		<b>Page No</b>
	Association of Savings and Investment of South Africa	
	Customer Relationship Management	
Graph 1.1	Life Insurance Confidence: 2 <sup>nd</sup> Quarter in 2014.....	4
Graph 1.2	South African GDP annual growth 2014.....	13
Graph 1.3	Operating Expenses Variance and Assumptions Changes.....	28
FSSB	Financial Services Board	
GDP	Gross Domestic Product	
IFRS	International Finance Reporting Standards	
KPMG	Klynveld Peat Marwick Goerteler	
LOA	Life Office's Association	
MMI	MMI Holdings Limited	
PWC	Pricewaterhousecoopers	
SA	South Africa	
SAIA	South African Insurance Association	
LTA	Long-Term Insurance Act	
STIA	Short-Term Insurance Act	
TCF	Treating Customers Fairly	

ASISA	Association of Savings and Investment of South Africa
CRM	Customer Relationship Management
EY	Ernest & Young
FAIS	Financial Advisory and Intermediary Services
FICA	Financial Intelligence Centre Act
FSB	Financial Services Board
GDP	Gross Domestic Product
IFRS	International Finance Reporting Standards
KPMG	Klynveld Peat Marwick Goerdeler
LOA	Life Office's Association
MMI	MMI Holdings Limited
PWC	Pricewaterhousecoopers
SA	South Africa
SAIA	South African Insurance Association
LTIA	Long-Term Insurance Act
STIA	Short-term Insurance Act
TCF	Treating Customers fairly

## 1.1. INTRODUCTION

The insurance industry plays a vital role in a growing economy by indemnifying risks faced by individuals and companies. Insurance companies also contribute to the economy through their investments and they are therefore recognized worldwide as significant players within the financial services industry. In recent years, competition has been fierce and the importance of the services industries such as Insurance in the world economy has grown tremendously. Even though the insurance industry is playing a major role in the SA economy, it has been experiencing serious challenges because of the increasing competition from new players, foreign entrants, socio-economic factors, technology, regulations, and globalization and consumer behaviors to mention just a few.

At its most basic and fundamental level, the insurance mechanism involves individuals or entities (policyholders) paying a fixed amount at regular intervals (premium) into a common fund (the insurance scheme), from which money is drawn (pay out for a claim) to compensate one or more policyholders who are victims of a predefined event under specific circumstances (scope of coverage). The insurance policy—the agreement between insurer and insured—can therefore be considered a compact based on mutual trust; a partnership whereby the insured prefers to pay with certainty a defined amount to guard against an uncertain loss, the financial consequences of which would be much higher without insurance, and the insurer compensates for that loss in the event of misfortune (Grant: 2012:5)

This study will focus in some of the challenges faced by insurance industry which are post-purchase behaviors of consumers or customers in the insurance industry. According to financial reports and studies, the Insurance industry previously experienced tremendous growth but it has been struggling since 1998. As mentioned above, the challenges in this sector are very paramount and it is no longer business as usual in the insurance sector. Some of the post-purchase behaviors of customers are to surrender and cancel policies before they reach maturity stages. These actions from customers affect the organizations, management, financial advisors, customers themselves and the country's economy. Ultimately the desired goals of the customers and the organizations are not achieved and more focus is to be emphasized on customer retention.



Achievement of an organization's goals to the customers and itself can be considered as a pinnacle of its existence and failure to do that has a ripple effect to all stakeholders. The study will discuss the introduction, background, problem, aim, objectives, questions, significance, delimitations, limitations and literature review.

## 1.2. BACKGROUND AND RATIONALE

It was +- 40 years ago when Insurance Industry (Old Mutual) penetrated this part of South Africa which is Thohoyandou, the then Capital of Independent Venda state in Limpopo province in South Africa which is situated about 515 km from Johannesburg. Old Mutual is a financial security organization that aims to create wealth for its customers and also an international financial services group providing investments and savings, insurance, asset management and retirement solutions in 34 countries. As Old Mutual is a case Study of this research, the background will be briefly outlined as it is important for the purpose of this study ([http://www.sayellow.com/@2?wr=10&Cli\\_ReferenceNumber=1,016,268](http://www.sayellow.com/@2?wr=10&Cli_ReferenceNumber=1,016,268)).

Old Mutual started in Cape Town in 1845 (169 years) and came to Thohoyandou after 129 years of its existence in South Africa. With this kind of a background, it is of no doubt that it was a white man's sector of business in the apartheid era hence its late introduction to this far north area of Limpopo Province. It may be understandable why insurance is still not yet fully grasped by the customers (<https://www.oldmutual.com/about/heritage.jsp>).

The researcher has to a large extent become motivated to undertake the study as a result of her practical and professional experience in the insurance industry. Though no longer working in the industry, much of the researcher's daily work was to interact with customers. The researcher has the experience of field, administration and management in the insurance industry. This exposition has made the researcher to be primarily interested in assessing the challenges facing the insurance industry in customer retention. The statistics of policies surrendered in the insurance industry in South Africa, which will be mentioned below is an emphasis of the need of the study. Furthermore in Financial Mail: 31/10/2013, in the Article: SA Life insurance barely growing, it mentions surrenders of life policies as having increased by 18% to R22,4 billion (<http://www.financialmail.co.za/features/2013/10/31/sa-life-insurance-industry-barely-growing>).

According to Durvasula, Lysonski, Mehta, and Tang, 2004: 3, Life insurance is an important but often neglected area of study. It is regarded as a high credence service where future

benefits of products are difficult to prove. In reality, insurance investments create wealth for the customers, profits for the organization and economic growth for the country. As such retention of customers is crucial for the industry, the economy of the country and the customers as they can be able to live their desired goals.

Graph 1.1: Life insurance confidence slowed sharply in 2<sup>nd</sup> Quarter 2014

### 1.3. PROBLEM STATEMENT

The Life Office's Association (LOA) of South Africa is known as an active trade organization based in Cape Town and born in 1935. It is tasked to specifically work on improving and governing life insurance or long term insurance for both the consumers and providers. It also have mission to educate consumers on the benefits of life insurance and financial services. For the past several years, they have been spending more than 25 million rand a year on consumer education (Life Offices Association: 2008:2). Even though LOA exists, and the above-mentioned money is spent on consumers, they have not yet grasped the importance of insurance hence so many cancellations and surrenders in the Insurance industry.

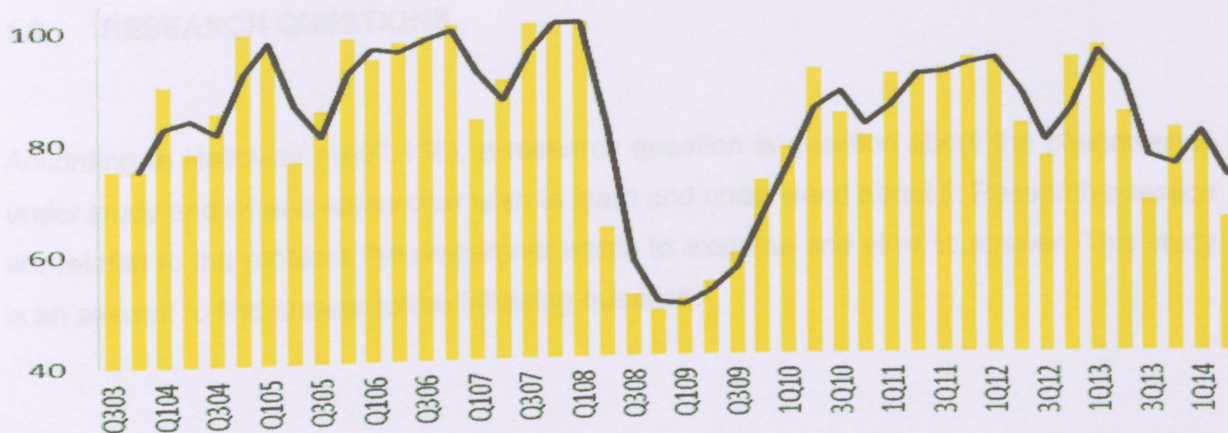
Peter Dempsey, the deputy Chief Executive Officer of the Association for Savings & Investment SA (ASISA), says that the increase in surrenders is no surprise, given the state of the economy, high fuel prices and job losses. The report further confirms that the value of surrendered policies increased by 18% from R22.4 billion in the second half of 2012 to R26.4-billion in the first half of 2013 (Financial Mail 31/10/2013:1). Both the short and long-term insurers are regulated by the Financial Services Board (FSB). The short-term insurance companies also subscribe to voluntary regulation by the South African Insurance Association (SAIA). Long-term insurers are voluntarily regulated by the Life Offices Association (LOA), but this association was dissolved and they are now regulated by the Association of Savings and Investment of South Africa (ASISA). The Insurance division of the FSB supervises the long-term and short-term insurance industries in terms of the Long-term Insurance Act, 1998, and the Short-term Insurance Act, 1998. In South Africa only insurers registered in terms of these Acts may conduct insurance business (Financial Services Board, 2008:37).

With so many socio-economic challenges faced by customers, they are finding it very difficult to see value in the life policies they have purchased hence so many cancellations and surrenders. This study seeks to assess these challenges in retention of customers in the insurance industry. And according to Levering and Laplander, 2006: 233, retaining profitable



customers has become increasingly difficult in a competitive environment where other financial institutions specialize in offering attractive services and prices to customers. The graph below further indicates how the Life Insurance confidence slowed down in 2014:-

Graph 1.1: Life insurance confidence slowed sharply in 2<sup>nd</sup> Quarter 2014



Source: Ernest & Young Quarterly Report: 2014:1

This is the 44th quarterly survey measuring confidence in the life insurance industry. The research is conducted by the Bureau for Economic Research in Stellenbosch. In a quarterly survey released (23 July 2014), Ernest & Young (EY) reports that life insurance confidence fell noticeably in the second quarter of 2014. Confidence was down 15 points from first quarter readings, coming in at a level of 64 index points. This places life insurance confidence levels in line with other financial services segments, its lowest level since the global financial crisis in 2009 (Ernest and Young: Quarterly Report: 2014:1).

#### 1.4. AIM OF THE STUDY

The main aim of the study is to assess the challenges facing insurance industry in customer retention: A case study of Old Mutual Thohoyandou.

#### 1.5. SPECIFIC OBJECTIVES

- To assess challenges of customer retention in the insurance industry.

- To understand reasons why customers cancel or surrender their life insurance policies before they reach maturity stages.
- To determine the strategies that can be utilized by management to limit customers from surrendering policies and to formulate recommendations for customer retention.

## 1.6. RESEARCH QUESTIONS

According to Holloway (1997:138), a research question is question about the phenomenon under study and what a researcher wish to learn and understand about it. Research question are related to the problem the researcher wants to examine and aims to answer. This study is an attempt to find answer to the following question:-

- What are the challenges that management and financial advisors facing when customer retention is at stake?
- What are factors contributing towards policy surrenders and cancellations by customers?
- What are the strategies or systems that can be used by management to retain customers until maturity of policies?

## 1.7. SIGNIFICANCE OF THE STUDY

The study seeks to challenge management, financial advisors, admin staff and customers to maintain the core and basic goals of wealth creation by sustaining and retaining policies until the end of term or time of maturity. This study is important to customers as it seeks to bring awareness of sustenance of policies bought and the wealth creation aimed for. It is also important to both the field and admin staff for excellence of service delivery and customer relationship management from the inception to the end of the term. It will be important to management and the organization for the achievement of the basic goals of wealth creation for the customers and the reputation of the organization.



This study will be of immense benefit to management in the insurance industry, due to the fact that the findings and recommendations will expose the various means of improving retention in the insurance industry. The results of the study will also to the improvement of customer retention. Furthermore, the findings of this research will also benefit post/under graduates in the universities. It will add to the volume of literature that is available in the library on the topic and also serve as a source of reference for further research.

### **1.8. DELIMITATION OF THE STUDY**

The study was conducted at Old Mutual: Thohoyandou. Thohoyandou is in the scenic region of Vhembe District in the vast Limpopo Province of South Africa. It is situated in the south of Venda, in Thohoyandou on Mphephu Road. The study focused on retention of customers for the period of 2014 only.

### **1.9. LIMITATIONS OF THE STUDY**

Resources (funding) in this study was a serious challenge taking into consideration the fact that the researcher had to apply for funds for stationeries to prepare this document, printing of questionnaires, binding of the final copies of this documents as well as the editing of this document which also required some funds as well.

### **1.10. REFERENCES TECHNIQUES**

The Harvard reference technique also known as the author-date method will be employed in this study. In the study the source used will be documented in the Following order: author's names, date and page number for instance, Welman and Kruger (2001: 100) in the beginning or in the middle of the sentence and Welman and Kruger (2001:100) at the end of the sentence.

In the Bibliography the source will be documented in the following order: Author's name, initials, date of publication, title, place of publication and publisher and/ or editor. For instance: Mafunisa, M.J 2000. Public service Ethics Knew: Juta. The Harvard technique will help the researcher to accord due acknowledge to all authors to be referred to in the study. This will enable the researcher to avoid unethical writing practices such as plagiarism-an act of presenting other authors ideas as one's own.

## 1.11. DEFINITION OF OPERATIONAL TERMS



This section presents the definition of operational terms.

- **Commitment**

Results when customers perceive the cost of terminating the relationship to be high, or when the benefits received from the relationship are high (Du Plessis, Jooste and Strydom, 2005:103).

