



UNIVERSITY OF TM
KWAZULU-NATAL
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Graduate School of Business and Leadership

**A Conceptual framework for factors that influence performance of
financial intermediaries in South African Insurance Sector**

by

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DECLARATION

I declare that this thesis titled, A conceptual framework for factors that influence performance of financial intermediaries in the South African Insurance Sector is my own work, and that all the sources consulted have been duly acknowledged in-text and in the reference list. Further, I certify that this dissertation has not been submitted before at this or any other institution for any other qualification.

.....
Mompoti Cedrick Mathisa

.....
Date

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DEDICATION

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Your attitude, not your aptitude, will determine your altitude (Zig Ziglar)

ABSTRACT

This study set out to develop a conceptual framework aimed at understanding the key factors affecting the performance of financial intermediaries. The framework focused on various factors, including Product, Process, Price, People, Market Regulation, Market Conduct, and Market Conduct Principles, to evaluate their impact on organisational performance. Furthermore, the study identified the significance of Effectiveness Safeguards, Risk Tolerance, and Additional Safeguards in reducing risks and improving operational stability. A quantitative research design was utilised, involving 300 participants from a market conduct authority, employing correlation analysis, structural equation modeling, and logistic regression for data interpretation. The research took a positivist stance to recognise participants' perspectives and aid in the translation of results. Close-ended questionnaires were distributed to a sample group of 346. The questionnaire was completed by 300 participants, yielding an 87.7% response rate. Using Cronbach's alpha to assess the reliability of these elements, the research found that Process, Price, and Risk Tolerance had strong internal consistency, while Product, People, and Market Regulation exhibited low reliability, suggesting potential measurement challenges. The findings underscored the need for refining certain safeguards and strategies to improve performance outcomes. The study concluded that a well-designed balance between these factors was essential for financial intermediaries to achieve sustainable growth and manage risks effectively. Recommendations for future research were made to refine measurement tools for accuracy and expand the framework to address emerging challenges in hedge funds, collective investment schemes and crypto assets contracts.

Keywords: financial intermediaries, performance factors, improvement safeguards, risk tolerance

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LIST OF ABBREVIATIONS/ACRONYMS

Abbreviation	Full name
ABIB	Association of Black Insurance Brokers
ADAS	Automated Driver Assistance Systems
AI	Artificial Intelligence
ANOVA	Analysis of Variance
AUM	Asset Under Management
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CAGR	Compound Annual Growth Rate
CISCA	Collective Investment Scheme Control Act
COFI	Conduct of Financial Institution
COVID	Coronavirus Disease
CWAS	Charles Worth Author Services
CDD	Customer Due Diligence
EU	European Union
FA	Financial Asset
FAIS	Financial Advisory Intermediary Act
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FIASAIR	Financial Intermediaries Association of South Africa Insight Report
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
FINCA	Foundation for International Community Assistance Report
FMT	FinMark Trust
FMTFF	FinMark Trust and Ford Foundation
FRT	Financial Risk Tolerance
FSCA	Financial Sector Conduct Act
FSRA	Financial Sector Regulation Act

GDP	Gross Domestic Product
GFSR	Global Financial Stability Report
GRR	Global Risk Regulator
GWP	Gross Written Premiums
IBC	Insurance Brokers Council
ICA	International Cooperative Alliance
IFC	International Financial Corporation
IFRS	International Financial Reporting Standards
KMO	Kaiser-Meyer-Olkin
KYC	Know Your Customer
LSM	Living Standard Measure
MCI	Momentum Collective Investment
ML	Machine Learning
ML	Money laundering
NMLS	Nationwide Multistate Licensing stem
NTIFSR	National Treasury Inclusive Financial Sector Report
UNEPFI	United Nations Environment Programme Finance Initiative
PA	Prudential Authority
PAAR	Prudential Authority Annual Report
PWC	Price Water Coopers
RBA	Risk Based Approach
ROA	Return on Assets
SAIA	South African Insurance Association
SALGA	South African Local Government Association
SARB	South African Reserve Bank
SDA	Secondary Data
SEM	Structural Equation Modelling
SPSS	Statistical Package for the Social Science
SSSA	Social Security South Africa
SAM	Solvency Assessment Management

TPB	Theory of Planned Behaviour
TCF	Treating Customers Fairly
TF	Terrorist Financing
TFOFS	The future of financial services
OECD	Organisational for Economic Co-operation Development
POS	Point of Sale
UK	United Kingdom
UNEPFI	United Nations Environment Programme Finance
WB	World Bank

CHAPTER ONE: ORIENTATION TO THE STUDY

1.1 Introduction

The performance of financial intermediaries plays a critical role in the stability and growth of the South African insurance sector. As intermediaries between insurers and clients, their effectiveness directly influences customer satisfaction, trust, and the overall functioning of the market. Understanding the factors that affect the performance of these intermediaries is vital for ensuring operational efficiency and market competitiveness. According to Kung et al. (2016), the financial performance of financial intermediaries significantly influences insurers, shareholders, brokers, regulatory agencies, and potential investors. These intermediaries are crucial in supporting financial services providers and facilitating the purchase of insurance products by streamlining overall insurance procedures. Their primary role in the economy is to enhance the accessibility of insurance products, which, in turn, amplifies the benefits of insurance. This improved accessibility is essential for encouraging investment risks, fulfilling fundamental social needs, and stimulating economic growth (Almajali et al., 2012). Financial intermediaries play a supportive role in domestic and global economies; without the risk protection they provide, the commercial sector could experience significant slowdowns or even collapse. Therefore, their contributions are vital for the growth and stability of both organisations and individuals.

The insurance sector, as a key component of the financial services industry, significantly contributes to financial stability and efficiency. It provides liquidity, optimises resource allocation, reduces transaction costs, supports economic growth, and enhances investment economies of scale. Insurance companies serve as important financial intermediaries and risk managers, engaging extensively with other financial market participants (Haiss & Sümegi, 2008; Liedtke, 2010).

Financial services providers enhance financial systems by promoting stability, lowering investment costs, mobilising domestic funds, and facilitating international trade (Arena, 2018). Intermediaries, including those within the insurance sector, are essential for

mobilising savings, transferring risk, and enabling intermediation. Almajali et al. (2012) emphasise that a deep understanding of business practices is crucial for intermediaries to develop effective compliance and risk management strategies tailored to their business's size, claims, liquidity, and leverage. Similarly, Kung et al. (2016) contend that the financial performance of intermediaries affects various stakeholders, including insurers and regulators. Financial intermediaries support financial services providers and help customers purchase insurance by enhancing overall insurance procedures. Their role in increasing insurance product accessibility is vital for improving investment willingness, meeting social needs, and boosting economic development (Almajali et al., 2012). The operations of financial intermediaries are crucial for both domestic and global economies; without their risk protection, the commercial sector could face significant disruptions. Therefore, this study aimed to enhance safeguards to improve financial intermediary performance in South Africa's Insurance Industry.

1.2 Background

1.2.1 Overview of financial intermediaries

Financial intermediaries' role and function in the financial system are vital in aligning insurance services and products with clients' needs (Nurullah & Staikouras, 2008). They assist insurance customers in identifying their precise requirements, while insurers, in turn, provide services to intermediaries to create effective markets (Organisation for Economic Co-operation and Development [OECD], 2020). These intermediaries are crucial to the efficient functioning of insurance markets as they help customers find suitable products that meet their needs. According to the KPMG Report (2023), the South African insurance sector faces intense competition, impacting revenue acquisition and customer retention. Nurullah and Staikouras (2008) argue that growth and increased revenue depend on strong partnerships with financial intermediaries.

The insurance sector plays a vital role in financial systems, primarily focused on managing both individual and organisational risks. Financial intermediaries are essential to these risk management strategies, as they offer financial security and long-term

funding for infrastructure initiatives (Fernandez et al., 2020). Moreover, they help reduce risk by generating employment opportunities and providing investment management services (Miloevi-Avdalovic, 2018). Financial intermediaries support insurance providers by acquiring insurance products that complement the insurance placement process (Levine, 2002). By offering risk-sharing mechanisms, they enable businesses to function more cost-effectively, obtain funds, and protect against potential risks associated with developing services or goods. This process is essential for maintaining economic growth (Levine, 2002, pp. 398-428).

Financial intermediaries are crucial for the economy as they allocate capital, manage risks, facilitate trade, and provide access to payment systems (South African Reserve Bank [SARB], 2019). They direct funds into the economy, influencing business operations and the production of goods and services (SARB, 2019). Allen and Ndikumana (2000) argued that financial intermediary systems support businesses and stimulate economic growth through economies of scale, efficient information collection, and evaluation. They also play a key role in recognising new investment prospects, which aids in economic expansion and the sustainability of financial services providers. By facilitating efficient resource allocation and ensuring the availability of goods like insurance policies and information, financial intermediaries promote trade and enhance economic productivity.

Insurance is based on the concept of gathering resources from numerous individuals or organisations to help handle and reduce the financial burden of infrequent yet substantial occurrences. By collecting premiums from policyholders, insurance companies create a fund that can be used to cover the costs of these unexpected and often severe losses. This system helps spread the risk across a larger group, making it more manageable for everyone involved (Miskic, 2015). The fundamental principles of insurance and their financial mechanisms are outlined as follows:

- Insurance Agreement: Insurance involves a contract between two parties. One party (the insurer) agrees to provide financial reimbursement to the other party (the insured) if a specific event occurs. This agreement is meant to protect the insured from unforeseen financial losses.

- Insurance Policy: According to Monogbe (2015), an insurance policy is the formal result of this agreement. The policyholders (those who purchase the insurance) pay a fixed amount regularly, known as the premium. In return, the insurance company promises to pay a predetermined sum if the agreed-upon event takes place.
- Premiums and Investments: Insurance companies collect premiums from policyholders, creating a large pool of funds. These funds can be invested over time. The returns on these investments contribute to the insurer's financial stability and growth. The investment of these funds is crucial for the insurance company's long-term financial health and development.
- Financial Growth: The ability to collect and invest premiums allows insurance companies to enhance their financial mechanisms. This investment capacity supports their expansion and ensures they can meet future claims and obligations (Acha & Ukpong, 2017; Augustine & Nwanneka, 2011).

1.2.2 Financial intermediaries' sustainability and stability

This section examines the factors influencing the sustainability and stability of financial intermediaries, including regulatory, economic, and operational aspects. The climate crisis has indeed amplified the need for sustainable investing. As Baer (2023) noted, this shift provides financial intermediaries with an opportunity to deepen client relationships by navigating the complex landscape of sustainability regulations and practices.