- **Customer loyalty**

Oliver (1999:34) refers to customer loyalty as a deeply held commitment to repurchase a preferred product or service in the future, thereby causing repetitive same brand purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior.

- **Ethics**

Ethics is defined as a practical, normative philosophical science that studies and evaluates the rights and wrongs of voluntary actions of human being (Mafunisa 2000:68).

- **Old Mutual**

Old Mutual is a life Insurance company. The company was founded 1845 as a mutual insurance company by John Fairbairn, together with several other prominent Cape Town figures such as the liberal politician Saul Solomon. The original name The Mutual Life Assurance Society of the Cape of Good Hope was changed to The South African Mutual Life Assurance Society in 1885 (<https://www.oldmutual.com/about/heritage.jsp>).

- **Retention (Customers)**

The maintenance of the patronage of people who have purchased a company's goods or services once and the gaining of repeat purchases. Customer retention occurs when a customer is loyal to a company, a brand, or a specific product or service, expressing long-term commitment and refusing to purchase from competitor (<http://www.financepractitioner.com/dictionary/customer-retention>).

The following study will be comprised of five chapters. The Outline will be organized as follows:-

### 1. CHAPTER 1: ORIENTATION OF THE STUDY

This is an introductory chapter, which includes basic information about what this study is all about. It consist of the background and the rationale, problem statement, aim of the study, specific objective, research questions, delimitation of the study, limitations of the study, references' techniques, definitions of major terms, literature review, research design and methodology and organization of the study.

### 2. CHAPTER 2: LITERATURE REVIEW

This is the chapter that focuses on theoretical and practical perspectives that are recorded by previous authors regarding the issues around management of delivery of service excellence in the insurance industry. The theoretical framework within which the research work was conducted is provided clearly.

### 3. CHAPTER 3. RESEARCH METHODOLOGY

This chapter will focus on how the study on be conducted. This encompasses the research design, data collection procedures data analysis techniques, sampling techniques as well as research instruments. With regard to the methodology, the researcher will embark on both qualitative and quantitative research methods. This is because the qualitative will be best because action can be best understood by the researcher and quantitative is rational, logical, planned and systematic.

### 4. CHAPTER 4: DATA COLLECTION, ANALYSIS AND INTERPRETATION

This chapter will be about the findings including the analysis of the findings will be discussed here. Responses will be analyzed and interpreted to attempt to come to conclusive answers

to questions posed by the researcher's aims and objectives. The analyzing process will start once the process of data collection will be completed although the two processes can run simultaneously.

## 5. CHAPTER 5: MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter will consist of the summary or the findings: Recommendations will be made to improve management of service excellence. This will also include recommendations for further research in order to develop more knowledge of management of service excellence in insurance industry.

## CHAPTER 2: LITERATURE REVIEW

### 2.1. INTRODUCTION

The review of literature provides background and context for the research problem. It should establish the need for the research and indicate that the writer is knowledgeable about the area of study (Wiersma, 1995: 406). And furthermore it provides framework for establishing the importance of the study as well as the Benchmark for comparing results of a study with other findings. All or some of these reasons may be the foundation for writing scholarly literature into a study (Creswell, 2003: 30). The researcher in the Study will consult various books, journals, organization's records, internet, and other search engines that can provide wealth of knowledge for the study.

This section is briefly organized as follows: The researcher will discuss understanding the basics of life insurance, the financial services overview, life insurance overview, Old Mutual background or perspective, factors leading to challenges facing the life insurance, globalization, trust, reputation, unethical behavior in selling, and importance of retention and survey reports. The study will also review previous research on the life insurance industry as already indicated above.

### 2.2. UNDERSTANDING THE BASICS OF INSURANCE

According to Van Greunen (2010:8), in a constantly changing world and uncertain future, it is important for people to make some kind of provision for unforeseen circumstances ranging from death to accidents, retrenchments, medical problems, retirement and disability. In the financial services industry, the life insurance sector is a key role player to put individuals at ease with regard to their financial futures. Long-term insurers are also known as "life companies" or assurers, whereas long-term insurance is referred to as "life insurance" or assurance. Short-term insurance deals with eventualities, while long-term insurance deals with some events that are likely or certain to occur. Consequently, short-term insurance is mainly concerned with risk assessment, while long-term insurance includes an element of risk and investment (Van Zyl, Botha & Skerritt, 2003:133)

Life insurance can provide a financial payment to a family and loved ones upon your death. When you purchase a life insurance policy, you name a beneficiary who will receive the

death benefit specified in the policy upon your death. There are two main types of life insurance: term and permanent. Term life insurance provides coverage if you die within a specific period of time, unless you do not pay your premium. Term life insurance premiums are generally less expensive than permanent life insurance premiums when you first buy the policy. Premiums are usually fixed for the length of the term, often at intervals of five or ten years. Whereas Permanent life insurance provides coverage throughout your lifetime, unless you fail to pay your premiums. Permanent life insurance policies generally accumulate a cash value that is returned to you if you cancel your policy. Most policies will also allow you to use their cash value as collateral for a loan(<https://www.fca.acf.gc.ca/English/resources/publications/Insurance/Pages/Understanding-Mieuxcom-10.aspx>)

Furthermore, Grant (2012: 5) explained that customers generally buy life insurance policies for long-term purposes. In contrast to other financial products, customers do not generally expect liquidity from life insurance policies at any given time but rather at determined times. They have distinctive to surrender if there is an option to surrender at all. When buying a life insurance policy, customers may aim at complementing their social security benefits or seek cover for risks that are not covered by social security grants. In most countries, social security benefits are subject to severe cuts due to demographic developments. The terms lapse and surrender both refer to the termination of an insurance contract. Lapse generally refers to termination without a pay out to policyholders while surrender generally refers to termination when a cash surrender value is paid to the policyholder.

It is behind this background that retention in insurance industry is affected. It becomes a challenge when customers are no longer retaining their life insurance policies because of circumstances that may be beyond their control or because of lack of knowledge of the value of their life policies. Surrendering a life policy is a costly process which does not benefit the customer and the company but customers are not able to restrain themselves and they keep on doing it. It affects retention in the industry which this study seeks to assess.

## 2.3. SOUTH AFRICAN FINANCIAL INDUSTRIES: AN OVERVIEW



UNIVERSITY OF VENDA  
Creating Future Leaders

According to Mboweni (Speech: 14: October 2004), South Africa's financial services industry is supported by a sound regulatory and legal structure. It boasts dozens of domestic and foreign financial institutions and provides a full range of products and services which include commercial, retail and merchant banking, mortgage lending, insurance and investment. The Financial Service Board (FSB) is responsible for the regulation of financial markets and institutions, insurers, fund managers and broking operations. The South African Reserve Bank (the country's central bank) oversees the regulation of South African commercial banks. South Africa has 36 registered banks, of which four (Absa, First National Bank, Standard Bank and Ned bank) are rated among the world's Top 500 financial institutions (Key Sectors 2013).

South Africa has a comparative advantage in the production of agriculture, mining and manufacturing products relating to these sectors. South Africa has shifted from a primary and secondary economy in the mid-twentieth century to an economy driven primarily by the tertiary sector in the present day which accounts for an estimated 65% of GDP or \$230 billion in nominal GDP terms. The country's economy is reasonably diversified with key economic sectors including mining, agriculture and fisheries, vehicle manufacturing and assembly, food processing, clothing and textiles, telecommunications, energy, financial, business services, tourism, transportation, wholesale and retail (<http://www.tradingeconomics.com/southafrica-africa/gdp>)

Furthermore, over the past 20 years, the importance of the service industries to the world economy has grown tremendously. In the South African economy the contribution of the service sector to the country's Gross Domestic Product (GDP) has increased from 45.6% (1980) to 65.9% (2000), to a very high percentage of 75.6% in 2010 (Data monitor 2011a). In South Africa, the service sector is expected to continue its growth at an accelerated rate in the future. The services sector, which employs 72% of the total workforce in South Africa, is spearheaded by the financial services sector. The South African insurance market generated total gross written premiums of \$24.2 billion in 2007, which increased to \$26.9 billion in 2010 (Du Plessis and Roberts-Lombard:2013: 1). The South African (2012 - 2014) Gross Domestic Product is illustrated below:-



The graph below shows the GDP growth rate in the South African economy.

Graph 1.2 SOUTH AFRICAN GDP: AN ANNUAL GROWTH 2014



Source: <http://www.tradingeconomics/south-africa/gdp>

Actual	Previous	Highest	Lowest
1.40	1.30	7.10	-2.60

South Africa is the biggest economy in Africa. The largest sector of the economy is services which accounts for around 73 percent of GDP. Within services, the most important are finance, real estate and business services (21.2 percent of GDP); government services (13.6 percent of GDP); wholesale, retail and motor trade, catering and accommodation (12.5 percent of GDP); and transport, storage and communication (9 percent of GDP). Manufacturing accounts for 15.3 percent of GDP; mining and quarrying for around 5.1 percent of GDP and agriculture for only 2.2 percent of GDP. This page provides - South Africa GDP Annual Growth Rate - actual values, historical data, forecast, chart, statistics, economic calendar and news content for - South Africa GDP Annual Growth Rate - this was last refreshed on Wednesday, November 26, 2014).

Old Mutual, Sanlam and Liberty are the three major life assurance companies in South Africa. Any company rendering life insurance cover must be registered in terms of the Long-Term Insurance Act (No.52 of 1998) and must be authorized to do so by the FSB. Short-term insurance companies must adhere to the Short-Term Insurance Act (No.53 of 1998) and



must also be authorized to operate by the FSB (Van der Merwe, Botha, & Skerritt: 2003:133-161). Organizations in both sub-sectors must adhere to specific rules and regulations as stated above.

## 2.4. LIFE INSURANCE OVERVIEW

Modern life insurance concept started in England in the 17th century. The most popular of all the insurance companies in England was the Lloyd's of London. It was first known as the Lloyd's Coffee House where sea merchants and traders used to come for business transactions. Here the first modern life insurance policy started. The USA life insurance companies were formed on the basis of the London life insurance companies. The first American life insurance companies were formed in the late colonial times. The very first American life insurance company was formed in 1753. The Presbyterian Synods in Philadelphia and New York laid foundation of the Corporation for Relief of Poor and Distressed Widows and Children of the Presbyterian Ministers in 1759. But only in 1840 that the life insurance company went off large in the market and became popular with people(<http://www.solutionsfinancial.ca/blog/life-insurance/how-did-life-insurance-come-into-origin/>).

Since the Great Fire in New York in 1835, people started taking life insurance quite seriously and then after the disastrous fire in Chicago in 1871, people understood how fire can lead to deaths and destruction. Massachusetts was the first state to allow companies to offer life insurance policies in 1837. When the age of industrialization came into being, more improvements were done to life insurance companies (<http://www.solutionsfinancial.ca/blog/life-insurance/how-did-life-insurance-come-into-origin/>).

The South African insurance industry can be divided mainly between short-term and long-term insurance companies. For the purposes of this study, long-term insurance (Old Mutual) is the case study to be focused on. The short-term insurance companies (45) focus on the selling of motor and household content insurance and the 33 insurance companies focus on the selling of risk and investment business. The five largest short-term insurance companies in South Africa according to gross premium over R1 billion are Santam, Mutual & Federal, Hollard, SA Eagle and OUTsurance (KPMG 2006:5). The following companies are included in ASISA's 'large offices' category, namely Liberty Group Limited (including Capital Alliance

## 2.5 THE ROLE OF INSURANCE INDUSTRY IN SOUTH AFRICA

The South African life insurance industry operates in an environment where the industry is extensively involved in the provision of risk and savings products to very different market sectors, and to a society where the HIV/Aids infection rate is amongst the highest in the world. Many sectors of the South African market are unable to afford the types of minimum premiums that would typically be seen in other developed insurance markets. In addition, the levels of financial literacy are, in general, also very low in South Africa (Du Plessis and Roberts-Lombard: 2011:38).

Despite these constraints, the life insurance industry has managed one of the highest penetration levels into the market in the world, when measured in terms of premiums as a percentage of GDP (LOA, 2008:4). It is recognized that a culture of saving should be promoted in a country for the dual objectives of funding greater investment and for higher growth, and further to encourage households to make adequate provision for retirement. The life insurance industry in South Africa plays a critical role in promoting savings and the provision for retirement through contractual savings products such as Retirement Annuities (Minister of Finance, 2006:2).

Both the short and long-term insurers are regulated by the Financial Services Board (FSB). The short-term insurance companies also subscribe to voluntary regulation by the South African Insurance Association (SAIA). Long-term insurers are voluntarily regulated by the Life Offices Association (LOA), but this association was dissolved and they are now regulated by the Association of Savings and Investment of South Africa (ASISA). The Insurance division of the FSB supervises the long-term and short-term insurance industries in terms of the Long-term Insurance Act, 1998, and the Short-term Insurance Act, 1998. In South Africa only insurers registered in terms of these Acts may conduct insurance business (FSB, 2008:37).