According to the NBI (2022), sustainable financial intermediaries employ financial models, services, products, and markets that prioritise economic, environmental, and social resilience. Furthermore, they play a crucial role in advancing the Sustainable Development Goals (SDGs) and enhancing climate resilience by integrating ethical practices into their operations. The International Organization of Securities Commissions (IOSCO) has established a Sustainable Finance Task Force to bolster sustainability disclosures and foster collaboration among organisations. This task force aims to improve transparency, and investor protection, and address other pertinent issues in sustainable finance. Sustainability encompasses the responsible use of natural

resources, ensuring ecological integrity and biodiversity. It involves balancing economic, ecological, and socio-cultural goals, with active participation from stakeholders to promote equitable growth and development (Zioto et al., 2023).

Zioto (2023) stated that financial intermediaries can strengthen client relationships by aligning investment strategies with clients' personal values and sustainability goals. This alignment not only fosters trust but also enables intermediaries to provide more tailored and innovative advice, thereby improving the quality of client interactions. For financial intermediaries, integrating sustainability into business strategy and operations is not just an option but a necessity. Zioto (2023) further argued that a commitment to sustainability should be a core component of every financial intermediary's strategy to remain relevant and effective in today's evolving financial landscape. In essence, the convergence of sustainable investing with regulatory advancements and client relationship management represents a pivotal shift for financial intermediaries, aligning financial success with broader environmental and social goals.

Section 4 of the FSR Act defined business stability as the ability of financial intermediaries and market infrastructures to provide financial products and services without interruption, despite economic changes, and maintain general confidence. The Financial Sector Regulation Act 9 of 2017 mandates the SARB to safeguard and enhance South Africa's financial stability which is crucial for balanced economic growth, as it mitigates risks and vulnerabilities, reducing the likelihood of systemic events that can negatively impact economic variables and public trust (South African Reserve Bank, SARB, 2019). Financial stability is not a standalone goal, but a prerequisite for balanced and sustainable economic growth for financial intermediaries. The Financial Stability Board (2021) outlined a set of key terms for consideration:

- Financial system: The financial system comprises institutions and markets that provide and trade financial products, instruments, and services, including market infrastructure and payment systems.
- The residual/net vulnerability: Refers to the remaining vulnerability after addressing the identified mitigating factors and taking necessary actions.

- Resilience: The financial system's capacity to deal with shocks without causing financial instability.
- Risks: It can result in undesirable events or consequences, which can be mitigated but not entirely avoided.
- Risks and Vulnerabilities Matrix (RVM): The RVM shows the residual vulnerability of the financial system after considering existing mitigating factors and policy actions.

Sustainability fosters responsible resource management, waste reduction, and process streamlining, making businesses more appealing to customers and investors, and promoting long-term growth for financial intermediaries.

1.2.3 The significance of financial intermediaries

Financial intermediaries are integral to the financial system, playing a significant role in supporting economic stability, growth, and development. Their diverse functions and services contribute to a more efficient and equitable economic environment.

1.2.3.1 Importance and benefits

Schumpeter (2008) outlines several benefits of financial intermediaries, which include:

- *Gender Equality*: Financial intermediaries can promote gender equality by providing equal access to financial services.
- *Sustainability*: Financial intermediaries contribute to sustainable economic practices by supporting responsible investments.
- *Social Responsibility*: Financial intermediaries play a role in addressing social issues such as poverty and inequality.
- *Economic Contribution*: Financial intermediaries contribute to the global economy and support local economic growth, such as in South Africa.

1.2.3.2 Aims and functions

As described by Ikechukwu (2018), financial intermediaries achieve several key objectives:

- *Risk Reduction*: Financial intermediaries help manage and distribute financial risk, reducing the individual risk for those with excess cash.
- *Cost Efficiency*: By leveraging economies of scale, Financial intermediaries reduce the time and expense involved in financial transactions.
- *Personalised Services*: Financial intermediaries offer tailored services, such as customised insurance plans for different demographics.
- *Information Processing*: Financial intermediaries gather and analyse data to mitigate issues related to asymmetric information, thereby improving market efficiency.

1.2.3.3 The role of financial intermediaries in the economy

Financial intermediaries play a crucial role in the financial system by helping clients access a variety of financial products and services, including insurance. According to Butterworth (2019), these intermediaries facilitate the acquisition of insurance products and offer additional services related to financial services corporations.

Specifically, financial intermediaries can include insurance brokers, financial advisors, and investment managers. They use their expertise to guide clients through the complexities of different insurance options, ensuring that the chosen product aligns with the client's financial goals and risk management needs. Beyond insurance, intermediaries also help with investments, retirement planning, and other financial services, making them valuable partners in managing and growing personal and business finances. The role of financial intermediaries in the economy is multifaceted and crucial for fostering economic stability and growth. Their responsibilities and contributions are explained in detail next.

1.2.3.3.1 Risk Management Products

Financial intermediaries provide various risk management tools and insurance products to consumers. This helps individuals and businesses manage and mitigate potential financial risks. By offering diverse insurance options, intermediaries increase the accessibility and effectiveness of risk management strategies.

1.2.3.3.2 Innovative Advertising

Financial intermediaries enhance the visibility and appeal of insurance products through innovative advertising. This marketing effort raises consumer awareness and responsiveness to available financial protections and services.

1.2.3.3.3 Customer Communication

These intermediaries play a key role in bridging the information gap between consumers and financial services providers. They simplify complex insurance terms, conditions, and fees, enabling consumers to make well-informed decisions regarding their financial and insurance needs.

1.2.3.3.4 Resource Allocation and Economic Growth

As Schumpeter (2008) pointed out, financial intermediaries are integral to the efficient allocation of savings. Financial intermediaries help convert savings into productive investments, which fuels economic growth and technological advancement. This process includes:

- *Dividing and Pooling Resources:* Financial intermediaries create mechanisms for distributing shares and combining resources across various businesses.
- *Facilitating Financial Transfers:* Financial intermediaries enable the movement of financial resources across sectors and national borders.
- *Risk Management Strategies:* Financial intermediaries suggest methods for managing and mitigating risks associated with investments and financial transactions.
- *Addressing Information Asymmetry:* Financial intermediaries resolve issues arising from informational imbalances between transaction parties.
- *Providing Pricing Information:* Financial intermediaries make pricing data accessible, which aids in coordinating decisions across industries.
- *Capital Productivity and Investment:* Levine (2002) argued that financial intermediation boosts capital productivity by channelling resources into high-return projects. Intermediaries offer tools to diversify and manage risks, ensuring

that investments are directed towards the most promising ventures, despite potential risks.

- *Savings Mobilisation and Trade Facilitation:* Financial intermediaries mobilise savings and allocate resources effectively. They support the trading of goods and services, reduce systemic risks through diversification, and enhance market efficiency. This function also contributes to job creation and economic development by integrating the financial needs of businesses and individuals.
- *Marketplace Function:* Financial intermediaries act as intermediaries in the buying and selling of assets and contracts. This function ensures liquidity in financial markets and facilitates smooth transactions between capital providers and consumers.

1.2.4 South African insurance sector

This section provides an overview of the insurance sector in South Africa, including market size, key players, and recent trends. South Africa's insurance industry is enormous, complicated, globally engaged, and competitive (Statista, 2021). It now accounts for 18% of the financial sector, attributable to a significant penetration and density of insurance products. According to Dwilson (2016), financial and economic issues have been most thoroughly investigated in identifying the driving force for non-life insurance policies demand in the countries that are developing. Even though insurance businesses profit from premium payments, the economy has a significant impact on the industry.

Premiums are invested in return for capital stocks, home loan securities, property investment, and investment firms like financial institutions, they are all subject to an economic crisis. Investment returns increase and insurance companies can be more inclined to accept a claim when the economy is doing well. During tough economic times, insurance companies need to think outside the box to make up for decreased investment earnings. This may involve securing loans or scrutinising and rejecting claims with greater diligence.

1.2.5 Africa's insurance market

An overview is provided in the following section of the country's national insurance markets to help the researcher focus on variables when dissecting insurance demand. Despite the African insurance business having grown significantly over the years, its performance has remained lower than that of more advanced market companies that support the industry and other developing international players. This is reinforced by African penetration rates of 2.8% in 2015 and 1.4% in 2019, respectively, compared to 6.2% and 3.88% for the worldwide average penetration rate (Swiss Re, 2019). While there is potential for further growth in Africa, performance in 2015 and 2019 compared favourably with that of Europe's Central and Eastern Districts and the Middle East and Central Asia. Countries with vast, expanding populations and robust/productive economic activity have contributed significantly to the insurance business. During 2015, nine of the continent's top ten economies, except for Nigeria, had greater non-insurance penetration rates than the continental average, with Mauritius, Namibia, Morocco, and South Africa topping the table (Table 1.1). These four African countries were the most advanced in terms of financial and economic growth. Nigeria and Egypt were under-insured in contrast to other established markets, although Kenya was considered equivalent.

The position has not changed much since then, with SA, Morocco, and Namibia remaining the leading players (Swiss Re, 2019). Due to many initiatives such as restructuring of insurance businesses, teaching customers, improving distribution mechanisms, improved reporting, guidelines, and standards to grow the insurance sector, the continent of Africa had difficulties with low demand for insurance (A.M. Best Company, 2017). The sector's authorities face several obstacles, including claim issues, licensing, insufficient harmonisation of regulatory monitoring, and the lack of cross-border access to information. In 2013, an increase in overall African insurance premiums of more than 10% indicated the sector's expansion, which outperformed the continent's 6% GDP (Swiss Re, 2019).

The SA market, like other growing markets in the area, is already in decline. Non-life products frequently lead, since the savings market is still developing in numerous countries. Total participation is still very modest, which provides growth opportunities. While agricultural businesses are becoming more popular in remote regions, there are also great opportunities in commercial sectors driven by corporate regional and worldwide expansion and growth in GDP, such as transportation, property management, the petroleum sector, and technology infrastructure. Each country has a different distribution:

- The primary channel of distribution for financial intermediaries' offerings is usually through brokers and agents.
- Bancassurance is in its early steps of growth, but is essential in improving distribution in market segments for both life and non-life products; and
- Direct selling features have become increasingly important, especially through the use of mobile technology and sticking to local trusted brands.

Table 1.1 Countries' Premiums (A.M. Best Company, 2019)

Country	2015			2019		
	Premiums GDP (US\$ Millions)	Penetration Rate (%)	Insurance Density (Premiums per capita, US\$)	Premiums GDP (US\$ Millions)	Penetration Rate (%)	Insurance Density (Premiums per capita, US\$)
SA	9375	2.7	176	7889	2.67	160
Morocco	2257	2.1	67	2676	2.14	70
Egypt	1079	0.4	13	1139	0.34	10
Nigeria	1332	0.2	7	667	0.18	4
Kenya	1152	1.5	25	1210	1.33	24
Algeria	1492	0.7	37	1044	0.67	26
Angola	1110	0.8	50	ND	ND	ND
Namibia	283	2.2	120	225	2.14	107
Tunisia	748	1.5	67	ND	1.69	56

1.2.5.1 South Africa

The biggest insurance providers in South Africa are Liberty Life, Old Mutual, Sanlam, OUTsurance and AIG; they dominate the insurance industry in terms of size (Schanz & Company, 2018). Insurance companies are establishing regional subsidiaries to examine what factors lead to remarkable opportunities for insurance providers to explore further markets in Africa. South Africa has a 16.2% adoption rate, and despite the weaker economic situation in 2016, there was a 0.04% level of market penetration, and non-life insurance premiums grew by 7%.

1.2.5.2 Mozambique

According to the Swiss Reinsurance Company Ltd (Swiss Re, 2018), the economic sector was adversely affected by numerous civil unrest post-independence upheavals. Therefore, the industry did not expand rapidly between 1990 and 2019. Despite the existence of regulatory procedures to enhance the insurance sector's activities and transactions, foreign corporations were growing in popularity in the marketplace. South African insurance providers had joined the industry through acquisitions of local companies (including Bright Rock Insurance Company, Genric Insurance Company, and Afro-Centric Investment).

1.2.5.3 Botswana

The Research and Markets Report (2019) revealed that the insurance sector in Botswana is fiercely competitive, with companies competing on the quality of their services and the price they charge their customers. Botswana's primary market drivers include economic expansion, higher spending by the government, technology breakthroughs, and an increase in customer knowledge of insurance products. According to the Non-Bank Financial Institutions Regulatory Authority, the market in 2018 included 42 insurance representatives, 7 life insurers firms, and 12 conventional (non-life) insurance providers (KPMG, 2018, p. 6).

1.2.5.4 Mauritius

Swiss Re (2019) reported that Mauritius had one of the most established markets for insurance in the world, having increased its penetration ratio from over 4% since 1991 and to 10.5% as of 2018. The "life market is over double the scale of the non-life market;

comparatively, there is a high level of income, political economy stability, a long-time money sector, a business-friendly investment climate, and sensible policymaking” (KPMG, 2018, p. 7). There was a total of 6 life assurance businesses and 13 licensed non-life insurance providers in the whole country in 2013 (Schanz & Company, 2018). The size of the market in relation to GDP and population was significant because its maturity of the market is comparable to that of other African markets. With 53.7% of premiums going towards motor vehicle coverage in 2018, car insurance made up the largest portion of the non-life insurance market (KPMG, 2018).

1.2.5.5 Namibia

Bester et al. (2018) found that there were more than 28 insurance providers in Namibia, 16 of which offered life insurance. Life insurance firms accounted for 84% of all underwritten premiums. Twelve (12) were local non-life insurance businesses primarily concentrating on retail insurance, with insurance businesses operating in the country (Old Mutual Group, Sanlam, The Hollard Group and Lloyds SA) dominating the market. Namibia had one of the highest insurance penetration rates on the continent, at 9.6% in 2018. Meanwhile, Namibia's market had its own set of growing challenges, namely inequality, low financial literacy, and an excessive dependence on South African businesses for economic growth. After Namibia gained its independence, its financial institutions were subject to the relevant South African regulations; as a result, Namibian legislation is very similar to that of South Africa.

1.2.6 Main Insurance Companies in South Africa

1.2.6.1 Discovery Insure

Price Waterhouse Coopers' 2019 report on financial intermediaries found that Discovery Insure raised capitalised assets by 46% to R49 billion (2019: R38 billion). Discovery Insure credited these growing capitalised assets to product accessibility and positive market returns. Discovery's Insure grew by 49.9% to R5.4 billion [2019: R3.6 billion] (Price Waterhouse Coopers [PWC], 2019).

1.2.6.2 Liberty Life

Liberty Life raised capitalised assets by 14.5% to R339 billion (2019: R299 billion). The ANW rose by 15.4% to R19 billion (2019: R16.7 billion). This resulted in an exposure of 34% to equities (local and foreign) in the Liberty Shareholder Investment Portfolio. Additional substantial classes include cash at 25% and bonds at 23% (PWC, 2019).

1.2.6.3 Momentum Metropolitan Holdings

Momentum Metropolitan Holdings' capitalised assets increased to R371 billion (2019: R325 billion). This constituted a 14.6% increase in capitalised assets. The MMI's ANW increased by 3.4% to R15.5 billion in 2018 (2019: R14.2 billion). This resulted in a 10.4% exposure to equities, 21.6% debt securities, 11% properties, 31% cash, and 30.3% immaterial assets (PWC, 2019).

1.2.6.4 Old Mutual

Old Mutual Emerging Markets capitalised assets increased by 14.2% to R540 billion (2019: R473 billion). Old Mutual's ANW increased by 13.9% to R29.3 billion (PWC, 2019).

1.2.6.5 Sanlam

Sanlam's invested assets increased by 18.8% to R496 billion (2019: R423 billion). Sanlam's ANW increased by 6.7% to R16.8 billion (2019: R15.9 billion). The joint invested assets of the short-term insurers grew from R20 billion to R32 billion which represents a 7.8% growth. Zurich posted a 12.1% growth (2019: 12.1%), followed by Santam at 9.5% (2019: 10.8%), OUTsurance at 7% (2019: 7.1%) and M&F at 6.5% [2019: 6.9%] (PWC, 2019).

1.3 Rationale of the Study

The lack of empirical studies on performance factors affecting the business sustainability of financial intermediaries highlights a significant research gap, especially given the sector's dynamic environment and the pressing need for effective risk management and sustainable practices. The South African insurance industry is actively exploring factors enhancing financial intermediary performance and organisational culture to ensure

sustainability and long-term profitability. This study aims to determine the effectiveness of safeguards that mitigate the negative effects on the performance of financial intermediaries. By addressing empirical knowledge gaps in risk-mitigating research, the conceptual model has the potential to enhance the performance of financial intermediaries and sustainability. To address these shortcomings, this study incorporates various variables as part of the analysis to expand the scope of existing literature.

1.4 Problem Statement

According to the Bank for International Settlements (BIS, 2019), the performance of financial intermediaries has drawn a lot of attention, particularly regarding regulatory requirements. Financial intermediaries' performance decreased steadily over the past five years in contrast to complying with financial soundness requirements in terms of the Financial Intelligence Centre (FIC) Act 38 of 2001 as amended in 2014. The Prudential Authority Report [PAR] found that financial intermediaries were faced with challenges which urgently needed to be addressed. The underlying causes of financial intermediaries' complications include non-compliance with financial soundness requirements, leverage and liquidity, and problems with areas of risk management and compliance. Consequently, the SARB levied hefty penalties on financial intermediaries for poor performance concerning financial soundness and the risk management programme in 2020/2021.

To elaborate, the South African Reserve Bank Annual Report (SARB, 2021) imposed administrative sanctions and penalties of R2m on Discovery Life Limited (life insurer) in terms of the Financial Advisory Intermediary Services Act of 2002. The Deutsche Bank AG was fined R38m for deficient performance and non-adherence to legislative requirements. Additionally, the Financial Sector Conduct Authority (FSCA) fined Momentum Wealth and Momentum Collective Investments (MCI) over R11m for failure to develop an effective risk management programme. The SARB Annual Report of 2021 furthermore red-flagged areas of concern stating that financial intermediaries were faced with serious challenges which affect insurance entities' profitability.

While Chen and Wong (2004) argued that leverage and liquidity are significant determinants of the profitability of insurers, the evidence revealed that financial intermediaries regulated under the Financial Advisory Intermediary Act (FAIS, 2002) did not have effective safeguards in place. The lack of effective safeguards indicated a gap in determining factors that influence the performance of financial intermediaries in the South African insurance sector. Addressing this issue will have practical benefits for financial intermediaries and will contribute to understanding this widespread phenomenon. The absence of effective safeguards highlights a gap in identifying factors and drivers that impact the performance and sustainability of financial intermediaries in the South African insurance sector.

1.5 Aim of the Study

This study aimed to determine the effectiveness of safeguards that mitigate the negative effects on the performance of financial intermediaries. This could have practical benefits for financial intermediaries and will contribute to understanding this widespread phenomenon. Hence, this study investigated the key performance factors of financial intermediaries as well as their drivers to uplift performance and sustainability.

1.6 Research Objectives

1.6.1 Primary objective

The primary objective of this study was to identify the key factors that affect the performance of financial intermediaries in the South African Insurance Sector.

1.6.2 Secondary objectives

The following secondary objectives were formulated to attend to the primary objective:

- To identify factors that affect the performance of financial intermediaries in the South African Insurance Sector
- To evaluate the effectiveness of these safeguards in mitigating negative effects on the performance of financial intermediaries.

- To assess financial intermediaries' risk tolerance and the repercussions of poor performance in the South African insurance sector.
- To provide recommendations for enhancing the safeguards to improve the overall performance of financial intermediaries in the South Africa Insurance Sector.

1.7 Research Questions

This study sought to assess the effectiveness of safeguards aimed at reducing the negative impact of financial intermediaries on their performance by addressing the following critical research questions:

- What are the key factors that influence the performance of financial intermediaries in the South African insurance sector?
- How effective are the regulatory and risk management safeguards in the South African insurance sector in sustaining the performance of financial intermediaries?
- What is the level of risk tolerance among financial intermediaries in the South African Insurance Sector?
- What strategies can be implemented to enhance safeguards and improve the performance of financial intermediaries in the South African Insurance Sector?

1.8 Literature Review

The literature review established the theoretical foundation for this study by incorporating recent findings, methodologies, and theoretical frameworks relevant to the research subject. The review process involved a thorough evaluation of contemporary research approaches and philosophies pertinent to addressing research questions. To support the study research process, a comprehensive literature evaluation was conducted on the key performance factors of financial intermediaries, as well as their drivers to uplift performance and sustainability. This evaluation utilised primary sources, including peer-reviewed journal articles and supplemented these with secondary sources such as

finance publications and reputable online resources. The multi-source approach provided a comprehensive understanding of the subject matter.

This chapter is divided into subsections that relate to the research questions that guided the investigation. First, the factors influencing the performance of financial intermediaries, providing insight into the identification and assessment of key factors that impact their effectiveness are examined. Second, this chapter assesses the risk tolerance of financial intermediaries and explores the consequences of poor performance within the South African insurance sector. The existing safeguards are then reviewed, aimed at mitigating performance issues while identifying the challenges that contribute to performance gaps. Finally, strategies are proposed to enhance these safeguards and improve the overall performance of financial intermediaries in the sector. These factors are aimed to provide actionable insights for financial intermediaries. By identifying and understanding the variables that impact their performance, intermediaries can develop strategies to enhance their effectiveness, optimise operational processes, and better serve their clients.