## 2.6. OLD MUTUAL: PERSPECTIVE



For the purpose of this study, Old Mutual's fact sheet will be mentioned below to give an overview of the Organization. The facts are as follows: -

Old Mutual was founded in 1845:-It is a FTSE 100 company, with over 16 million customers and 56,812 employees. Its earnings per share have gone up 16% against 30 June 2013 (on a constant currency basis). There are £300.5 billion funds under management. The Net client cash flow of £1.6 billion, £391 million free surplus generated. Group return on equity is 13.2% and Interim ordinary dividend per share of 2.45 pence. It is up by 17%, Core business units of Old Mutual are: - Emerging Markets, including Property & Casualty, Old Mutual Wealth, Nedbank (one of the four largest banking groups in South Africa), and Institutional Asset Management. All data presented is as at 30 June 2014, except for number of customers and employees which is at 31 December 2013. (<http://www.oldmutual.com/redirector/2008/12660>)

## 2.7. FACTORS LEADING TO CHALLENGES FACING INSURANCE INDUSTRY

South Africa is home to the largest insurance market in Africa. The South African market generates 90% of Africa's life insurance income and has the second highest life insurance penetration in the world after South Korea. It remains healthy despite the challenges in operations. We are all aware of the important and unique role insurance plays in the daily lives of millions of people so it's important to have an insurance industry that is sustainable, innovative and competitive. Like many industries, the insurance industry faces its own set of challenges. These range from difficult new business, investment and regulatory environments, geopolitical uncertainty in certain parts of Africa, social changes and technological advancements as well as uncertain economic environments (<http://www.fanews.co.za/article/compliance-regulator> 2).

South Africa has weathered the storm better than most of the developed countries, but even so, the global financial crisis is becoming more of a fact of life for all South Africans. The South African economy has gone into recession for the first time since 1992. Latest statistics show the economic downturn and financial volatility has been tough for local insurers. Insurers' revenues and earnings are declining. The following are the some of the challenges in the industry: -

## 2.7.1. GLOBALISATION



Globalization has impacted events in different parts of the globe. It is a development which countries have found inevitable. South Africa, a member of the global community and an economic giant on its own, has not been spared by globalization. Economic, political, and social developments in other parts of the world have impacted on South Africa's propensity to provide viable economic benefits for its citizens. Blame for her failure to provide good service delivery has been partially placed on the shoulders of the apartheid administration, even years after the attainment of political independence. Political dispensation in South Africa has failed to meet the post-apartheid expectations of its populace, given that people had high hopes for them themselves. It begs the question for South Africa to still point an accusing finger at the vagaries of apartheid for its failure to deliver the goods to an increasingly restive population, especially in the post-Mbeki era. The global recession has not spared South Africa's economic performance either (Mapuva: 2010:390).

World Bank (2000a) provide a definition of globalization as the dynamic (and unpredictable) economic trends of the 21st by noting that, "in recent years a quickly rising share of economic activity in the world seems to be taking place between people who live in different countries". Whereas Mapuva (2010:391) further quoted that globalization has been exposed to a myriad of definitions, but the most comprehensive one has been by Mittelman (2000), who regards globalization as a syndrome of processes and activities, rather than a single, unified phenomenon. The processes and activities, in general, refer to the reduction of barriers between countries. This borderless world is typically referred to as the global village where distance and space disappear, and in which a single community and a common pool of resources exist.

The process of globalization has necessarily encouraged closer economic, political, and social interaction. This, in turn, necessitated the activation of multiplicity of levels of analysis in the fields of economics, politics, society, and culture. Globalization is probably the largest challenge facing organizations. The liberalization of international trade has been aggressively pursued by South Africa. Customers have benefited from the many suppliers globally as they lower prices, raise product quality and dramatically increase the choice to alternatives to the customer. With the changes occurring from the Internet and other related technologies there are no geographical boundaries for business anymore (Coyle, Bardi and Langley, 2003:9).

Mapuva (2010:393) further stated that economic and political events have not spared South Africa. Being a member of the global community and the only African member of the G8, South Africa has been the focus of economic developments in the Southern African region. While the current global recession might have had an impact on all and sundry, but South Africa, being an economic giant on the continent, all eyes have been on her, with some quarters on the continent using her economic performance as a barometer of the impact of the global recession on the continent.

Furthermore, globalization is a multi-dimensional process that transforms all aspects of national and global activities and interactions in a rapid and profound way. Inherent in the globalization process is that existing barriers to international flows of goods, services, capital, money, and information are increasingly being reduced and/or eliminated. The fact that world trade grows about three times faster than world output illustrates this development. Insurance is the most basic financial mechanism for dealing with risk. Therefore, insurance plays a vital role in our economies. While the importance of the insurance industry far outweighs its size in terms of its relative share of total assets in the financial sector, its size is nonetheless impressive. In this whole process of globalization, the importance of global regulatory cooperation in ensuring open, competitive, and stable financial and insurance markets becomes preeminent. Such cooperation is needed to strike the right balance between protecting investors and policyholders and entrenching financial stability on the one hand and encouraging innovation, foreign investment, and market efficiency, on the other ([www.centralbank.cw/speeches-and-presentations](http://www.centralbank.cw/speeches-and-presentations)).

### **2.7.2. CONSUMER BEHAVIOR**

Insurance organizations in South Africa find themselves in a unique position since they are faced with demands from empowered customers, and organizations need to assist vulnerable customers who do not have proper access to financial services. Educated customers in today's marketplace are enlightened and empowered by the information that they have at their disposal through the usage of the Internet and other sources, enabling customers to have the opportunity to compare process, quality and services. In turn, customers demand competitive prices, high quality, tailored products, convenience, flexibility and responsiveness. Consumers have a low tolerance level for poor quality services (Coyle, Bardi and Langley: 2003:5).

The protection and financial education of consumers, vulnerable as a result of their economic status as low income earners, remain a priority for the South African government. The life insurance industry reacted positively to the plight of low income households with the launch of Zimele products in 2007, and thus ensuring that South Africa's estimated 17.5 million low income earners are given access to appropriate life insurance products (Life Offices Association: 2008:2).

### 2.7.3. TECHNOLOGY

Technology has impacted and changed many things in our lives. The time aspect has changed, companies are now accessible twenty-four hours a day, seven days a week. The internet is also changing the place aspect. Companies no longer have to go to clients; they can invite clients to buy from them using websites (Coyle, Bardi and Langley: 2003:10). Specialized computer systems are needed for insurance companies. This also comes with great costs to the organizations.

Furthermore, in his study, Van Greunen (2010:189) is of the opinion that although superior technology is important in a successful organization, human capital is even more important. As such, employees are classified as primary stakeholders. Organizations can design and build the most wonderful place in the world, but not without employees who translate the dream into a reality. As a result, organizations are unlikely to reach their full potential if they do not utilize and manage their employees properly. Over time, human capital creates financial capital. Organizations must respect individuals who unlock human potential (Van Vuuren & Rossouw 2003:9).

Organizations operating in the insurance industry are faced with working in an environment that is rapidly changing and increasing in its complexity. New market entrants, changing customer preferences and market erosion across product lines demand creative approaches to product development, and a willingness to keep up with the rapid changes in technology ([www.pwc.com/gx/en/industries/financial-services/insurance.html](http://www.pwc.com/gx/en/industries/financial-services/insurance.html)).

## 2.7.4. REGULATIONS



The regulatory environment that the insurance industry is operating in South Africa is constantly changing. Insurance organizations are regulated by the Financial Services Board (FSB). Long-term insurers are also known as "life companies" or assurers, whereas Short-term insurance deals with eventualities, while long-term insurance deals with some events that are likely or certain to occur. Consequently, short-term insurance is mainly concerned with risk assessment, while long-term insurance includes an element of risk and investment (Van Zyl, Botha & Skerritt 2003:133).

Old Mutual, Sanlam and Liberty are the three major life assurance companies in South Africa. Any company rendering life insurance cover must be registered in terms of the Long-Term Insurance Act (No.52 of 1998) and must be authorized to do so by the FSB. Short-term insurance companies must adhere to the Short-term Insurance Act (No.53 of 1998) and must also be authorized to operate by the FSB (Van Zyl et al . 2003:133 -161). Organizations in both sub-sectors must adhere to specific rules and regulations as stated above

The government further gazetted legislation to ensure that customers are treated honestly and fairly. The Financial Advisory and Intermediary Services Act (Act No. 37 of 2002) (FAIS) requires financial services providers, like Old Mutual, Sanlam, Liberty Life, etc., to adhere to a strict code of conduct ensuring the delivery of best financial services. The Financial Intelligence Centre Act (Act No. 38 of 2001) requires insurance companies to have anti-money laundering procedures in place and to report any suspicious transactions. All these pieces of legislation carry reporting obligations for insurance companies. Companies must report to the different registrars on how they are complying with legislative requirements on an annual basis. (Van Zyl, Botha & Skerritt 2003:133).

Tom Healy, Business Unit Manager of the Knowledge Centre within Marsh Africa advises, "Without an Association and/or Regulatory Body, entities within an industry could each do their own thing as far as general supplier, customer and member relationships are concerned. The same applies to standards of products and services. There would also be no collective body for communication or collective bargaining purposes. Regulatory Bodies and Associations, therefore, ensure there are minimum professional and legal standards in


place, supported by Compliance functions to ensure adherence to accepted laws and governance." The recent changes in legislation have also resulted in a financial sector that largely meets the existing requirements of The South African insurance regulator, the Financial Services Board (FSB). Ongoing public complaints of poor customer outcomes from the South African insurance industry are largely behind the Financial Services Board (FSB) and the National Treasury drives to introduce more and more governance, regulation and supervision to the industry. The regulatory intervention is to ensure insurers deliver on the promises made to their markets. This assists in curbing the negative perception of the industry. For the market to continue to grow, the industry needs to manage its reputation by respecting all regulations and continuing to increase access to insurance products for all customers. Financial advisers and brokers must be authorized to provide financial and intermediary services (Financial Advisor News: 23/03/2015).

### **2.7.5. UNETHICAL BEHAVIOR OF FINANCIAL ADVISORS IN SELLING**

Su-Hsiu (2012: 32-35) says that as previous studies have pointed out, ethical sales behavior indicates that a salesperson conveys only authentic messages in their communications with customers, sells only those goods/services which can benefit their customers, promises only what can be provided, and treats customer information as confidential. Furthermore, unethical sales behaviors include a salesperson giving misleading to customers (such as lying or exaggerating about product availability), lying about competitors' information, selling unsuitable products or services to their customers, or using high-pressure selling tactics

Furthermore, Su-Hsiu said in practice, from the salesperson's perspective, salespeople often behave against the firm's ethical norms in order to meet sales targets, and such unethical sales behavior could result in arguments and destroy the buyer-seller reciprocal relationship, thus losing customers or even more serious consequences. On the other hand, from the customer's perspective, customer trust in a salesperson is based on the perception that the salesperson is consistent, dependable, honest, competent, likable, and benevolent as it is said that salesperson will do his/her best to provide benefits for customers and further develop a favorable relationship (Su-Hsiu: 2012:32-35).

Reputation, Trust and Fraud will be briefly discussed below as they are factors that are of importance in challenges in retention of business in the insurance industry. To ensure fair treatment of Insurance Industry Customers, Treating Customers Fairly is an over-riding

conduct ethic driven by the Financial Services ard which was launched in November 2014. The FSB is the official Market Conduct Authority, however, an additional Joint Committee between the FSB, Reserve Bank and National Treasury, will be formed to resolve any conflicts within the regulatory twin peaks. Industry players will therefore need to be aware of both existing and pending Insurance Industry regulatory requirements and abide by them for Compliance and Client Service purposes (<http://www.fanews.co.za/article/compliance-regulator> 2).

## 2.7.6. REPUTATION

According to van Greunen (2010:194), an organization's reputation distinguishes it from its competitors, and could lead to a competitive advantage. Reputation can take years to build, but can be lost overnight. A sustainable reputation is built on repeated transactions and experiences with an organization. Historically, organizations have focused their attention on influencing shareholders to get a reputation. He further said that during the 1990s, however, this changed, and the attention turned to customers and employees as well. International companies have recently learned that all the stakeholders of an organization have an impact on its reputation.

Furthermore Van Greunen in his study (2010:194) said that a good reputation is an organization's best asset. It takes a lot longer to restore an organization's bad reputation than it did for the damage to be done in the first place. There are various methods in which an organization can protect its assets. Firstly, organizations should respect stakeholders as stakeholders can provide a valuable input to where an organization can improve. Secondly, valid criticism must not be neglected, but acted upon quickly. Thirdly, longer-term modest growth should be aimed for, as the desire to make a quick short-term profit frequently leads organizations to make questionable decisions. Lastly, stakeholders need to see that an organization is investing back into the community. It is therefore important that an organization contributes to charity and engages in investments that have a measurable social impact.

## 2.7.7. TRUST



According to van Greunen 2010:212, the significance of trust is usually only realized when it is abused. Relationships are threatened when there is a state of distrust. Trust has an ethical dimension in the sense that to honor trust, the trustee needs to consider the interest of the trustor. From this it is possible to assume that trust equals moral behavior, since the consideration of another person's interests is a core element of ethical behavior (Rossouw & Van Vuuren 2004:148-149). Trust and respect are the most difficult values for business managers to institute in an organization.

There are no short-cuts to trust, and being trustworthy is not something that business leaders can fake for long. The advantages of trust in an organization are astounding, as an organization that operates with trust will have more goodwill and fewer costly oversights. Organizations with high levels of trust are potentially more innovative because employees are not risk-averse. In a dynamic and fast-changing environment, internal and external stakeholders also find it easier to adapt to change when they feel secure with their leaders (Bowie 2002:346).

Mascareigne (2009:11) in her study: Customer Retention: emphasized that trust is conceptualized as existing when one party has confidence in the other party's reliability and integrity. The authors argue in the article that several studies have recognized that even though firms manage to properly satisfy their customers, they may be unable to retain them. Hence satisfaction alone is inadequate to ensure long-term customer commitment to a single provider. Due to costs related to the termination of the relationship, once trust has been built, the probability of each party ending relationship decreases (Ranaweera and Prabhu:2003:374-395).

Furthermore, Gounaris (2003:126-140) argues that trust is a vital element in any type of relationship. The more a customer trusts a supplier, the higher the perceived value of the relationship. Consequently the greater the chances that the customer remains in the relationship will be. Trust is an important factor in the perceived quality of services and is developed successively as a result of gradual dependence on the relationship.


Tom Healy, Business Unit Manager of the Knowledge Centre within Marsh Africa is of the opinion that there has generally been a lack of trust within the insurance industry. The industry was perceived to be a necessary evil within the public domain and this perception did very little in driving trust between insurers and policy holders. Like many industries, the insurance industry faces its own set of challenges. This range from difficult new business, investment and regulatory environments, geopolitical uncertainty in certain parts of Africa, social changes and technological advancements as well as uncertain economic environments (Financial Advisor News: 23/03/2015).

### 2.7.8. FRAUD

In their study, Du Plessis and Lombard "Fraud" refers to deceitful activities in order to advance one's own interests over those of others by (Ferrell 2005:33). Fraud poses a threat to an organization's assets. The protection of an organization's assets is vital for its success. Despite numerous efforts to promote ethical behavior in the financial services industry internationally and in South Africa, unethical behaviors still occurs. When an employee engages in deceitful activities in order to advance his/her own interests over those of others, fraud occurs. Generally speaking, fraud is a purposeful communication that misleads, conceals or manipulates facts in order to create a false picture or impression.

Results of the 2005 KPMG Africa Fraud and Misconduct Survey (2005:69-72) indicated that fraud is a major problem in business and is perceived likely to increase in the future. These results, however, indicated a slight decrease in perceptions as compared to the previous Africa Fraud and Misconduct Survey conducted in 2002. More than 75% of the South African respondents identified employees as being the foremost source of fraud in organizations, and the majority of frauds were detected through informant/whistle-blower processes. In the 2002 survey, 88% of respondents indicated that employees were the source of fraud. Although these percentages have decreased, they are still high. More recently, the 2009 KPMG Fraud Survey results showed that nationally 74% of employees reported that they had personally observed, or had first-hand knowledge of, wrongdoing within their organization (KPMG: 2008-2009 Integrity Survey).

Furthermore, the information revolution is changing the way that insurance is sold – by delivering products closer to the consumer than ever before, directly in their homes. This is giving the consumer a considerable advantage over middlemen and agents. Consumers can use the Internet to find the best product at the best price, and they are using that power more than ever before to their benefit. But there is another side to all of this change. While

the information age empowers the consumer, it  provides greater opportunities for the unscrupulous operator. It increases the chances of insurance fraud. As supervisors, we need to be alert for these threats which come along with globalization and technology. Fraud not only inflicts losses on the insurers, but it also erodes the very foundation on which the industry operates and flourishes. The insurance regulation community has to match the threat that fraudulent agents and companies pose by staying ahead of the information technology curve. To do so, runs the gamut from enhancing financial solvency activities to educating consumers via the Internet ([www.centralbank.cw/speeches-and-presentations](http://www.centralbank.cw/speeches-and-presentations)).

## **2.8. LIFE INSURANCE SURVEYS IN SOUTH AFRICA**

The Insurance Industry Surveys are annual publications that summarize the developments in the short-term insurance, long-term insurance and reinsurance industries in South Africa during the past year as well as selected African countries, and highlights emerging trends. For this study the surveys will be highlights of year 2013, 2014 and 2015 in the long-term insurance industry. The evolution of the industry during the past 10 years is becoming more client-centric.

### **2.8.1. 2013 SURVEY REPORT IN THE LIFE INSURANCE INDUSTRY**

Price Waterhouse Coopers (PWC) Insurance Industry Survey 2013 reported that despite continued market uncertainty and economic turmoil during 2012, the local equity market closed at almost record highs. Although global investment markets remained volatile, local performance was strong, with the JSE All Share Index closing 23% higher than in 2011. The all bond index yielded a strong total return of 16% which was beneficial for long-term insurers. It is important to note that South African long-term interest rates reduced significantly in 2012, with the 10 year government bond yield decreasing by more than 100 bps. This had an unfavourable impact on the valuation of investment guarantees for those groups that historically offered significant investment guarantees in some of their products.

Furthermore, the report confirmed that although Chief Executive Officers in the insurance industry focused less in their result presentations on the impact that factors in the external environment had on their businesses in 2012, these cannot be ignored. According to the 2014 Survey, the below-mentioned factors impacted negatively in the insurance industry:-

- Continued high volatility in global equity markets;
  - European Sovereign debt crisis;
  - Subdued GDP growth;
  - Continued high volatility in global equity markets;
  - European Sovereign debt crisis;
  - Subdued GDP growth;
  - Strong local equity market performance in 2012
  - Sovereign debt downgrade;
  - An increase in the trade deficit;
  - Rand weakness;
  - Pressure on consumer disposable income;
  - Inflationary pressures on the economy;
  - High levels of unemployment; and
  - Regulatory changes which continue to affect all insurance businesses
- (PWC: PricewaterhouseCoopers: 2013:1)

### 2.8.2. 2014 SURVEY REPORT IN THE LIFE INSURANCE INDUSTRY

The spokesperson of Ernest and Young, Rutherford in (39<sup>th</sup>Quarterly Report: 2014:1) has stated the below-mentioned findings in the survey measuring confidence in the life insurance industry as conducted by the Bureau for Economic Research in Stellenbosch:-

- Continued strong surrender levels, which are pressuring already high outflows.;
- Risk business profitability continues to rise, providing a boost to bottom-line profits;
- Life insurers have been focused on improving efficiencies, and this is borne out by an improving administration cost to premium ratio; and

• The value of new business is also rising, and this is reflected in recently reported rising new business margins.

Rutherford further comments on the continued high surrenders; "High surrender rates are pressuring overall outflows, and the gap between inflows and outflows growth means that a lot of benefit could be derived from slower surrender rates. Whilst prior to 2012 surrenders were less of a concern for the industry, we notice that since the middle of 2012, these have started rising sharply. In view of what Rutherford is saying, one can realize that this is a serious concern as these volumes are growing even though the insurers have campaigned to manage them. In other words, the insurers should not just campaign or let it be a word of mouth but act on their words (Ernest and Young: Quarterly Report: 2014:1).

Furthermore, Peter Dempsey, deputy CEO of Asisa, said the financial stability of the country's long-term insurance industry is of critical importance, considering that the provision of risk cover to consumers is its core business. The life industry is also recognized as the custodian of a significant portion of the country's long-term savings pool. The surrender value of individual savings policies increased by 9% in 2014 to R57.9bn. A policy is surrendered when the policyholder stops paying premiums and withdraws the fund value before maturity. Dempsey said that considering the Johannesburg Stock Exchange All Share Index in 2014 returned 10.9% in 2014; the 9% increase in surrender values for 2014 can be partly attributed to higher investment returns. A life insurance policy is surrendered when the policyholder stops paying premiums for a policy (<http://www.fin24.com/Money/Insurance/SA-life-insurers-inject-R345bn-into-economy-20150324>).

### 2.8.3. 2015 SURVEY REPORT IN THE LIFE INSURANCE INDUSTRY

According to PWC 2015 Insurance Industry Analysis, Client centricity remains top of the agenda for many CEOs. Companies are seeking to better understand the needs of their clients, in order to provide fit-for-purpose products. As an example, over the past two years most insurers have made significant mortality and morbidity profits on risk products. Aids loadings previously priced into premiums and valuations because of the uncertainty surrounding the disease are not manifesting in experience. The roll-out of antiretroviral treatments has succeeded in reducing mortality rates. Key indicators Group IFRS earnings up 17% Group return on average equity of 21% Group embedded value profits up 1% Value of new business written up 12% Margin on new business decreases to 2.9%.

Consequently, insurers have started to amend policy benefits on existing contracts and premium rates on new policies issued in line with TCF (Treating Customers Fairly) regulation. While long-term insurers have benefited from strong investment market performance over the past few years, the outlook in South Africa remains challenging. High levels of unemployment, low GDP growth rates, energy constraints, tax hikes, continued rand deterioration, industrial action and regulatory changes, all continue to weigh down on consumers and growth prospects. (PWC: PricewaterhouseCoopers: 2015:12)

The Graph below indicates the challenges in statistical format of the lost millions in the insurance industry through lapses and surrenders of life insurance policies.

**Graph 1.3 OPERATING EXPENSES VARIANCE AND ASSUMPTIONS CHANGES**

EXPENSES VARIANCES			Lapses and Surrenders		Mortality and Morbidity	
	Expenses					
Insurers	2014	2013	2014	2013	2014	2013
	RM	RM	RM	RM	RM	RM
Discovery	12	3	108	328	149	94
Liberty	0	0	119	195	185	155
MMI	100	87	-10	129	469	302
Old Mutual	-302	-257	-198	136	761	604
Sanlam	22	165	-64	211	842	645
<b>Combined</b>	<b>168</b>	<b>-2</b>	<b>-45</b>	<b>727</b>	<b>2 406</b>	<b>1 800</b>

Source: PricewaterhouseCoopers: March 2015

According to PWC 2015 Insurance Industry Analysis, the majority of the industry managed actual expenses within the range of the projected actuarial assumptions set at the end of 2013. Discovery, Liberty and Sanlam were very close to expectations. It appears that Old Mutual may be incurring some expenses that they do not expect to recur. In spite of the expense losses experienced in 2014 and 2013, the expense assumption changes for the future are negligible. The insurers reported mixed results on their lapse and surrender assumptions. The tough economic environment may be starting to impact negatively on the persistency of the insurers. Old Mutual experienced worse than expected lapses and surrenders, mostly in their Mass Foundation cluster. As in the prior year, all insurers profited

from better-than-expected mortality and morbidity experience, which contributed approximately 6% to 2014 embedded value earnings. Old Mutual and Sanlam benefited the most from these experience variances. (PWC: PricewaterhouseCoopers: 2015:12).

The surveys of 2013, 2014 and 2015 shows that the insurance industry is facing challenges even though they differ from year to year. But as each year is challenged, the insurance industry has to come with strategies to retain the customers. It is not surprising that insurers are now paying more attention to consumerism. Client centricity is a common theme among most Chief Executive Officers in different organizations. This is due to the fact that it is in their interests to ensure that customers remain with them for as long as possible due to the expected profits realized at later durations.

## 2.9. IMPORTANCE OF CUSTOMER RETENTION

Du Plessis and Lombard: 2013:3, confirm that a business that wants to succeed in today's global competitive market, where customers are empowered and brand loyalty erosion is increasing, will have to move to Customer Relationship Management, hereafter referred to as CRM. It enables organizations to provide excellent real-time customer service through the effective use of individual account information this requires a more complex approach because of the fact that organizations need to both investigate and satisfy their customers' needs, and have to build relationships with both existing and potential customers.

According to (Waithaka 2014:3) in her study, customer retention is the number of customers doing business with a firm at the end of a financial year expressed as a percentage of customers that were active at the beginning of the year. From this definition customer retention is all about maintaining long-term relationship to generate a repurchase behavior. Customer retention may also be viewed as both a behavioral and attitudinal factor. Thus when exploring the concept we need to look at both the behavioral and attitudinal consequences of any intervention of the marketing effort. Behavioral variables include: customer contracts, transactional data, and customer response to the marketing effort and customer complaints; attitudinal on the other hand relates to customer satisfaction.

The relationship between the organization and the customer should be maintained in order to sustain or retain business. Communication is very important, especially in the early stages

of the relationship with the customer, as an organization wants to build awareness and convince interested customers to make a purchase and trustworthy information (Ndubisi 2007:100). Customer retention is on the minds of small, medium as well as large businesses across the world. With rising customer acquisition costs, businesses need to innovate and assume a proactive role in retaining clients. While specific strategies may vary, retention starts from the first day a member interacts with the service provider. Reichheld and Sasser (1990:105-111) concluded that profits in service industries increased in direct proportion to the length of a customer's relationship. Some reasons for this are that loyal customers tend to spend more as the relationship progresses, cost less to serve, recommend new customers, and become more willing to pay full prices as trust is gained.

Furthermore, Onie Okharedia (Senior Manager, Managing Consulting-KPMG) says that in the current digital age, customers literally have access to more information at their fingertips, and are more empowered when making purchasing decisions than ever before. In comparison to the pre-internet era, customers no longer set up formal meetings with a broker prior to making an insurance purchase. Right now they are more likely to research by asking their social network, access customer service reviews or through search engines before requesting a quote online. The South African insurance market is highly competitive. Products are quickly commoditized and innovations are quickly replicated. As a result insurers are finding it difficult to differentiate their product and service offerings in a meaningful way to attract and retain customers. As more South African insurers expand to the rest of Africa, survival dictates that they attract the right customers, provide personalized solutions and continuously strive to satisfy customer needs for simplicity, transparency and convenience (KPMG Report:2014)

Russell, Fier, Carson, Dumm: 2003:39, argues that life insurance may have an exposure due to a correlation between surrender activity and sales. In the absence of unusual market conditions, increases in surrenders activity likely would be accompanied by decrease in life insurance sales, thereby exacerbating decreases insurer liquidity and assets. A flood of surrender requests could threaten a company (or the industry's) liquidity and, as a result, its solvency. Russell further said that surrender activity can be so damaging to a single company or to the life insurance industry if it occurs en masse. Study of widespread surrender activity and its possible determinants is especially important. In view of what Russell et al. Argues, surrender activity affects retention in the insurance industry and this can lead to negative impact to both organizations, country's economy and the customers.