1.9 Research Approach

The positivism paradigm traditionally favors probability sampling for its objectivity and generalizability Bhattacharjee (2012, p. 35). A positivist research philosophy acknowledged the participants' beliefs, facilitated the translation of findings, and promoted the theory-testing approach of the research. Furthermore, the deductive method, central to the post-positivist philosophy of this study aligned with the quantitative, scientific analysis of verifiable theories (Saunders & Thornhill, 2016). This correlates with Creswell and Creswell's (2018) assertion that certain research problems—such as those involving variable identification and outcome prediction—are best addressed through quantitative methodologies. Furthermore, Cohen et al. (2019) stated that epistemologically, research may be scientifically tested and measured, while from an ontological perspective, an “unbiased reality” exists which may be demonstrated. Bhattacharjee (2012, p. 35) posited that positivism applies a positivist variant to “generalise patterns based on an unbiased view of reality”. Since the positivist framework

practically favours quantitative analysis methods, it was a suitable philosophy to collect primary data to contribute to the goals of the study and generalise findings to populations with comparable features.

1.10 Research Design and Methodology

This study judiciously employed a quantitative research design that applied secondary data analysis (SDA). Leedy and Ormrod (2018) advocated that a prevalence study provides a true understanding regarding the development of a model related to the insurance sector in South Africa. In addition, Bhattacharjee (2012) identified research methodology as a set of methods for obtaining, defining, categorising, and validating. A cross-sectional approach was adopted to understand the study context, which included data collection, development of research instruments, and sampling as integral elements of the research design process.

According to Tobi and Kampen (2018, p. 212), the purpose of selecting “a research design is to generate knowledge that will be used to address the study’s objectives”. The process was described as “a critical systematic procedure that establishes comparable, valid, and trustworthy answers and conclusions” by Kumar (2011, p. 41). This “gathering of data, research tool-creation, and sampling are all a part of the study design processes” (Bhattacharjee, 2012, p. 35). To analyse the current situation by “defining features and establishing prerequisites that explain the attributes of people, organisations, or objects in order to make predictions under similar conditions” (Bhattacharjee, 2012, p. 35), a descriptive research design was selected for this investigation. The design was based on a survey as a method of data collection (Walliman, 2011, p. 10). The purpose of this type of study was to explain a participant's beliefs or preferences regarding the topic under investigation.

1.10.1 Population

According to Kumar (2011), a target population often exhibits evolving characteristics that align with broader population theories. Teddlie and Tashakkori (2021) described a study population as a set of individuals, items, or objects from which samples are drawn

for measurement. For instance, this can include populations such as leaders, academics, or publications. In the context of this study, the primary target population, as defined by the market conduct authority, includes Heads of Department, Specialists, Senior Analysts, Analysts, and Junior Analysts.

1.10.2 Sampling

Stratified random sampling was used to collect the sampling frame for the primary data. Stratified random sampling entails dividing the population into distinct subgroups (strata) based on specific characteristics. Each subgroup is then sampled randomly, ensuring that the sample accurately represents the diversity within the population.

Adopting a stratified technique in this study led to the diversity of the population and a precise measure for the subgroups. A sample size of 300 analysts at a market conduct authority in Gauteng, Pretoria, South Africa, was evaluated. A stratified random sample was selected from each stratum according to the percentage of representation in each division (Rubin & Babbie, 2009). This sample facilitated the exploration of analysts' lived experiences in their different contexts to facilitate determining the effectiveness of safeguards that mitigate the negative effects on the performance of financial intermediaries.

Table 1.2 Stratified Sample Size Per Division

Division	Sample Size
Investment Providers	53
Collective Investment Scheme	22
Insurance	30
Micro and Access	30
Financial Advisory Intermediary	30
Market Integrity	45
Hedge Funds	30
Consumer Education	30
Regulatory Framework	30

TOTAL	300
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1.10.3 Data collection instruments

To evaluate the independent variables and the financial intermediaries' performance, secondary sources were used. Prior to data collection, a review of the literature was conducted by perusing several publications, books, industry papers, and insurance firms' web pages. Data collection ensued in which primary sources were used for this empirical study. For this purpose, a questionnaire with a five-point Likert scale was created and distributed to the participants in line with compliance with the regulations set forth by the market conduct authority.

1.10.3.1 Questionnaire design

Closed questions are a reliable way of collecting large amounts of quantitative data that can then be organised and analysed with ease. A self-administered questionnaire using a five-point Likert scale was developed for data collection, with responses ranging from "strongly disagree" to "strongly agree." Items on the questionnaire were designed to assess each independent variable potentially influencing the success of financial intermediaries. Primary data was collected using this systematically pre-planned questionnaire, following the methodology outlined by (Archer et al.,1997). A cross-sectional approach was employed to enable simultaneous data collection from multiple units and capture respondent variance, as recommended by (Archer et al.,1997, p. 37). To ensure prompt completion and return of the questionnaires, the departmental secretary at the market conduct authority was engaged to oversee the data collection process.

1.10.3.2 Measuring instrument

The questionnaire included a demographic component to collect information about gender, level of education, experience, and roles in the organisation. The questionnaire comprised of following sections:

Section A: Key Performance Factors that Influence Financial Intermediaries

This section focused on identifying and evaluating the key performance factors (KPFs) that are critical for assessing the effectiveness and success of financial intermediaries.

Section B: Explored the Perceptions of Safeguards and Their Effectiveness in Financial Intermediaries

In this section, respondents provided an overview of the findings on the safeguards employed by financial intermediaries and their perceptions of these safeguards' effectiveness.

Section C: Assessment of Financial Intermediaries' Risk tolerance

In this section, respondents assessed the risk tolerance levels of financial intermediaries, examining how these levels impact their decision-making and performance.

Section D: Improvements or Additional Safeguards You Would Recommend

This section explored the various factors that may lead to poor performance among financial intermediaries, identifying potential areas for improvement and intervention.

1.10.4 Data analysis

The study aimed to provide a comprehensive analysis of the data collected from the Market Conduct Authority, ensuring that the conclusions drawn were well-supported and reflective of the broader population. Data analysis involves several key steps and methodologies to ensure a thorough and accurate interpretation of the collected data. Kumar (2011) maintains that analysis aims to extract meaningful responses from the data collected, addressing research questions or hypotheses. Structural Equation Modelling (SEM) was used to assess the effectiveness of safeguards on the performance of financial intermediaries in the South African Sectors. The methodology and validation techniques mentioned are briefly explained.

1.10.4.1 Structural Equation Modelling (SEM)

SEM was used for measuring variables in this study. SEM is a statistical technique that allows for the analysis of complex relationships between latent (unobserved) variables and observed data. It's particularly useful for understanding the impact and direction of various factors within a model. The use of SEM helps in mapping out how different variables interact and influence each other, offering insights into the underlying structures that drive performance.

1.10.4.2 Reliability testing

Tavakol (2011) described reliability as a measurement that gives constant outcomes in terms of value. In this study, Cronbach's Alpha Coefficient measured the reliability of the scale. According to Neuman (2014), Cronbach's Alpha Coefficient has a measurement range of 0 to 1. Since correlation is the basis for many other studies, it is a frequently used form of data analysis (Pallant, 2018). In support, Neuman (2014) added that reliability is vital to establish the credibility of the findings. The framework developed in this study aimed to assist financial intermediaries in the insurance sector to effectively profile their customers. Tavakol (2011) pointed out that validity is the level to which the outcomes are correct.

- **Cronbach's Alpha Coefficient:** Measures the internal consistency or reliability of a scale. A higher value indicates that the items on the scale are consistently measuring the same construct.
- **Composite Reliability:** Evaluates the reliability of a construct in Structural Equation Modeling (SEM) by considering factor loadings and error variances, providing a precise reliability measure in SEM contexts.
- **Convergent Validity:** Ensures that indicators of a latent variable are correlated, demonstrating that they measure the same underlying construct.
- **Discriminant Validity:** Assesses whether latent variables are distinct and not too closely related, ensuring that they measure different constructs.

1.10.4.3 Data analysis tools

The following tools and software were used for data analysis:

SPSS and AMOS: These software tools are used for data analysis and SEM. SPSS (Statistical Package for the Social Sciences) is widely used for statistical analysis, while AMOS (Analysis of Moment Structures) is specifically designed for SEM.

Analysis of variance (ANOVA): According to Urdan (2011), ANOVA is used to assess the median of several groups (an independent variable) on a single dependent variable to determine whether the group's mean value varies significantly.

1.10.4.4 Integration with regression models

The study followed the approach of Mathithibane (2021), integrating SEM with regression models. This integrated approach facilitated an understanding of the economic characteristics and willingness-to-pay principles by combining the strengths of both SEM and regression analysis.

1.10.5 Statistical Analysis

To analyse the data and meet the study's empirical objectives, descriptive and inferential statistics were used.

1.10.5.1 Descriptive statistics

According to Quinlan (2018, p. 359), descriptive statistics briefly entail the main processing of original data with the goal of characterising essential properties such as central tendency, variability, and distribution. To present a picture of the quantitative data in this study, descriptive statistics such as percentages, means, and standard deviation were applied.

1.10.5.2 Inferential statistics

Inferential statistics is defined as the process of using statistical methods to determine or estimate the characteristics of a group of people (Urdu, 2011). A select sample group is used to infer the characteristics of the entire population using inferential statistics (Zikmund et al., 2009, p. 410). To ensure the greatest possible proportion of the population of interest, inferential statistics depend on appropriate sampling techniques. Therefore, inferential statistics are based on theory testing and probability theory (Allua & Thompson, 2009, p. 168).

Inferential statistics' primary goal, however, is not to provide 100% certainty, but to provide researchers with reliable tools to assess the likelihood or improbability of the generalisations they intend to make (Allua & Thompson, 2009, p. 168). For this investigation, data were collected from the population sample to predict and draw conclusions from specific data sets (Urdu, 2011). Groebner (2023) explained that inferential statistics also take into consideration the level of accuracy and coherence of the inferences drawn from the data. As a result, an ANOVA test and a standard regression analysis were among the inferential statistics that were appropriate for this study.

1.10.5.3 T-tests

The t-test is a technique for comparing the variances of different sets of variables (Pallant, 2020, p.103). The outcome of the comparison was utilised to identify if there was a difference between the two means of statistical importance.

1.10.5.4 Correlation

Numerous studies are based on analysis of correlation which is a common type of statistical research. A correlation study is used to "identify the extent and trend of a relationship that is linear between two variables of interest" (Pallant, 2018, p. 126). Thus, the coefficients of correlation derived from the evaluation had to be "statistically significant" (Urdu, 2011, p. 85).

1.11 Significance of the Study

The investigation into the effectiveness of safeguards on the operations of financial intermediaries in South Africa holds importance for a variety of reasons. By evaluating the effectiveness of safeguards, this research will contribute to understanding how well financial intermediaries are protected against risks that could destabilise their operations. Effective safeguards are crucial for maintaining stability within the financial sector, which is essential for overall economic stability and confidence.

Financial intermediaries play a pivotal role in the financial system, and their performance impacts a wide range of stakeholders, including investors, insurers, and regulatory bodies. This study aimed to identify which safeguards are most effective in mitigating risks and improving risk management practices, thereby enhancing the performance and reliability of these intermediaries.