## 2.10. CONCLUSION



The literature review presented in this study aims at providing a broader understanding of overview of South African insurance industry and assessing factors leading to challenges in the insurance industry. Factors discussed in this study are just some of the factors in the industry not all of them as this is a small study. The main aim is to enlighten the stakeholders in the insurance industry and to emphasize the importance of retention as it benefits the customers, the industry and the country's economy.

The factors discussed above as contributors to challenges of retention in the insurance industry are very crucial. From globalization, Technology, Reputation, Trust, Consumerbehavior, unethical behavior in selling and importance of retention, the researcher has briefly elaborated this factors which have been researched by many researchers for scholarly purposes and financially purposes. As they impact the insurance industry in their own unique ways, the insurance industry may not ignore them for present and future retention of customers. The surveys which are conducted yearly in the financial industry also reflect the picture of the insurance performances and the negatives and positives impacts can be dealt with vigorously.

The insurance industry emerged from the cloister of the sanctions era by expanding abroad. The foreign invasion of the banking market has spilled over into the insurance market, as direct writers of insurance policies start to erode the local market. In South Africa, factors such as crime, AIDS, increased competition in the insurance industry and proposed legislative changes have made life more difficult for the institutions that cover consumers' life, health or property. Greater competition has also put pressure on life assurers, who face a steady rise in policy lapses.

### 3.1. INTRODUCTION

The researcher in this chapter will discuss research design and methodologies that will be used when conducting the study. This chapter will also outline the study area, population of the study, sampling method and sampling size, data collection, data analysis and ethical consideration.

### 3.2. RESEARCH DESIGN

A research design is a plan or blueprint of how the researcher intends conducting research (Mouton, 2001:55). Leedy (1997:93) defined research design as the visualization of the data and the problems associated with the employment of the data in the entire research project. For this study the researcher will use field study.

### 3.3. RESEARCH METHODOLOGY

According to (Denzin and Lincon, 1998:73), the use of both qualitative and quantitative methods in a research is variously called multi-method, mixed methods or multiple methods. Research methodology as defined by Guy (1987:12) is the process, principles and producers by which the researchers approach the problems and seek answers. This research study was conducted in two phases. The first phase focused on qualitative research, and the second phase focused on quantitative research.

- **Qualitative methodology**

Qualitative methodology is a method in which the inquirer often makes knowledge claims based primarily on constructivist perspectives or advocate/ participatory perspectives or both, Creswell (2003: 18). On the other hand Leedy (1997:105) also defined qualitative methodology as an inquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words. The researcher will use qualitative method, because there is a close interaction between the researcher and the respondents and that the researcher will be able to understand the situation as it happens.

- **Quantitative methodology**

Quantitative methodology as defined by Creswell (2003:18) is a processes in which the investigator primarily uses post positivist claims or developing knowledge like he can use and effect thinking, reduction to specific variable and hypotheses and question, use of measurement and observation, and he test of the theories, employs strategies of inquiry such as experiments and survey, and collects data on predetermined instruments that yield statistical data.

### **3.4. STUDY AREA**

The study area of the research will be Thohoyandou Old Mutual Client Services which is located in the scenic of Vhembe District in the Limpopo Province of South Africa and was established in 1989 to cater for the Homeland of Venda. Thohoyandou is the former capital of the independent homeland and the pride of the Vha-Venda people. It is situated in the South of Venda, on the main road between Louis Trichardt and Kruger National Park and it is a home of Old Mutual Branch([http://.sayellow.com@2?wr=10&Cli\\_ReferenceNumber=1,016,268](http://.sayellow.com@2?wr=10&Cli_ReferenceNumber=1,016,268)).

### **3.5. POPULATION OF THE STUDY**

(Graziano and Raulin, (2004:202) says that a population is a larger group of all persons, events and so on. It is the total set from which the individual or a unit is chosen as a sample. In this study the population includes top management, Sales Advisers, Brokers, Admin staff and clients/ customers. According to (Babbie, 2004:190) a research population is the aggregation of element from which the sample is actually selected.

### **3.6. SAMPLING**

According to Kumar, 2011:397, sample is a subgroup of population which is the focus of your research enquiry and is selected in such a way that it represents the study population. Barker in De Vos (2012:224) defined as a small portion of the total set of object, events or persons from which representative selection is made. It is composed of few individuals from whom you collect the required information, (Kumar, 2011: 3397). The sampled group of the study consists of Management, Financial advisers, Admin staff and clients/customers.

### 3.6.1. SAMPLING METHODS



Bless and Higson-Smith (1997:95) highlights that the strategy of this sampling method is to select respondents that are judged to be typical of the population under investigation. The researcher used non-probability sampling and its sub-type purposive sampling method. In this study, purposive sampling was used where the researcher used judgmental to select the respondents which can give more information. According to (Kumar, 2011:298) sampling method is the way you select the required sampling units from a sampling population for identifying the sample.

### 3.6.2. SAMPLING SIZE

The size of the sample determines the statistical precision of the findings. The size of the sample is a function of change in the population parameters under study and the estimation of the quality that is needed by the researcher (Wegner, 2000:23).

Generally, larger samples result in more precise statistical findings (Terre Blanche, Durrheim, Painter, 2006:236). The sample size of this study was twofold. Firstly, the sample was based on management, financial advisors and admin staff willing to partake in the study. Secondly, it was based on walk-in customers of Old Mutual Thohoyandou Branch in Venda, willing to partake in the study. The total sampled population of the study consists of 100 people. The respondents are 5 Managers, 10 admin staff, 10 financial advisors and 80 customers. The number of respondents used for this study cannot be seen as the representative of Old Mutual staff and customers as a whole.

### 3.7. DATA COLLECTION

Booyesen (2009:17) defines a questionnaire as a formalized schedule for the collection of data from respondents. The researcher will use both qualitative and quantitative methods and two instruments used to collect data will be open-ended interview and survey questionnaires. Questionnaire refers to a list of written questions, the answers to which are recorded by respondents (Kumar, 2011:389). The respondents read the questions, interpret what is expected and then write down the answers. The researcher will use structured

questionnaire to collect information. The researcher will distribute the questions to the respondents.



Interview is a method will be used to collect data in the social science where there is interaction, either face to face or otherwise, between two or more individuals with a specific purpose in mind (Kumar, 2011:389). Interview involves asking questions of respondents and recording their answers. In this study open-ended will be used. The aim of interview is to see the world through the eyes of the participants, and they can be a valuable source of information provided they used correctly. The researcher will interview the respondents using open ended questions.

### 3.8. DATA ANALYSIS

Data analysis refers to the stage in the research process where the researcher, through application of various statistical and mathematical techniques, focuses separately on specific variable in the data set (Mouton, 1996: 161).

Data collected through questionnaire will be analyzed by Statistical, Package for Social Science (SPSS) and information will be presented in a tabular form, frequencies and percentages.

Data collected through interview will be analyzed by thematic analysis and information will be presented in a narrative form. This method by (Creswell, 2005:334) is a method which is used in interview method directed the researcher to follow steps of qualitative data analysis as outlined below:

- **Step 1: Planning for recording data:** The researcher should plan to record data in a more systematic manner before collection of data.
- **Step 2: Data collection and Preliminary Analysis:** Data analysis in qualitative inquiry necessitates a twofold approach. The first one involves data analysis at the research site during collection of data. The second one involves data analysis away from the site.
- **Step 3: Managing (organizing) data:** This is the early stage in analysis wherein the researcher organizes their data into file folder; index cards or computer files.

- **Step 4: Reading and Writing Memos:** In this step after the researcher has organized the data, the researcher immerses himself in the details trying to get a sense of the interview as a whole before breaking it into parts.
- **Step 5: Generating categories, theme and Patterns:** It involves noting regularities in the setting or people chosen for study. As the categories emerge the researcher searches for those that have internal convergence and external divergence.
- **Step 6: Coding the data:** The researcher has to apply some coding scheme to those categories and themes, and diligently and thoroughly mark passages in the data. Codes may take several forms: abbreviation of keywords, colour dots, numbers and the choice is to the researcher.
- **Step 7: Testing Emergent Understanding:** The researcher begins the process of evaluating the plausibility of her developing understandings and explores them through the data searched for alternative explanations.
- **Step 8: Searching for alternative Explanations:** In this step the researcher discovers the patterns in the data. The researcher should search for others, plausible explanations for meaning to raw data.
- **Step 9: Writing the report:** This is the final step wherein the researcher writes a report, explaining the data in detail. The researcher engaged in an interpretive act, lending meaning to raw data.

For the purpose of this study the above steps were used: Planning for recording data, data collection and Preliminary Analysis, Managing (Organizing) data, Reading and Writing Memos and writing the reports.

### 3.9. ETHICAL CONSIDERATIONS



Ethics is a system of action guiding principles and rules which function by specifying the types of conduct that are permitted, required and forbidden. It involves a systematic examination of the moral life and seeks to provide sound justification for the moral decisions and actions of people (Fry 2002: 14). Ethics that were used in this study were discussed as follows:

#### 3.9.1. Informed consent

Informed consent refers to the willing joining of the research project by participants who have full knowledge of the risk and rewards of the project (Vogt, Gardner and Hoeffel, 2011:242) It is when the respondents are made adequately and accurately aware of the type of information you wanted from them, when the information is sought, what purpose it will be put to, how they are expected to participate in the study and how it will directly or indirectly affect them.

#### 3.9.2. Anonymity

According to (Dane, 1990:21) Anonymity is when no one including the researcher, can relate to the participants identity to any information pertaining to the project.

Also when the data is collected no one knows which data came from which participant. Anonymity means that participants cannot be identified because their identities are unknown. It is stoner than confidentiality.

#### 3.9.3. Confidentiality

It is a means of protecting the privacy research participants by concealing their identities and shielding links to the data pertaining to them, (Vogt, Gardner and Haeffel, 2012:338).

Confidentiality is an ethical requirement in most research: sensitive and personal information provided by participants should be protected and made unavailable to anyone other than the researcher.

### 3.10. CONCLUSION



#### 4.1 INTRODUCTION

This chapter was about preferred methodologies and procedures by the researcher. Both qualitative and quantitative research methods were used in this study and a sample composed of 100 respondents in number and purposive sampling method was applied.

A questionnaire and interview were used as a method for collecting data. With regards to data analysis, statistical package for social science for cross-sectional analysis (SPSS) and inductive interpretation was used.

#### 4.2 ANALYSIS OF DATA COLLECTED THROUGH QUESTIONNAIRE

In this section the researcher presents the responses received by the questionnaire and are presented graphically in pie charts and are followed by brief synthesis of the findings for the items.

##### 4.2.1 Section A: Demographic Profile

In this section the researcher presents the demographic data of the respondents in this study. The information is presented in graphical modes and followed by a synthesis of the findings and related findings discussed in Chapter 5.



## 4.1 INTRODUCTION

The purpose of this chapter is to analyze and interpret the questionnaire (refer to Appendix C and D). A relationship exists between data analysis and interpretation. Data analysis involves the analysis of the collected data and its translation into the results. When data analysis and interpretation are not well performed, the success of the study cannot be guaranteed (Madiba, 2009:130). The previous chapter presented the research design and methodologies that the researcher intends following and which indicate the structure and procedures that were followed to answer the researcher's study questions. It has been discussed that the study was conducted in mixed methodologies where quantitative and qualitative methodologies were used. The following sections focus on reporting the empirical investigation by providing answers to the challenges faced by insurance industry in respect of retention. The questionnaires were personally administered to the respondents at the Thohoyandou Old Mutual Client services.

## 4.2 ANALYSIS OF DATA COLLECTED THROUGH QUESTIONNAIRE

In this section the researcher analyze the responses collected by the questionnaires and are presented graphically in graphical tabular and are followed by brief synthesis of the findings for the items.

### 4.2.1 Section A: Biographical Details

In this section the researcher presents the biographical detail of the respondents in this study. The information is presented in graphical tabular forms and followed by a synthesis of the findings and detailed findings discussed in Chapter 5.

**Table 4.3. Positions of respondents**



	Response	Frequencies	Percentage
1	Managers	8	8.42.%
2	Financial Advisors	10	10.53%
3	Administrators	7	7.37%
4	Customers/Clients	70	73.68%
	TOTAL	95	100%

Table 4.3 indicate that the majority of the respondents at 70 (73.68%) who took part in this study were customers of Old Mutual. Ten (10.52%) of the respondents were financial advisors, eight (8.42%) were managers and the last group were administrators at 7 (7.37%). It can therefore be concluded that the majority of the respondents who took part in the study were the customers as mentioned above.

#### **4.2.2.2 Section B: Challenges in Customer Retention**

In this sub-section, data is analyzed using graphical statistics which is further divided into five themes which arose from the survey questionnaire respondents. The three themes are the challenges of retention of life policy insurances; terminations and surrender and strategies towards retention of insurance policies in the insurance industry.

#### **4.2.2.1 Customer retention in Old Mutual**

This sub-section presents data regarding the challenges in respect of retaining insurance policies up to maturity. The data is presented in the form of tables followed by brief interpretation.

**Table 4.4 Retention of insurance policies is a serious challenge in the insurance industry**



	Response	Frequencies	Percentage
			42.11%
1	Strongly agree	40	32.63%
2	Agree	31	10.53
3	Not sure	10	9.47%
4	Disagree	09	5.26%
5	Strongly disagree	05	100%
	TOTAL	95	

The above table shows that 40 (42.10%) of the respondents agreed that retention is a serious challenge in the insurance industry and on the other hand 9 (9.47%) disagree. About 31 (32.63%) agree on this challenge in the industry whereas 05 (5.26%) strongly disagree. Ten (10.52%) of the respondents are not sure. Most respondents agreed that retention of insurance policies is a serious challenge.

**Table 4.5 There is still lack of commitment towards agreed terms of insurance policies.**

	Response	Frequencies	Percentage
			42.10%
1	Strongly agree	40	31.58%
2	Agree	30	10.53%
3	Not sure	10	6.32
4	Disagree	06	9.47.%
5	Strongly disagree	09	100%
	TOTAL	95	

Table 4.5 shows 40 (42.10%) of the respondents strongly agree that there is still lack of commitments towards agreed terms of life insurance policies and 9 (9.47%) strongly disagree on lack of commitment. While 10 (10.53%) of the respondents are not sure, 30 (31.58%) agree that there is lack of commitment towards agreed terms of insurance policies and 06 (6.32%) disagree. The statistics shows that to a greater extent majority of the respondents answered in the affirmative that there is still lack of commitment towards agreed terms of life insurance policies,

**Table 4.6 Retention of insurance policies affects both the customers and the insurance industry**



	Response	Frequencies	Percentage
1	Strongly agree	48	50.53%
2	Agree	36	37.89%
3	Not sure	06	6.32%
4	Disagree	04	4.21%
5	Strongly disagree	01	1.05%
	TOTAL	95	100%

The statistics indicated that 48 (50.53%) of the respondents strongly agree that retention of insurance policies affects both the customers and the insurance industry and 01 (1.05%) strongly disagree. While the 06 (6.32%) of the respondents are not sure, 36 (37.89%) of the respondents agree that retention of insurance policies affects both the customers and the insurance industry and 04 (4.21%) disagree. The statistics revealed that the majority of the respondents confirmed that retention of insurance policies affects both the customers and the insurance industry.

**Table 4.7 Awareness towards the value of retaining insurance policies is not enough for customers**

	Response	Frequencies	Percentage
1	Strongly agree	63	66.31%
2	Agree	23	24.21%
3	Not sure	0	0.00%
4	Disagree	07	7.37%
5	Strongly disagree	02	2.10%
	TOTAL	95	100%

Table 4.7 shows that 63 (66.31%) of the respondents strongly agree that Awareness towards the value of retaining insurance policies is not enough for customers and 23 (24.21%) of the respondents agree. While zero (0.0%) of the respondents are not sure, 07 (7.37%) of the respondents disagree and 02(2.10%) of the respondents strongly disagree that awareness towards the value of retaining insurance policies is not enough for customers.



**Table 4.8 Knowledge and understanding of value of insurance policies plays an important role towards retention**

	Response	Frequencies	Percentage
1	Strongly agree	58	61.05%
2	Agree	28	29.47%
3	Not sure	0	0.0%
4	Disagree	03	3.16%
5	Strongly disagree	06	6.32%
	TOTAL	95	100%

Table 4.8 shows that majority of respondents 58 (61.05%) strongly agree that knowledge and understanding of the value of insurance policies plays an important role towards retention and 06 (6.32%) strongly disagree. About 28 (29.47%) of the respondents agree that knowledge and understanding of the value of insurance policies plays an important role towards retention on the other hand 0 (0.0%) are not sure and 03 (3.16.0%) of respondents disagreed. The statistics shows that to a greater extent majority of the respondents confirmed that knowledge and understanding of the value of insurance policies plays an important role towards retention.

#### **4.2.2.3 Section C: Section C: Surrenders and Cancellations**

This sub-section presents Trust in relationship between Old Mutual and customers in retaining insurance policies up to maturity terms. The information in this section is presented in graphical and tabular forms followed by a discussion of the findings.

**Table 4.9 Most customers cancel/surrender their insurance policies within the first 5 years**



	Response	Frequencies	Percentage
1	Strongly agree	65	68.42%
2	Agree	23	24.21%
3	Not sure	02	2.10%
4	Disagree	03	3.16%
5	Strongly disagree	02	2.11%
	TOTAL	95	100%

The above table revealed that 23 (24.21%) of respondents agree that most of the customers cancel or surrender policies within the first five years and only two (2.11%) of the respondents strongly disagreed. On the other hand 02 (2%) are not sure while 65 (68.42%) of the respondents strongly agree that most customers cancel or surrender their insurance policies within the first 5 years and only 03 (3.16%) disagree. The statistics shows that an overwhelming majority of respondents confirmed that most customers cancel or surrender their insurance policies within the first five years.

**Table 4.10 There is no much trust between customers and financial advisors in the insurance industry**

	Response	Frequencies	Percentage
1	Strongly agree	24	25.26%
2	Agree	40	42.10%
3	Not sure	17	17.90%
4	Disagree	11	11.58%
5	Strongly disagree	03	3.16%
	TOTAL	95	100%

The statistics shows that 40 (42.10%) of that respondents agree that there is no much trust between customers and financial advisors in the insurance industry while 17 (17.90%) are not sure and 03 (3.16%) strongly disagree. About 24 (25.26%) of the respondents strongly agreed to the above-mentioned statement and 11 (11.58%) disagree. The statistics revealed that majority of the respondents agreed that there is no trust between the financial advisors and the customers in the insurance industry.

**Table 4.11 Lack of transparency during sales leads to surrenders and cancellations**

	Response	Frequencies	Percentage
1	Strongly agree	52	54.74
2	Agree	22	23.16%
3	Not sure	09	9.47%
4	Disagree	07	7.37%
5	Strongly disagree	05	5.26%
	TOTAL	95	100%

The statistics revealed that fifty two (54.74%) of the respondents strongly agree that lack of transparency during sales leads to surrenders and cancellations whereas only 7 (7.37%) disagree and 09 (9.47%) are not sure. About 22 (23.16%) of the respondents agree to lack of transparency during sales and 05 (5.26.0%) strongly disagree. The statistics shows that the majority of the respondents agree that lack of transparency during sales leads to surrenders and cancellations.

**Table 4.12 Surrenders and Cancellations are due to lack of understanding the importance of insurance policies**

	Response	Frequencies	Percentage
1	Strongly agree	63	66.31%
2	Agree	21	22.11%
3	Not sure	0	0.0%
4	Disagree	06	6.32%
5	Strongly disagree	05	5.26%
	TOTAL	95	100%

Table 4.12 shows that sixty three (66.31%) of the respondents strongly agree surrenders and cancellations are due to lack of understanding the importance of insurance policies and 06 (6.32%) disagree. While 0 (0.0%) are not sure, 21 (22.11%) of the respondents agree that surrenders and cancellations are due to lack of understanding the importance of insurance policies and 05 (5.26. %) strongly disagree. The statistics revealed that an overwhelming majority of respondents agreed that surrenders and cancellations are due to lack of understanding the importance of insurance policies.

#### 4.2.2.4 Section D: Strategies which can be used in customer retention

This section presents Strategies which can be used to improve retention of life insurance policies at Old Mutual and the information in this section is presented in graphical and tabular forms followed by discussions.

**Table 4.13 Old mutual should strive to educate customers towards the importance of policies**

	Response	Frequencies	Percentage
1	Strongly agree	61	64.21%
2	Agree	29	30.53%
3	Not sure	05	5.26%
4	Disagree	0	0.0%
5	Strongly disagree	0	0.0%
	TOTAL	95	100%

Table 4.13 shows that sixty one (64.21%) of the respondents strongly agree that Old mutual should strive to educate customers towards the importance of policies while 0 (0.0%) disagree. About five (5.26%) of the respondents are not sure that Old mutual should strive to educate customers towards the importance of policies, while 29 (30.53%) of respondents agree and zero (0.0%) strongly disagree. An overwhelming majority of respondents revealed that Old mutual should strive to educate customers towards the importance of policies.

**Table 4.14 Old Mutual should invest more in maintaining relationship with its customers for more retention**

	Response	Frequencies	Percentage
1	Strongly agree	41	43.16
2	Agree	36	37.89%
3	Not sure	07	7.37%
4	Disagree	05	5.26%
5	Strongly disagree	06	6.32%
	TOTAL	95	100%

A significant number of 41 (43.16%) of respondents shows that they strongly agree that Old Mutual should invest more in maintaining relationship with its customers for more retention and only six (6.32%) strongly disagree. About seven (7.37%) are not sure while thirty six (37.89%) agree that Old mutual should invest more in maintaining relationship with its customers and only five (5.26%) disagree. The statistics confirmed that most respondents agree that Old Mutual should invest more in maintaining relationship with its customers for more retention.

**Table 4.15 Emphasis towards insurance maturity should be given more attention.**

	Response	Frequencies	Percentage
1	Strongly agree	60	63.16%
2	Agree	34	35.79%
3	Not sure	0	0.0%
4	Disagree	01	1.05%
5	Strongly disagree	0	0.0%
	TOTAL	95	100%

Table 4.15 shows that sixty (63.16%) of the respondents strongly agree that emphasis towards insurance maturity should be given more attention and only one (1.05%) disagree. On the other hand thirty four (35.79%) agree that there should more emphasis towards insurance maturity for customers while zero (0.0%) are not sure and zero (0.0%) strongly disagree. An overwhelming majority of respondents agree that emphasis towards insurance maturity should be given more attention.

**Table 4.16 Old Mutual can still do more to encourage retention of life insurance policies towards maturity terms.**

	Response	Frequencies	Percentage
1	Strongly agree	78	82.11%
2	Agree	12	12.63%
3	Not sure	05	5.26%
4	Disagree	0	0.0%
5	Strongly disagree	0	0.0%
	TOTAL	95	100%

Table 4.16 shows that seventy eight (82.11%) of the respondents strongly agree that Old Mutual can still do more to encourage retention of life insurance policies towards maturity terms while zero (0.0%) disagree. About twelve (12.36%) of respondents agree that Old Mutual can still do more towards maturities of insurance policies whereas five (5.26.0%) of the respondents are not sure and zero (0.0%) strongly disagree. the statistics shows that an overwhelming majority of respondents agree that Old Mutual can still do more to encourage retention of life insurance policies towards maturity terms.

#### 4.3 ANALYSIS OF DATA COLLECTED THROUGH INTERVIEWS

In this section, the responses collected by the interview schedule are presented in a narrative form and the detailed findings are discussed in chapter 5.

**Question 1: What are the challenges that the insurance industry face regarding customer retention?**

**Respondent 1:**

The first respondents said that " new entrants in the insurance industry pose a great challenge as they entice customers with cheaper products and managers and financial advisors who has been in the business for a long time feel threatened. And further said that the insurance industry is mostly regulated by the government and as such there is not a lot of flexibility for the insurance companies." The respondent further said where is the value of insurance if it is sold over the phone, internet, clothing shop, etc."

**Respondent 2:**

The second respondents indicated that " retention of customers in the insurance industry has always been a thorn in flesh for managers and financial advisors because there are no stricter rules or laws that are binding to customers. Both the financial advisors and the customers need education on insurance matters because cancelling and surrendering life policies impact negatively on customers and the industry.

**Respondent 3:**

Respondents said that" retention is the key to success of managers and financial advisors in the insurance industry and as such it is a challenge because it is difficult to gain loyalty from

customers. When customers buy insurance without commitment and long-time goals in their minds, it becomes a challenge in the insurance industry because most customers do not stay for longer terms or periods.. Commitment from customers will lead to retention."

#### **Respondent 4:**

The fourth respondents said that "if customers are retained through strategies which are effective, managers, financial advisors, insurance industry and customers stand to benefit in the long run. However if customers are not retained and this kind of challenge is not paid attention to, it will lead to failure for both the industry and the customers. Education towards life insurance policies should be a priority in the industry"

#### **Respondent 5:**

The last respondents indicated that " it will always remain being a serious challenge which need special attention from all levels in the insurance industry as insurance policies are now being sold everywhere even in supermarkets. The brunt that is felt by managers and financial advisors in money value is also felt by customers."

#### **Summary of Question 1**

All respondents in this interview question strongly agree that customer retention is a thorny issue in the insurance industry which should be properly addressed in the insurance industry (employers and employees) and externally to customers through creating awareness education in insurance matters. The new entrants in the market also have an effect in retention as cheaper products are enticing and due to economic conditions in the country, customers usually opt to go to service supplier who is offering products which are affordable. The other respondent further said that availability of insurance everywhere or is also encouraged because the product are no longer restricted to Insurance companies but also to retailers, football clubs, cellular brands and supermarkets.

**Question 2: What are factors contributing towards insurance policies surrenders and cancellations?**

**Respondent 1:**

The first respondents indicated that "lack of understanding towards insurance policies by customers contributes largely for the large volumes of cancellations and surrenders. The honor of letting customers understand the products sold lies solely with the insurance industry and as such they should not ignore these tendencies of cancellations and surrenders without find means to curb them."