The study offered valuable insights for policymakers and regulatory agencies on the effectiveness of safeguards in financial intermediaries, enhancing operational efficiency and service delivery. Effective safeguards can enhance the performance of financial intermediaries, which in turn can improve access to financial services for underserved populations. This study's findings can support efforts to increase financial inclusion and ensure that more individuals and businesses can benefit from financial products and services.

1.12 Expected Outcomes

The study is expected, first, to provide strategies and tools which financial intermediaries in the insurance sector can apply to enhance their performance and stability. Second, the study is expected to contribute to the contextual knowledge of financial intermediaries' demand for financial products to meet the needs of their customers; an aspect that is currently under-researched. Moreover, how these financial intermediaries implement solutions can play a greater role in financial inclusion. Fourth, for the management of financial intermediaries, the concerns addressed in this project will be useful in addressing questions on the areas of financial intermediaries' operations that

need improvement. Lastly, the study which presents a conceptual framework for the insurance business, will make a significant contribution to bridging the gap that exists in literature regarding financial intermediaries' knowledge and acumen for recognising impediments that affect performance.

1.13 Structure of the Study

The research study structure and individual chapters are provided below:

Chapter 1: This chapter provided the introduction and background, the research problem, and clarified the importance, aims, objectives, and format of the study.

Chapter 2: The literature review is presented in this chapter. It examines the factors influencing the performance of financial intermediaries, and the risk tolerance of financial intermediaries, revises existing safeguards and proposes strategies to improve the overall performance of financial intermediaries in the sector.

Chapter 3: This chapter introduces the theoretical framework that acts as an essential analytical tool for understanding and evaluating the theories and models relevant to the specific context of South Africa's insurance sector.

Chapter 4: The research methodology is delivered in this chapter. The research methods used to affirm a researcher's hypothesis and described. It also provides details on the research design and instruments employed in the study.

Chapter 5: This chapter presents an analysis of the data gathered. It serves as a critical component of the research, providing a detailed examination of the data collected to address the study's objectives.

Chapter 6: In this chapter, a discussion of results is presented in the form of text, graphs and tables. In this chapter, the researcher aims to prove whether the findings of the study are consistent with the theory from the literature review.

Chapter 7: This chapter delivers the conclusion drawn from the study and makes recommendations that relevant role players can use when planning and executing future strategic changes.

1.14 Ethical Considerations

This section discusses the ethical issues addressed in the research, including consent, confidentiality, and integrity. The study adhered to the University of KwaZulu-Natal's (UKZN) ethical guidelines for academic research. First, the researcher provided a detailed explanation of the study's objectives to all participants in a language they could understand and asked them to sign the 'informed consent form' to indicate that they were *au fait* with all the details of the research processes and that their participation was voluntary. Second, participants' confidentiality was ensured by protecting all identities and information of participants via confidentiality and privacy processes by assigning codes/pseudonyms. Third, voluntary engagement was attained by assuring participants that they could withdraw from the study at any point during the study's duration without facing any repercussions. Finally, the company's confidentiality agreement was obtained in accordance with university ethical guidelines, granting the researcher permission to carry out the study at the market conduct authority.

1.15 Conclusion

The preceding chapter outlined the context and introduction of the research study. The problem statement, objectives, and research questions were clarified, and an overview of the relevant literature and methodology was provided. This chapter also detailed the strategy for achieving the study's objectives, defines essential instruments for data collection and analysis, and addresses ethical considerations. It concluded with an outline of the subsequent chapters. The next chapter (2) delves into a comprehensive literature review and evaluates how effective safeguards impact the performance of financial intermediaries within South African industries.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In the preceding chapter, a general orientation of the study was provided. The research problem and the rationale for the research were explicated. Furthermore, the objectives, research questions that guided this investigation and the aim of the study were stated to acquaint the reader with the purpose of the study. This chapter scrutinises the corpus of literature related to the research.

The primary objective of this study was to comprehensively evaluate the various factors influencing the financial performance of financial intermediaries. To attend to this objective, this discussion is divided into secondary objectives that relate to the research questions that guided the investigation. First, the factors influencing the performance of financial intermediaries, providing insight into the identification and assessment of key factors that impact their effectiveness are examined. Second, this chapter assesses the risk tolerance of financial intermediaries and explores the consequences of poor performance within the South African insurance sector. The existing safeguards are then reviewed, aimed at mitigating performance issues while identifying the challenges that contribute to performance gaps. Finally, strategies are proposed to enhance these safeguards and improve the overall performance of financial intermediaries in the sector. These factors are aimed to provide actionable insights for financial intermediaries. By identifying and understanding the variables that impact their performance, intermediaries can develop strategies to enhance their effectiveness, optimise operational processes, and better serve their clients.

2.2 Key Factors Affecting Performance

Factors that influence the performance of financial intermediaries are the various internal and external elements that affect their ability to operate efficiently, meet financial goals, and deliver value to clients. These factors can impact an intermediary's profitability,

competitiveness, and overall effectiveness in managing financial transactions and services.

Financial intermediaries' role in the insurance industry is significant because it aids in economic development, empowers the effective allocation of resources, and lowers transaction costs (Haiss & Smegi, 2008). As a result, it contributes to the creation of profitability and tends to increase scale economies in investment opportunities. The market for insurance services is a stable component of the financial sector, with a long-standing relationship between insurance providers, market participants and financial intermediaries. According to Almajali (2012), the insurance sector is viewed as a critical pillar for financial services and intermediaries in the economic system in general. As the sector expands in emerging markets, its operations are gaining more attention. This principle has now been examined from various perspectives. Firstly, in the insurance sector, the perspective of growth in the economy is strong to provide financial products and services, and this was viewed as a supply-leading relationship. Furthermore, the demand for financial products and services drives asset and financial services providers' growth (Swiss Re, 2018).

Liedtke (2010) observed areas of insurance providers in South Africa that are pertinent in terms of further establishing favourable conditions, namely:

- the growth of insurance is in good management;
- sufficient internal oversight systems;
- increased investment performance; and
- strategies for asset evaluation, openness, and tasks related to the performance of financial services providers.

Financial intermediaries contribute to the improvement of financial wellness, promote financial sustainability, lowering potential investment costs, and facilitate domestic savings and trading in transnational transactions (Aren, 2014). Financial intermediaries' performance is critical for insurers' existence as well as future advancement and expansion. Moreover, insurance providers, stakeholders, personnel, brokerages,

regulatory bodies, and institutional investors are all affected by the insurance company's financial results.

A financial intermediary's profitability can be impacted by internal forces, insurance industry factors, and macroeconomic factors. Profit growth, size, and operations continuity are crucial components of an insurance provider's performance (Msomi & Nzama, 2023). In addition, financial gain helps to gain new investors and enhances the level of liquidity position, increasing customer trust. When determining whether to take on the risks and participate in an insurer's investment operations, management must consider the financial evaluation of insurance providers as an essential instrument. The financial performance of financial intermediaries is significant within the economic and financial context.

Burca and Batrinca (2014) asserted that the financial services industry is made up of components of the financial system that encourage growth and development. Many financial publications on insurance providers' profitability of the company examine profitability in terms of the impact of internal factors. Internal and specific forces that have a significant impact on profit growth performance determine how insurance company profits fluctuate over time. Therefore, Msomi and Nzama (2023) stated that evaluating the factors that impact the performance of financial intermediaries is critical in transferring resources in a proper way to support economic activities.

According to Liargovas and Skandalis (2010), using a variety of factors will result in a more accurate assessment of a financial intermediary's financial profile. Bobillo et al. (2006) considered performance as an act of conducting financial intermediaries' activities. As the success of financial intermediaries is generally correlated with the degree to which their objectives are being met, this study addressed a significant knowledge gap about the variables influencing financial intermediaries' performance in the insurance industry in South Africa. This knowledge is crucial as it equips managers with relevant skills for recognising factors that influence firm success.

2.2.1 Financial intermediaries' soundness

According to the Asian Development Bank Report (2018), financial soundness measures financial intermediaries' current financial health using metrics of the markets in which they operate. Masthead (2019) mentioned that it is critical to examine and monitor the financial intermediary's system strengths and weaknesses to improve financial firmness and reduce the possibility of financial intermediaries' failure. Financial intermediaries must adhere to the financial soundness standards that apply to their licenses. As a result, general requirements for financial intermediaries include maintaining sufficient financial resources to conduct their services. It is also critical for financial intermediaries to manage their financial responsibilities prudently.

2.2.2 Financial intermediaries' liquidity

The liquidity of financial intermediaries is defined as cash available after considering the debt commitments of a firm as per International Financial Reporting Standards [IFRS] (2018). As a result, financial intermediaries' solvency may assist in dealing with unforeseen circumstances and meeting their obligations. According to Masthead (2019), the liquidity of financial intermediaries is the ability to meet their financial obligations on time. Liquidity includes the planning and monitoring designed to ensure that the financial intermediaries have appropriate liquid assets, either to meet the demands of customers or to comply with regulatory obligations (Olagunju et al., 2011, pp. 24-39). Magwedere and Marozva (2022) suggested that financial services providers create liquidity by funding leveraged assets with liquid liabilities.

Almajali (2012) considered liquidity to have a major effect on firms' profitability. As a result, financial intermediaries are accountable for prudent liquidity, which states that financial services providers have appropriate liquidity or cash reserves (Sviatlana & Lara, 2017, pp. 98-110). Effective and adequate cash management promotes profitability, which is particularly important for financial intermediaries. Financial intermediaries' efficiency and the extent they achieve their goals, as stated by Abbas and Mourouj (2015), are determined by their liquidity and financial performance. The Basel Committee on Banking Supervision (BCBS, 2019) highlighted how important financial intermediary solvency, as

well as liquidity, are in the insurance business. Financial intermediaries contribute significantly to liquidity creation by financing illiquid assets with liquid liabilities.

The BCBS (2018) argued that higher liquidity can enable insurance providers to deal with unexpected contingencies and meet their obligations during periods of low earnings. Research by Almajali (2012) discovered that liquidity has a major effect on the financial performance of financial intermediaries. As a result, a positive correlation exists between liquidity and financial achievements. The findings suggested that insurance providers need to raise the value of their present assets while lowering their current liabilities.

2.2.3 Liquidity imbalances for financial intermediaries during COVID-19

The outbreaks caused by the COVID-19 epidemic had a major effect. on several financial intermediaries, which resulted in abrupt and significant liquidity imbalances (FSCA, 2018). This section reviews several occurrences during 2020 while presenting the connections between the accounting approach and the factors that affected investment and growth. The pandemic crippled large areas of economic activity in the first quarter of 2021 and substantially increased economic uncertainties (Financial Stability Board, 2021). Due to investors' desire to quickly reduce the amount of investment in their portfolio, rapid increase in liquid assets and liquidity imbalances emerged. To meet the heightened demand for liquidity, investors pulled back on investments in money-market funds and sold unusually large amounts of government debt. Figure 2.1 depicts asset liquidity's minimal impact on flows.

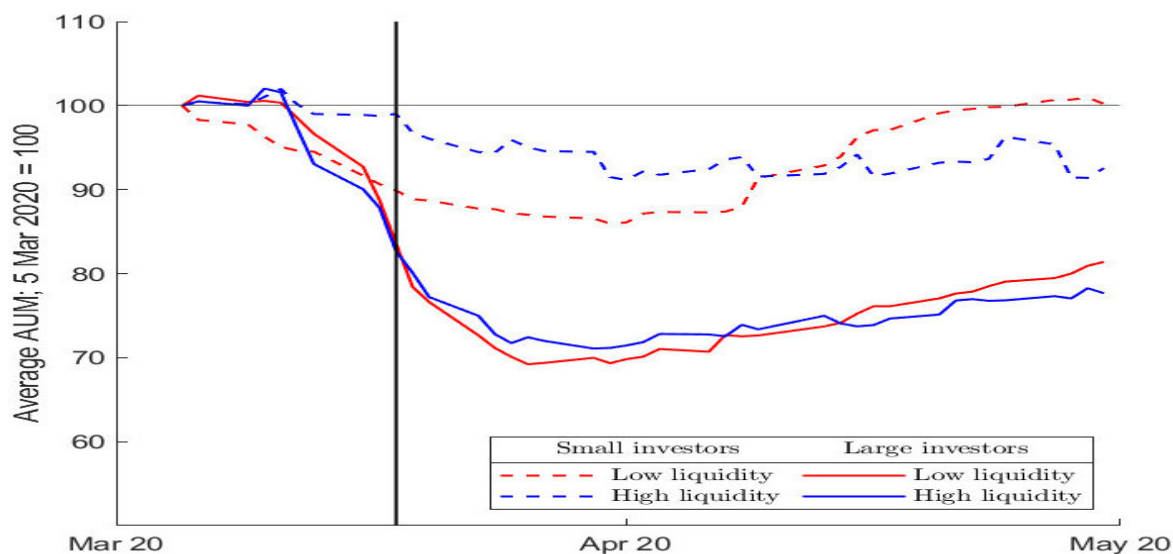


Figure 2.1 Asset Liquidity's Minimal Impact on Flows

2.2.4 Financial intermediaries' profitability

Kohlscheen (2018) viewed efficiency and profitability as having a positive relation. Many variables can affect financial intermediaries' profitability in the insurance industry. Pervan et al. (2012, pp. 102-119) defined retention ratio as the portion of guaranteed business which is not assigned to reinsurance providers. Therefore, it is anticipated that the performance of financial intermediaries would be enhanced by an increased turnover ratio linked with a decrease in the claim's ratio percentage. The retention ratio is another factor that affects financial intermediaries. While the number of assets has a strong positive relationship with financial intermediaries' liquidity, low returns and financial strength have a significantly negative effect on profitability (Malik, 2011, pp. 223-253). Financial intermediaries adopted a profitability principle to improve their risk assessment capabilities (BCBS, 2018). These principles included that:

- Financial intermediaries should have a procedure in place to analyse their marginal ratio to examine the financial performance of the financial services providers. The margin ratio is used to calculate financial intermediaries' profitability at various cost levels.

- Internal capital reserve evaluations and plans for financial intermediaries must be monitored to ensure compliance with regulatory obligations.

As a result, the BCSB (2018) stated that management can help financial intermediaries to have a safe and healthy business environment. Furthermore, stringent regulations and cash reserve requirements require financial intermediaries to emphasise liquidity efficiency in their plans and aims.

2.2.5 Financial intermediaries' size

Abdilahi et al. (2022) speculated that a rivalry exists between bigger and smaller financial services providers in the insurance industry in leveraging the scale's transactional effectiveness to increase revenue. According to Athanasoglou et al. (2005), growing the size of a financial intermediary improves financial performance. Financial intermediaries have the capacity to influence fundamental elements of business, which include the size of the requirement for external capital (Grechyna, 2018, pp. 19-37). Considering this, Albuquerque and Hopenhay (2004) contended that when a financial intermediary reaches a particular scale, borrowings are no longer required, as the cash generated through internal activities is adequate to support planning decisions. Financial intermediaries have the capacity to influence fundamental elements of business, which include size for the requirement for external capital (Grechyna, 2018, pp. 19-37). Furthermore, Albuquerque and Hopenhay (2004) estimated that when a financial intermediary reaches a particular scale, borrowings are no longer required, as the cash generated through internal activities is adequate to support planning decisions.

2.2.6 Financial intermediaries' governance and culture

Financial intermediaries' governance and culture are crucial factors that contribute to their performance. Strong governance and a positive organisational culture can enhance decision-making, risk management, and overall effectiveness, ultimately improving performance. Key aspects include:

- **Governance Structures:** Effective governance ensures proper oversight, accountability, and adherence to regulations.

- Ethical Culture: A culture of integrity and ethical behaviour fosters trust with clients and stakeholders.
- Decision-Making Processes: Good governance and a supportive culture improve strategic decision-making and operational efficiency.

The management of financial intermediaries had a relaxed attitude towards governance and cultural standards (South African Reserve Bank, 2022). The Deloitte Report (2018) defined governance as the control of acts by the board with a focus on the board's responsibilities as advisors and guardians of stockholders' benefits. These factors must lead to the board's continuous governance and cultural communications with financial services providers. The Report also described culture as the values, attitudes, and conduct that a financial intermediary expects of its employees and other stakeholders. In this context, culture can be described as a standardising framework that forces its workforce members to follow rules and regulations established by the financial services providers (Hofstede & Minkov, 2017). The actions and behaviours of financial intermediaries' sense of achievement depend on the outcome of the risk culture embedded, a component of the larger insurance provider culture. Therefore, cultural norms determine behaviour, and management must examine and build risk cultures. Management's decisions and actions, organisational and business systems, and employee behaviour all influence the risk culture. As a result, managers must have a thorough understanding of cultural requirements. Moreover, Hofstede and Minkov (2017) propounded that culture must be consistently fostered as a shared concept, for instance, through regular discussions, education, performance evaluation, control, and accountability.



Figure 2.2 Board Governance and Risk Culture (Deloitte, 2018)

2.2.7 financial intermediaries' return on assets

Friedman Institute (BFI, 2017) defined return on assets (ROA) as a metric used to measure how well financial intermediaries use their assets to generate returns. Improved ROA shows that financial intermediaries are in a good position in terms of financial performance. The International Journal of Academic Research in Business and Social Sciences (IJARBSSC, 2019) assert that the success of insurance intermediary's aptitude to generate earnings for a certain period is because of the greater rate of return on investments. As a result, return on assets is utilised in this study to evaluate financial intermediaries as a factor that affects financial performance. ROA depicts the return on assets as a measure of operational success and efficiency (Pasiouras & Kosmidou, 2007). Similarly, the European Central Bank Annual Report (2020) considers return on assets to

be a good indicator of financial intermediaries' profitability in conditions of significantly higher volatility, but looks to be a subpar indicator of profitability in times of prosperity.

2.2.8 Financial intermediaries' marketing mix

Financial intermediaries' marketing mix is indeed a significant factor contributing to their performance. The marketing mix, often referred to as the 4 Ps (Product, Price, Place, and Promotion), plays a crucial role in how financial intermediaries attract, retain, and serve clients (McDaniel et al., 2010). An effective marketing mix helps financial intermediaries differentiate themselves from competitors, meet clients' needs more effectively, and ultimately enhance their performance.

A marketing mix theory was described by McDaniel et al. (2010) as a set of activities that financial intermediaries used to promote their products to consumers. A well-defined marketing mix theory is an exclusive blend of financial products in the market. Lupiyoadi (2019) defined the marketing mix theory as an instrument for financial intermediaries and consists of the following elements: (i) marketing strategy, and (ii) the position of the enterprise in the market they operate. McCord (2012) contended that factors that may be indicative of market conduct relate to several aspects, such as product and delivery channels, that may interact differently with the characteristics of several types of customers. Furthermore, processes are vital to ensure that financial intermediaries' products are marketed. Key aspects include:

2.2.8.1 Product (services)

Life insurance entities offer best-selling products in the insurance sector. Therefore, product choices are the most vital decision-making by management to ensure they satisfy customers' requirements (Archer 1997, p. 37). McCord (2012) defined a product as the primary element of the marketing mix. Considering this, the marketing strategy needs to incorporate services or products offered by insurance providers. A financial intermediary's product or service must emphasise the benefits provided to the customer for it to be effective. As a result, consumers must have confidence in insurance providers before purchasing a good or service. The key goods and services that financial intermediaries provide to the insurance industry include:

- the administration of individual investors' portfolios when those portfolios contain one or more financial instruments, in accordance with the mandate placed on them;
- the administration and custody of financial instruments; and
- the evaluation and/or distribution of financial goods or services offerings are based on a strong commitment by financial services providers.

2.2.8.2 Price

As an important component of a product, McCord (2012) argued that the determination of the price aims to “measure and express the value of the product provided by the financial intermediaries in the insurance sector”. The cost of a customer paying for the services rendered by financial intermediaries is another component of the marketing mix (Kotler, 2018). As a result, in this competitive market between many financial services providers, regular or ongoing fee decreases can be employed as a method to attract consumers. Kotler (2018) suggested that financial intermediaries may implement a variety of pricing techniques, including:

- Renting safekeeping boxes is one option;
- Offering investors credits or loans to enable them to trade on financial instruments products;
- Advice on corporate strategy, working capital, and entity mergers and acquisitions;
- Guidance on financial instrument investments; and
- Financial analysis and investment research, as well as other types of basic guidance on buying and selling financial instruments.

The customer relationship is one of the unique characteristics of financial services providers' services. Today's financial intermediaries and financial institutions in particular work together to retain existing customers before attracting new clients (McCord, 2012). Therefore, knowing customers' needs and levels of expertise in the industry is crucial for retaining them. According to McCord (2012), neglecting these challenges could negatively

impact the client's relationship with financial services providers. Therefore, financial intermediaries or agents must seek information from potential investors about their previous experience and their knowledge regarding products and services. Financial intermediaries can create profiles based on the information they receive from clients, and only then will their collaboration be successful. Therefore, reliable data is the foundation of successful pricing strategies.

2.2.8.3 Process

A process, as was put forth by McCord (2012), is a part of the service offered and encompasses a client interacting with an insurance provider's offering. The adoption of good processes in a business is determined by management. Having management who uses sound judgment is one of the most effective approaches to smooth the transition process. When sound judgment is applied, the risks of adjusting to new environmental elements are reduced. Additionally, it enables management to find potential opportunities for the insurance providers.

2.2.8.4 People

Archer (1997) delineated individuals as everyone who engages in a product or service either directly or indirectly. People encompass all human characteristics who participate in the provision of services and consequently influence consumer perceptions (Kotler et al., 2010). These are insurance company employees and other stakeholders. Consumer impressions of insurance companies' services are influenced by people's attitudes and behaviour. Employees, customer service representatives, and financial services providers are all human players in the insurance business. As previously stated, personnel play a crucial role and will be evaluated based on this variable.