**Respondent 2:**

"When sales are done, it should not be a 'hit and run' presentation by financial advisors without giving customers enough time to digest what has been sold and to be sure of the affordability as cost of living is very high. Since most customers are struggling to make ends meet, they do not consider insurance as a primary or basic need but a secondary one, hence this state in the insurance industry."

**Respondent 3:**

The third respondents said that "financial constraints for customers also contribute as a factor towards insurance policy cancellations and surrenders because almost everything in this life is achieved through money. Customers turn to cancel or surrender insurance policies as a cash option to meet financial needs in that particular time."

**Respondent 4:**

The fourth respondents indicated that "lack of financial discipline in money matters for customers contributes towards cancellations and surrenders of insurance policies. The products sold should be designed in such a way that they are relevant to today's generation."

**Respondent 5:**

The last respondents echoed the first respondent in saying that "lack of understanding by customers is one of the factors to be taken seriously in the insurance industry. The

respondents further said Financial Advisors should make presentation to customers and allow them to take well-informed decisions as insurance is bought by hard-earned money."

## Summary of Question 2

Some of the respondents in this question emphasized lack of understanding and commitment from customers when they buy life insurance policies from financial advisors. Furthermore financial advisors should try to avoid selling products in life insurance industry without proper understanding from customers and this was also emphasized by the last respondent. The other factor mentioned was financial constraints on customers because of present economic situation in South Africa. The other respondent cited the fact that customers need to be financially disciplined in order to sustain the life insurance policies. It all comes down to lack of understanding.

**Question 3: What are the strategies which can be used to solve the problem of customer's retention in the insurance industry?**

### Respondent 1:

The respondents said that "if the insurance industry can create more awareness by using media like radio which is listened to by many to educate customers, it will be of a great strategy as almost all languages are catered for in local Radio stations. The respondents further said that language can be a barrier if pamphlets are also not written in customer's mother language and as such it should be remembered that even though we are in the 20th century, there are still uneducated customers who should be catered for."

### Respondent 2:

The second respondents said that FSB - Financial Services Board which regulates that insurance industry should relax some of its regulatory framework as it is impacting on customers and the insurance industry negatively. Customers should be aware that an insurance policy is a contract which should be entered to as legal document that is binding. The regulatory bodies for insurance industry should revisit their laws in order to assist customers in wealth creation."

### **Respondent 3:**

The third respondents indicated that " financial advisors should do proper needs analysis (financially) before they close deals for insurance policies. If needs analysis is conducted professionally and efficiently, it can be a strategy towards retention of customers in the insurance industry. The respondents further said that if this is done at point of sale of insurance policy, customers commit themselves according to what they really need and not what they want."

### **Respondent 4:**

The fourth respondents said " that follow-up systems or relationship on customers who have been written insurance policies should be done constantly. The respondents further said that the above-mentioned system build trust and confidence from customers to financial advisors and to the insurance industry. Management and financial advisors in the insurance industry should create more awareness of the value and the importance of insurance policies that reach maturity stages.

### **Respondent 5:**

The last respondents like respondents in no.1 "also emphasized on educating customers in financial matters like insurance policies, If customers are educated thoroughly, they would not treat their insurance policies as bank savings account that can be accessed at any given time. The respondents also indicated the financial services board as a body that is not neutral between customers and insurance industry. Unless customers are not always viewed as victims of financial advisor's ill-advice in insurance matters it will always be a vicious circle of blaming one another."

### **Summary of Question 3**

Creating awareness to customers through media like radio and pamphlets could also help in strategizing towards customer retention. The other respondent emphasized a point of follow-up system for the existing customers which are also known as Customer Relationship Management (CRM) Furthermore it was emphasized to do proper financial needs analysis which will lead to more understanding of insurance products. The other respondent is of the

opinion that regulatory measures and financial services board are not neutral between the insurance industry and the customers and as such, it always remains a vicious circle of blaming one another.

#### 4.4 CONCLUSION

In view of both the questionnaire and interview conducted the conclusion to sum up the different views by the respondents is that the majority agrees that retention of life insurance policies in the insurance industry affects both the customers, the industry and the country's economy. Furthermore, the respondents are in support of awareness in financial matters or life insurance policies as there is a lack of understanding in the insurance industry. As such, the insurance industry should strive to come with strategies which can be achievable taking customer's needs into consideration.

The study has indicated that retention in the insurance industry is a challenge as millions are lost each year. South Africa is experiencing economic difficulties at the present moment and the insurance industry has an important role to play. Insurance industry can be safe haven for customers if they retain their savings. In other words, retention of customers in the insurance industry is profitable to the customers if their insurance policies can reach maturity stages and the industry can also gain by making profits over the longevity of the customers.



## 5.1 INTRODUCTION

In this chapter, a researcher summarized the findings, made recommendations and conclusion concerning the assessment of Retention of Customers in the Insurance Industry. This chapter reflects on the overall research objectives. All the findings derived from the collected data through questionnaires and face to face interviews forms a concise summary. Furthermore, conclusion and recommendations were arrived at based on the findings of the study.

## 5.2 MAIN FINDINGS OF THE STUDY

In this section, the researcher will provide the findings based on the three themes which arose from the objectives of the study and are Challenges of Retention of Customers, Surrenders and Cancellations of Life insurance policies based on relationship between the insurer and the customers and lastly, Strategies which can be used to improve customer Retention in the insurance industry.

### 5.2.1 Challenges of Retention of Customers in the Insurance Industry

The first objective of the study sought to assess the challenges in customer retention in the insurance industry and the researcher found out that majority of the respondents were aware that there are challenges in customer retention for both the industry and the customers. About 40 (42.11%) of the respondents strongly agreed and 31 (32.63%) agree that retention is a serious challenge in the insurance. The majority of respondents are aware of lack of commitment towards the agreed terms or periods of insurance policies and this is represented by 40(42.10% who strongly agree and 30(31.58%) who agree. The respondents further showed that retention affects both the customer and the industry and this is confirmed by 48(50.53%) who strongly agree and 36 (37.89%) who agree. In awareness of value towards life policies, statistics shows that total of 80.52% indicated that they strongly agree and agree. And finally the majority of respondents 58 (61.05%) strongly agree and 28 (29.47%) of the respondents agree that knowledge and understanding life insurance policies plays an important role towards retention in the insurance industry..

## 5.2.2 Cancellations and Surrenders of Life Insurance Policies

The second objective of the study was to understand the reason behind the cancellations and surrenders of life insurance policies which is based on relationship between those customers and the insurers. The stats showed that 23 (24.21%) of respondents agree that most of the customers cancel or surrender policies within the first five years and only two (2.11%) of the respondents strongly disagreed. On the other hand 02 (2%) are not sure while 65 (68.42%) of the respondents strongly agree that most customers cancel or surrender their insurance policies within the first 5 years and only 03 (3.16%) disagree. The above -mentioned statistics shows that an overwhelming majority of respondents confirmed that most customers cancel or surrender their insurance policies within the first five years.

Furthermore the statistics shows that 40 (42.10%) of that respondents agree that there is no much trust between customers and financial advisors in the insurance industry while 17 (17.90%) are not sure and 03 (3.16%) strongly disagree. About 24 (25.26%) of the respondents strongly agreed to the above-mentioned statement and 11 (11.58%) disagree. The statistics 66 (67.36%) revealed that majority of the respondents agreed that there is no trust between the financial advisors and the customers in the insurance industry and as such more attention should be paid to this aspect as it can increase retention in the insurance industry. The statistics further revealed that fifty two (54.74%) of the respondents strongly agree that lack of transparency during sales leads to surrenders and cancellations whereas only 7 (7.37%) disagree and 09 (9.47%) are not sure. About 22 (23.16%) of the respondents agree to lack of transparency during sales and 05 (5.26.0%) strongly disagree. The statistics 74 (77.90%) shows that the majority of the respondents agree that lack of transparency during sales leads to surrenders and cancellations.

Lastly on surrenders and cancellations, majority of respondents revealed that sixty three (66.31%) strongly agree and 21 (22.11%) agree that surrenders and cancellations are due to lack of understanding the importance of insurance policies and 06 (6.32%) disagree. The statistics above shows that an overwhelming majority of respondents agreed that surrenders and cancellations are due to lack of understanding the importance of insurance policies.



The third and objective of the study sought to find the strategies which can be used to improve retention of life insurance policies in the insurance industry. Sixty one (64.21%) of the respondents strongly agree that Old mutual should strive to educate customers towards the importance of policies while 0 (0.0%) disagree. About five (5.26%) of the respondents are not sure that Old mutual should strive to educate customers towards the importance of policies, while 29 (30.53%) of respondents agree and zero (0.0%) strongly disagree. An overwhelming majority of respondents revealed that Old mutual should strive to educate customers towards the importance of policies.

A significant number of 41 (43.16%) of respondents shows that they strongly agree that Old Mutual should invest more in maintaining relationship with its customers for more retention and only six (6.32%) strongly disagree. About seven (7.37%) are not sure while thirty six (37.89%) agree that Old mutual should invest more in maintaining relationship with its customers and only five (5.26%) disagree. The statistics confirmed that most respondents agree that Old Mutual should invest more in maintaining relationship with its customers for more retention. Furthermore majority of sixty (63.16%) of the respondents strongly agree that emphasis towards insurance maturity should be given more attention and only one (1.05%) disagree. On the other hand thirty four (35.79%) agree that there should more emphasis towards insurance maturity for customers while zero (0.0%) are not sure and zero (0.0%) strongly disagree. An overwhelming majority of respondents agree that emphasis towards insurance maturity should be given more attention.

Finally ,the statistics shows that seventy eight (82.11%) of the respondents strongly agree that Old Mutual can still do more to encourage retention of life insurance policies towards maturity terms while zero (0.0%) disagree. About twelve (12.36%) of respondents agree that Old Mutual can still do more towards maturities of insurance policies whereas five (5.26.0%) of the respondents are not sure and zero (0.0%) strongly disagree. The total number of 90 (94.47%) of the respondents shows that an overwhelming majority of respondents agree that Old Mutual can still do more to encourage retention of life insurance policies towards maturity terms. This statistics revealed that customers and employees of Old Mutual have confidence in the ability of management of making turn-around strategies of retention in the organization.

Majority of the respondents shows that Old Mutual should strive to educate customers towards the importance of life insurance policies. Statistics showed that majority of respondents agreed that Old Mutual should invest more in maintaining relationship with its customers for more retention in the insurance industry. The majority of respondents showed that they strongly agree that emphasis towards insurance maturities should be given more attention to encourage retention. The statistics shows that to a greater extent majority of the respondents confirmed that Old Mutual can still do more to encourage retention of the life insurance policies towards maturities.

### 5.3. CONCLUSION

This is the conclusion of the assessment of Challenges of Customer Retention in the Insurance Industry: a case study of Old Mutual - Thohoyandou Client Services. The objectives of the study were to explore challenges in the insurance industry in respect of retention, Cancellations and surrenders and strategies towards customer's retention in the insurance industry. A review of the existing literature was done to gather the available literature on the main objectives of the study. From the literature review that was done, it was revealed that the insurance industry has many factors exist which affects customers leading to challenge towards customer retention.

It has also been revealed that Retention in the insurance industry is not only a concern in South Africa or Africa only but a world-wide concern. The study concludes that monitoring customer relationships constitutes the most highly implemented customer retention strategy in the insurance industry by understanding the customer's needs and by building trust between the suppliers and the customers.

The existing literature also revealed that customer's retention is the bloodline in the insurance industry. Customer retention also leads towards life insurance policies maturities. If customers can retain their life insurance policies, the insurance industry in turn retain customers automatically and the challenges in customer retention can be resolved and the aim of the insurance companies like Old Mutual, can achieve the goals of wealth creation for customers. This study has concluded that consumer education for insurance is vital and has to be implemented vigorously in different communities which will be beneficial to customers, insurance industry, and economy of the country and to the future generations.



The research process was both qualitative and quantitative and the researcher adopted a mixed methodology whereby qualitative and quantitative research methods were used. All the targeted respondents were reached and data was analyzed and interpreted and the findings of the study were presented.

#### 5.4. RECOMMENDATIONS OF THE STUDY

Based on what has been summed up in this research, the study recommends the following: It recommends that as a starting point management and financial advisors should take retention as a serious challenge in the industry as it exists in competitive financial world. The pulse or heartbeat of the insurance industry is the existence of the customers. Professional and proper financial analysis of customers from inception of buying insurance policies will create sound foundation for both the industry and the customers.

The researcher recommends that the insurance industry should strengthen its market intelligence so as to identify new trends in markets as well as competition. The industry should also interact with the government to discuss regulations which should be revisited time and again to improve where necessary and to create a balance between the industry and the customers. This enables counter measures thus minimizing investment risks by detecting threats and trends early and to gather knowledge about customers, markets and competitors.

It also recommends education awareness on life insurance matters. This should be a long-term strategy as insurance is regarded as one of intangible products which need knowledge and understanding. Furthermore education on life insurance products should be based on selling ethics of financial advisors who should be trustworthy and transparent. Cancellations and surrenders will still exist but these can be due to financial constraints and other critical issues as life is unpredictable. Good ethics in selling insurance products leads to good reputation for the insurance industry with less fraud cases.