2.2.9 Marketing Mix Not Covered in This Study

2.2.9.1 Place

All financial activities that offer the product to the prospective customer are classified as a component of the marketing mix (Kotler & Armstrong, 2018). Place functionality, time functionality, and ownership utility are all produced by distribution. When addressing the physical distance between the consumer and the manufacturing location, the variable

place provides value for the customer with benefits. Time utility is the link between phases of manufacturing, distribution of services, and consumption by consumers. Possession utility aims to close the gap between customer needs and ownership of the product offered by the insurance provider (Lamb et al., 2018, p. 21). Insurance representatives and intermediaries in South Africa employed by insurance providers to sell their goods as part of their distribution strategy when marketing insurance products.

2.2.9.2 Promotion

Promotional strategies are any techniques used by a firm to explain to potential customers the positive aspects and value of its product offerings that influence them towards making purchasing decisions (Kotler & Armstrong, 2018). Marketing, sales promotions, direct marketing, and public relations activities are the four main elements of (Kotler & Armstrong, 2018). Insurance providers need to develop the best promotional strategy to reach low-income consumers with their insurance products and services. The insurance industry lacks a consistent and well-executed branding or marketing strategy to position its financial products for its customers. In 2017, the Fin Mark Trust found that there was hardly any brand recognition in South Africa after exploring the usage and awareness of financial products. This was the primary factor in the market's dearth of innovative financial institution products. To boost business success, insurance providers should give priority to developing successful marketing campaigns for low-income customers (Fin Mark Trust, 2017).

2.2.9.3 Physical evidence

The actual location of insurance products or service delivery and client communications is referred to as physical evidence, as per Kotler (2018, p. 2). Included are all tangible elements that facilitate interaction or service delivery, such as logos, official paperwork, business cards, and flyers. The role players in the insurance industry must collaborate with financial intermediaries, agents, brokers, stokvels, and retail businesses. Additionally, poor individuals are unable to pay the whole cost of insurance, and state finances are insufficient to subsidise ongoing expenses, both of which are caused by the lack of systematic methods to reach people in informal sectors and insurance providers face excessive costs associated with meeting the needs of the rural poor. Among the

primary reasons why the costs are increasing is the difficulty financial services providers experience when distributing their products due to a lack of infrastructure.

2.2.9.4 Technology

Insurance providers can benefit from innovative technological designs with a wireless and internet foundation. There are limitations to what technology can do for micro-insurance operations. However, by facilitating global stakeholder communication and collaboration it can aid in maximising return on investment and bridging operational gaps. In today's world, consumers seek to benefit from technology's application in the offering of insurance products by insurers (Churchill, 2006). Technology such as cell phones is also becoming more accessible to the low-income market.

2.2.9.5 Placement

As financial products and other goods vary greatly from one another, traditional distribution strategies cannot be employed in financial services marketing. Carson and Hanemann (2006) contended that, as financial intermediaries, financial services providers should reaffirm the following:

- Financial intermediaries can offer services (such as capital-protected certificates, analysis, and consulting) to financial services providers using specific distribution networks.
- The technological capacity of the financial services providers' delivery of products and services has a significant impact.
- Investors are a factor that needs to be considered, especially considering the law and the overall environment.

2.2.9.6 Promotion

The types of channels that financial services providers use for distribution include (Carson & Hanemann, 2006):

- Branches and institutions that are represented by intermediaries. In this instance, the customer contacts a broker who will facilitate the accomplishment of investment opportunities, requests, or orders (personally, over the phone, via email, or through any other means).

- On the online platform, customers, or investors in this scenario trade independently online and without a broker's assistance. It makes sense that online trades would gain ground given how quickly the internet is being embraced. When creating financial services provider marketing strategies, this trend should be considered. Carson and Hanemann (2006) recommended that financial services providers should provide new tools for their customers such as online platforms.
- Sales promotion, which involves direct communication between brokers and potential investors, is one way to draw in new investors in the capital markets.
- Other methods include personal selling and providing a short-term decrease in prices.
- Public relations programmes are designed to enhance financial institutions' reputations.
- A sponsorship is the act of supporting charitable, sporting, or other events to associate a financial institution's name and logo with the occasion.

Customers' access to internet pages might rise because of offline advertising, according to Carson and Hanemann (2006). Online advertising provides an effective and long-lasting way to reach many users while saving time and money (George et al., 2000). Internet marketing includes various components including websites (materials, interactive features, and appearance), newsletters, online advertisements, advertising on search engines (Google), web page optimisation, social media platforms (Facebook, LinkedIn), and mobile advertisements (M-marketing).

2.2.10 Independent variables

2.2.10.1 Market conduct regulation

The South African Reserve Bank Report (SARB, 2018) stated that current frameworks supervising the insurance sector contain weaknesses. According to the National Treasury (NTSA, 2018), if prevention proves to be ineffective, market behaviour regulation aims to manage and do continuous monitoring of financial intermediaries conducting their business. Consequently, refining guidelines and regulations relating to financial intermediaries in the insurance sector is critical to protect customers' wealth.

The objective of the insurance industry's market conduct legislation is to safeguard customers' wealth and be treated fairly (NTSA, 2018). Ergo, to ensure that customers have access to insurance products and are protected against financial intermediaries that fail to operate in ways that are legal and fair to customers. However, market behaviour is impacted by a variety of elements, including rules and regulations, approved standard processes, and customer desires. In this context, the need for strict market conduct regulation is highlighted by the following factors in the National Treasury Discussion Paper (NTSA, 2018):

- Customers may find it challenging to assess the appropriateness and value of items and offerings because of their intangible characteristics. As a result, will increase the risk of unfair pricing or hidden fees.
- Several financial products, including retirement savings plans or insurance policies, could not be as beneficial as they first appear to be until an unfortunate incident happens.
- Many customers are more vulnerable because they lack the knowledge or resources to hold insurance providers accountable for mistreatment.
- Customers may experience significant and ongoing hardship because of deficient performance or the disintegration of financial products, especially savings over the long term.
- Products with high charges or low value (such as policies with extremely low rates of claims) reduce available cash, especially costly to vulnerable populations, such as low-income households.
- Clients and their dependents incur immediate costs when their deposits or savings are lost.

Table 2.1 Market Conduct Regulation

QUESTION	SOURCE
<ul style="list-style-type: none"> Support for a supervisory framework focused on improved customer outcomes. 	<ul style="list-style-type: none"> How legislation and regulations are written and enforced should minimise disruption and promote certainty (FSCA, 2021).

2.2.10.2 Market conduct assessment

According to the FSCA (2020), financial intermediaries must maintain the highest levels of ethical and professional conduct. Therefore, a shift in robust conduct assessment will place a renewed focus on financial intermediaries in their conduct to maintain fair treatment of their customers as stated in The Future of Financial Services Final Report (WEF, 2015). This policy statement attests to the necessity of sufficient consumer protection, particularly with low-income customers. Thus, neither the Long-term nor Short-term Insurance Acts' policyholder protection provisions nor the foundational ideas of the Financial Advisory and Intermediary Services (FAIS) framework must be compromised.

Instead, the goal is to allow insurance policies in a way that preserves consumer protection and promotes financial inclusion. This will be accomplished by adjusting the FAIS standards to the specified, streamlined, and uniform micro-insurance product profile. This framework specifically aims to provide the regulatory environment necessary to reinstate verbal disclosure and/or counsel in the low-income sector. Whenever intermediary services or advice are given, the FAIS Act, 37 of 2002 (the FAIS Act) and the ensuing subordinate legislation apply to the provision of micro-insurance. Nonetheless, a unique dispensation will be made for insurance providers under the FAIS framework regarding the following:

- the Fit and Proper Determination for financial services providers (FSPs), key individuals and representatives;
- the FAIS Code of Conduct applicable to micro-insurance providers; and
- the financial soundness of the intermediaries dealing with insurance.

Within the insurance sector, the regulatory framework itself is proposed to incorporate provisions regarding:

- direct marketing, informed by the current legislative framework;
- the commission regime applicable to micro-insurance; and
- group schemes.

Table 2.2 Market Conduct Assessment

QUESTION	SOURCE
<ul style="list-style-type: none"> • Do financial intermediaries add up a conduct assessment score on their product? 	<ul style="list-style-type: none"> • Conduct assessment is critical for the continuity of the business. Therefore, the classification of conduct assessment is important.

2.2.10.3 Market conduct principles

Market conduct principles for financial intermediaries must be adhered to comply with regulatory obligations. The principles set out by the authority must always be met. Black et al. (2007) stated that strict regulations and compliance reporting have led to a narrow focus that frequently results in the letter of the law being adhered to, but the spirit of the law is ignored. Rather than establishing regulations that identify the needs of a financial institution, a principles-based approach aims to develop principles that define the objective of regulation. By placing more emphasis on principles, industry and regulators should make sure that their activities and procedures are focused on achieving specific goals in the financial services industry rather than just following the law rigorously. However, a principles-based approach does not mean an absence of rules. It is well-recognised that an appropriate mix of principles and rules is required to achieve the correct outcomes. Rules may be required to protect highly vulnerable consumers, where market dynamics create poor incentives for providers (like in the consumer credit insurance market) or to respond to sustained egregious behaviour and practices. The approach is therefore towards a more effective balance between principles-based and

rules-based measures to achieve desired outcomes, in contrast to the current framework's heavy reliance on rules.

Black et al. (2007) outlined the following benefits:

- Principles can engage senior management in the regulatory process and can require internal compliance divisions to develop a more strategic role.
- Principles focus on the purpose behind the rule rather than just on the detailed provisions.
- Principles offer flexibility for regulated firms and regulators in determining how to comply with the rule, facilitating the development of new business models, products, strategies and internal processes.
- Principles enhance the responsiveness of the regulation to market innovation and other developments, increasing the durability of the principles and reducing the need for constant amendment, thereby “future-proofing” the regulatory requirements.
- Principles are hard to manipulate, making creative compliance difficult.
- Principles can lead to a greater degree of substantive compliance with the purpose of the rule, rather than a “box-ticking” approach, as they require firms to think through how to comply; as such they can be directly linked to management-based regulation.

Applying principles and a standards approach must align with consistent outcome-based regulation, at least to the extent that emphasises accomplishing regulatory objectives. Principles-based regulation inherently places the emphasis on senior management duties, as the business bears a substantial portion of the responsibility for interpreting and implementing the regulations. A strong market conduct policy framework should support the delivery of desired policy outcomes in the financial sector, enable the monitoring of the extent to which those outcomes are being achieved, ensure preventative action is taken to mitigate the risk of poor outcomes and ensure remedial action is taken when poor outcomes are produced. This is different from the current approach where periodic

supervisory assessments check compliance with the letter of the law, and identifying and remedying poor outcomes is a slow and inefficient process (Black et al., 2007). An outcomes-focused approach therefore requires the following to be tested against the achievement of preferred financial sector outcomes:

- the market conduct of licensed financial institutions;
- the financial sector regulatory framework; and
- the effectiveness of the market conduct regulator.