Furthermore the study recommends that customers need to be educated in insurance or financial matters so that they can understand the importance and the value of the life insurances policies as they are the ones who will benefit most if they can retain these products up to maturity stages. Therefore with regard to customer education, awareness will enlighten more customers and retention in the insurance industry will be realized.

## 5.5. RECOMMENDATIONS FOR FUTURE STUDIES

Through the process of creating this study, the researcher has increased the body of research in the insurance industry concerning customer retention over time. There is still a lot of detailed research to be conducted as this was also a small study in customer retention, further research connected to this topic would be of interest. The following are the suggested research: - A comparison of retention strategies within different companies in the insurance industry, a study looking at Customer Relationship Management: A step towards Retention in the Insurance Industry would be have interest too and lastly, Investigation in the insurance industry: Effective Customer Retention Strategies.

UNIVEN LIBRARY

Library Item :

20170546



## LIST OF REFERENCES

- Babbie, E. (2004). *The Basic of Social Research*. 2nd edition. Chapman University.
- Bless C, and Higson-smith, C. (1997). *Fundamentals of Social Research Methods: An African Perspective*: 2nd edition. Cape Town: Juta and Co.
- Booyesen, P.S. (2009). *Orientation guide: Masters of Management in Public Policy*. The Wits University Graduate School of Public and Development Management.
- Business Times, 1998.
- Creswell, J.W. (2003). *Research Design: Qualitative and mixed Approaches*. 2nd edition. London: Sage Publication.
- Coyle, J.J., Bardi, E.J. and Langley, C.J. (2003). *The management of businesslogistics a supply chain perspective*. 7th edition. Mason: South-Western Thomson Learning.
- Dane F.C, (1990). *Research Methods: a process of enquiry*. 5th edition. Belmont: Brooks/Cle Publication.
- Data monitor. (2008). *Country Analysis report, South Africa*. n.p.: Data monitor.
- Data monitor. (2011a) *Country Analysis report, South Africa*. n.p.: Data monitor.
- Denzin, N.K. and Lincon.Y.S. (1994). *Handbook of Qualitative Research*. London. Sage Publication.
- De vos, A.S. (2005). Research at grass roots, for the Social Science and Human Service Professions. Pretoria. Van Schaik.
- Du Plessis L.(2010). *Customer Relationship Management and its Influence On Customer Loyalty at Liberty Life in South Africa*. Department of Marketing Management. (Faculty of Management)University of Johannesburg.
- Du Plessis, P.J., Jooste, C.J. and Strydom, J.W., (2005). *Applied strategic marketing*. 2nd edition. Sandton: Heinemann.
- Du Plessis, I. Roberts-Lombard. (2013) *Customer Loyalty in the South African Long-Term Insurance Industry.1-2*.
- Durvasula, S, Lysonski, S., Mehta .S.C. and Tang B.P. (2004). *Forging relationships withservices: The antecedents that have an impact in behavioral outcomes in The life of insurance industry*. Journal of Financial Services Marketing. Vol 8, 4 p314-326.

Ernest and Young.2014. Quarterly Report.

Financial Advisor News (FA News).2015. FA NEWS.

Financial Mail.2013. Financial Mail Edition.

Fry .S.T. and Johnstone (2002). *Ethics in Nursing Practice: a guide to ethical decisionmaking*.UK: Blackwell Science.

FSB (Financial Services Board). (2008). *Annual report 2008*. Pretoria: Financial Services Board.

Gounaris ,S.P. (2003). *Trust and Commitment Influences on Customer Retention: Insightsfrom Business-to-Business Services*. *Journal of Business Research* 58(March) 126-140

Grant, E. (2014) *the Social and Economic Value of Insurance*. A Geneva Association Paper.p.4-5.

Graziano, A.M. (2004). *Research Methods: A guide of Inquiry*. 5th edition. New York.

Guy, R.F, Edgly, C.E. and Allen, D.E. (1987). *Methods of Social Research. Puzzleand Solutions*. London: Allyn and Becon.

Holloway, I. (1997). *Basic Concepts for Qualitative Research*: Cornwall.

Key Sectors, 2013.

KPMG REPORT (2006).

KPMG REPORT (2014).

Kumar, R. (2011). *Research Methodology: a step-by-step guide for beginners*: London. Sage.

Leedy, P.D. (1997). *Research: Planning and Design*. New Jersey: Prentice Hall.

Life Offices Association. (2008). *Annual review 2007-2008*. Cape Town: Life Offices Association. 2008. LOA.

Mascareigne, J. (2009) *Master's Thesis: Customer Retention*. Lulea University of Technology. Department of Business Administration and Social Sciences.

Mafunisa, M.J. (2000). *Public Service Ethics*. Kenwyn.Juta.

Mapuva, J. (2010) *Journal of Sustainable Development in Africa* (Volume 12, No.2, 2010), ISSN: 1520-5509.

MBowen's Speech: 2004.

Minister of Finance Speech, 2006.

Mouton, J. (1996). *Understanding Social Research*. Pretoria. Van Schaik Academy.

Ndubisi, N.O. (2007). *Relationship marketing and customer loyalty. Marketing Intelligence & Planning*, 25(1):98-106.



Oliver, R.L. (1999). *Whence customer loyalty. Journal of marketing*. 63(special issue):33-44. RAU University.

PWC Report: 2013: *Insurance Industry Analysis*.. PricewaterhouseCoopers Inc

Ranaweera, C. and Prabhu, J. (2003), "*The influence of satisfaction, trust and switching barriers on customer retention in a continuous purchasing setting*", *The International Journal of service industry management*, Vol. 14, No.4, pp.374-395.

Reichheld, F.F., and Sasser, W .E. (1990). *Zero Defection: Quality Comes to Services*. Harvard Business Review:

Rossouw, G.J. and Van Vuuren, L.J. 2004. *Business Ethics* (3rd Edition). Cape Town: Oxford University Press.

Russell T.D., Fier, G.S., Carson, J.M., Dumm R.E. (2013) *An Empirical Analysis of Life Insurance Policy Surrender Activity*. Journal of Insurance Issues, Western Risk and Insurance Association. 35-37.

Su-Hsiu L. and Hsing W. (2012). *Effects of Ethical Sales Behavior Considered through Transaction Cost Theory: To Whom Is the Customer Loyal? The Journal of International Management Studies*, Volume 7 Number 1, April, 2012.32 -37.

Terre Blanche, M., Durrheim, K. and Painter, D. (2006). *Research in practice*. 2nd edition. Cape Town: University of Cape Town Press.

The Minister of Finance. (2006). *Statement of intent*. Pretoria: South African Government Printing.

Van Vuuren, L.J. and Roussow G.J. (2003) *Journal of Business Ethics (Impact Factor: 1.33)*. DOI: 10.1023/A: 1025645402328 08/2003; 46(4):389-402

Vogt, W.P, Gardner D.C. and Haeffele, L.M. (2012). *When to use What Research Design*. London: The Guilford Press.

Waithaka, L.R. 2014. *Influence of Customer Retention Strategies on Performance of Insurance companies in Nairobi, Kenya*. School of Business, University of Nairobi.

Wegner, T. (2000). *Quantitative methods for marketing decisions*. Kenwyn: Juta.

Welman J.C and Kruger S.J. (2001) **Research Methodology for the business and Administrative Sciences**. 2<sup>nd</sup> edition. Cape Town.Oxford University Press. Southern Africa.

Wiersma, W. Jurs, .S.G. (1995). **Research Methods in Education. An Introduction**. Pearson/Allyn and Bacon. Pennsylvania State University.

World Bank. (2000a). **Assessing globalisation, Briefing papers**,April.

Zikmund, W.G. (2003). **Business research methods**. 7th edition. Mason: Thomson South-Western.

Republic of South Africa. 2002. **Financial Advisory and Intermediary Services Act, 2001**(Act No.37 of 2002) Government Printers. Pretoria.

Republic of South Africa. 2001. **Financial Intelligence Centre Act, 2001**. (Act. No. 38 of 2001) Government Printers. Pretoria.

Republic of South Africa. 1998. **Long-term Insurance Act, 1998**. (Act No.52 of 1998). Government Printers. Pretoria.

Republic of South Africa. 1998. **Short-term Insurance Act, 1998**. (Act No... 53 of 1998). Government Printers. Pretoria.

[http://www.sayellow.com/@2?wr=10&Cli\\_ReferenceNumber=1,016,268](http://www.sayellow.com/@2?wr=10&Cli_ReferenceNumber=1,016,268)

<https://www.oldmutual.com/about/heritage.jsp>

<http://www.tradingeconomics/south africa/gdp>

<http://www.oldmutual.com/redirector/2023/7682>

[http:// www.pwc.com/gx/en/industries/financial-services/insurance.htm](http://www.pwc.com/gx/en/industries/financial-services/insurance.htm)

<http://www.oldmutual.com/redirector/2008/12660>

<http://www.financialmail.co.za/features/2013/10/31/sa-life-insurance-industry-barely-growing>

<http://www.financepractitioner.com/dictionary/customer-retention>

<http://www.fin24.com/Money/Insurance/SA-life-insurers-inject-R345bn-into-economy-20150324>

LETTER OF PERMISSION TO CONDUCT STUDY

P.O. Box 35

P.O. Box 35

SIBASA, 0970

18/11/2015

The Branch Manager

Old Mutual ,Thohoyandou Branch

Dear Sir/Madam

I am a registered Master's student in the Department of Management Sciences at the University of Venda. My supervisor is Prof. M.P Khwashaba and co-supervisor is Mr. E. Mahole

**The topic of my research is: Assessing Retention in the Insurance Industry**

I am hereby seeking your consent to conduct the research in your premises where I will be interviewing customers and employees. Should you require any further information, please do not hesitate to contact me or my supervisor. Our contact details are as follows:

M.E. Mahole : 073 644 6301

Prof. Khwashaba: 079 422 7369)

Upon completion of the study, I undertake to provide you with a bound copy of the dissertation.

Your permission to conduct this study will be greatly appreciated.

Yours sincerely,

T.M. Bologo

Letter to Respondents

P.O. Box 35

SIBASA, 0970

15/11/2015

Enquiry: Bologo T.M.

Cell Number: 072 759 6721

E/Mail: [takalanibologo@gmail.com](mailto:takalanibologo@gmail.com)

Dear Respondent,

I, Takalani Mercedes Bologo, am a registered student at the University of Venda, registered for Master of Public Management. I am conducting a research study on **“ASSESSMENT OF CHALLENGES IN CUSTOMER RETENTION IN THE INSURANCE INDUSTRY: A CASE STUDY OF OLD MUTUAL.”**

I request you to be part of my study by assisting me by completing the research questionnaire and interview schedule.

Thank you for your participation in this study.

Yours faithfully

Ms. T.M. Bologo

## INSTRUMENT QUESTIONNAIRE

### ASSESSING CHALLENGES IN CUSTOMER RETENTION IN THE INSURANCE INDUSTRY: A CASE STUDY OF OLD MUTUAL

This study assesses Retention of Customers in the Insurance Industry. This is an opportunity for you to be part of the study by providing your views on the following statements. Note that there is no right or wrong answer.

Please put a cross (X) to the appropriate answer

#### SECTION A: Biographical Details of respondents

##### 1. Age

Less than 20 years	
21 to 30 years	
31 to 40 years	
50 to 60 years	
61 and above	

##### 2. Gender of Respondents

Male	
Female	

##### 3. Positions of Respondents

Manager	
Financial Advisor	
Administrator	
Customer/Client	

## Section B: Assessment of Customer Retention

<b>Challenges of Retention of Customers to Old Mutual</b>		<b>Strongly Agree</b>	<b>Agree</b>	<b>Not Sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
4	Retention of insurance policies is a serious challenge in the insurance industry					
5	There is still lack of commitment towards terms of insurance policies					
6	Retention of insurance policies affects both the customers and the insurance industry					
7	Awareness towards the value of retaining insurance policies is not enough for customers					
8	Knowledge and understanding of the value of insurance policies plays an important role towards retention					

<b>Section C: Surrenders and Cancellations</b>						
<b>Trust in relationship between Old Mutual and customers</b>		<b>Strongly Agree</b>	<b>Agree</b>	<b>Not Sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
9	Most customers cancel/surrender policies within first 5 years					
10	There is no much trust between customers and Financial advisors in the insurance industry					
11	Lack of transparency during sales leads to surrenders and cancellations					
12	Surrenders and Cancellations are due to lack of understanding the importance of insurance policies					

Section D: Strategies						
	Strategies which can be used to Improve retention of life policy insurances at Old Mutual	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
13	Old mutual should strive to educate customers towards the importance of policies					
14	Old Mutual wills to invest in maintaining relationships with its customers					
15	More emphasis towards insurance maturity should be emphasized more often					
16	Old Mutual can still do more to encourage retention of life insurance policies towards maturity terms.					

Thank you for your participation.

## INSTRUMENT

### Interview Schedule

#### ASSESSING CHALLENGES IN CUSTOMER RETENTION IN THE INSURANCE INDUSTRY: A CASE STUDY OF OLD MUTUAL

1. What are the challenges that managers and financial advisors faces in the insurance industry regarding customer's retention?

---

---

---

---

2. What are factors contributing towards surrenders and cancellations of insurance policies?

---

---

---

---

3. What are the strategies which can be used to solve the challenge of customer retention in the insurance industry?

---

---

---

---

Thank you for your participation.