Where the market conduct of financial institutions is concerned, the supervisory approach must shift from focusing on assessing compliance with prescriptive rules-based requirements to focusing on whether institutions are conducting themselves in a manner that delivers desired outcomes. Where retail financial customers are concerned, this approach includes particular, scrutiny of the extent to which institutions are delivering the customer fairness outcomes targeted by the Treating Customers Fairly initiative. It is recognised that institutions and their management may be better placed than regulators to determine the processes and actions required within their businesses to achieve necessary outcomes.

An outcomes-based approach enables the regulator to focus on the outcomes that they require institutions to achieve, rather than setting unduly prescriptive process requirements. Institutions and their management can find the most efficient way of achieving the outcomes required, and satisfy the regulator that they have effective governance processes in place to support the delivery of such outcomes. It is noted however that this may work better for some institutions than others – in particular, smaller financial institutions, with limited risk management and compliance resources, would benefit from a more standardised way of demonstrating their compliance with regulatory requirements. The FSCA can provide for such differences by using a combination of conduct standards, interpretation rulings and guidance notices, in support of sector diversification and competition.

Table 2.3 Market Conduct Principles

QUESTION	SOURCE
<ul style="list-style-type: none"> Does a firm observe proper standards of market conduct? 	<ul style="list-style-type: none"> Financial intermediaries must act with integrity and continuously engage with the regulators for guidance (Sturgeon Ventures, 2020)

2.2.10.4 Market conduct challenges

South Africans depend on a variety of financial products and services to conduct business, accumulate savings, and reduce risks. They must have faith in financial institutions, believing that they will be treated fairly and that financial markets will operate efficiently, effectively, and with integrity. Misconduct in the financial sector has far-reaching effects on consumers and undermines their trust in the sector (FSCA, 2021).

Table 2.4 Market Conduct Challenges

QUESTION	SOURCE
<ul style="list-style-type: none"> Does the financial intermediary conduct itself in such a way that all clients are treated equitably at all phases of the product lifecycle and advisory process?? 	<ul style="list-style-type: none"> Customers must feel confident that they are dealing with an institution where treating customers fairly is at the core of the culture of the financial services providers (FSCA Action Report, 2022)

2.2.11 Customer behaviour and willingness to buy.

Schiffman and Kanuk (2007) viewed customer behaviour as the behaviour of individuals in obtaining an insurance product offered by financial intermediaries. This understanding of customer behaviour aids financial intermediaries in recognising customer preferences and purchasing decisions (Batra & Kazmi, 2008). In addition, Perner (2018) defined the

behaviour of customers as the study of persons, clusters, and the methods utilised when choosing financial services and goods offered by financial intermediaries.

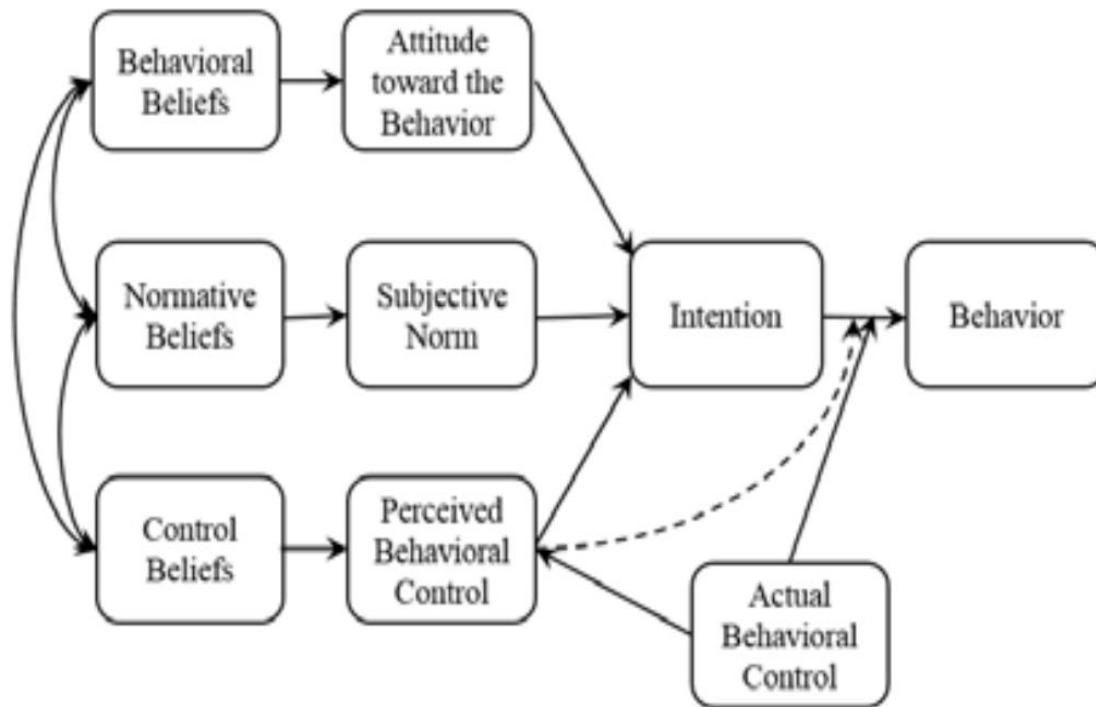


Figure 2.3 Theory of Customer Behaviour

2.2.11.1 The importance of products on customer behaviour

Thaler (2000) contended that the expectation of rational behaviour faces various obstacles, such as income level, educational background, and marketing strategies when it comes to making product selections. Additionally, Richarme (2006) emphasised that comprehending consumer behaviour is crucial for financial intermediaries in terms of product development and achieving success. The significance of consumer purchasing behaviour highlights the following key principles (Thimann, 2014):

- Consumer contrast is important in shaping financial intermediaries' approaches to the requirements of the customer.
- Customer behaviour is essential to dealers in the financial intermediaries' space to retain customers.

Anderson and Billou (2007) supported the perceptions of financial intermediaries' services and products for middle-income customers make the intent to contribute to this insurance segment. Therefore, Akotey (2011) advocated that reasonable financial intermediaries' products and services are distributed such that existing charges inspire usage by middle-income customers. Consumers' willingness to buy insurance products offered by financial intermediaries is a choice decision based on the following factors (Maseke & Lipinge, 2021):

- customer willing to buy a low-cost product; and
- customer requires time to gather information about the product before making a choice or decision.

According to the National Treasury Inclusive Financial Sector Report (NTIFSR, 2018), financial intermediaries' capability to provide products and offerings plays a role in the economy. To meet the demands of their customers, access data shows the extent of financial services' reach, the variety of insurance providers, and the associated expenses of financial services and goods offered to consumers. Enhancing accessibility requires ongoing analysis of possible barriers to serving consumers with low incomes. The World Bank Report (2018) remarked that there are substantial disparities between South Africa's wealthiest and lowest income groups. More than 14 million adults lack a basic bank account, which is a crucial step toward achieving financial inclusion. While only 64% of adults in the poorest 30% of income earners have a formal account, 88% of those in the top 30% of income earners do.

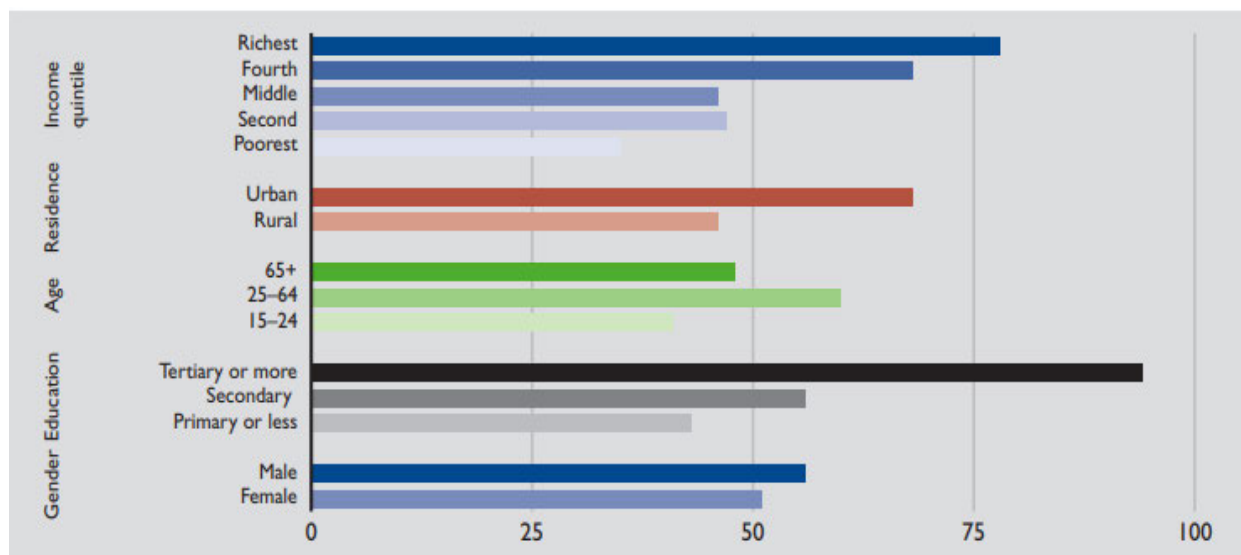


Figure 2.4 Income Inequalities (Demirgüç-Kunt & Klapper, 2014)

Factors such as income, location, age, education level, and gender influence a person's access to financial intermediary products and services in the insurance industry (Demirgüç-Kunt & Klapper, 2014). The assessment of access reflects the financial sector's ability to effectively provide clients with products and services that are readily available and can be easily distributed through multiple channels (FSCA, 2018). It considers the broad spectrum of financial services that are available as well as the diversity of financial services providers. The FSCA further found that the insurance sector in both the life and nonlife markets is controlled by large insurers.

As a result, small-scale financial services providers are finding it difficult to break into the market, mainly due to financing requirements. A Finscope survey conducted in 2018 revealed that customers perceive insurance products as costly and believe that premiums are significantly high. The survey indicated that the concentration of financial services providers in South Africa is overly concentrated due to the predominance of these providers in the insurance sector. As per the Finscope survey (FMT, 2018), prescribed indemnity is used by 22% of small business owners, whereas regulated firms provide insurance to 46% of the population. The attributed factors that limit access to financial inclusion include:

- a lack of trust in financial intermediaries;

- the cost of utilising an account is perceived to be excessive; and
- a lack of understanding of the advantages of having a product with financial intermediaries.

2.2.12 Financial intermemediaries' measurement techniques

Within the context of the current study, this measurement technique describes the methods used to assess factors that enhance the performance of financial intermediaries in the insurance sector. At this juncture, it is critical to explain the extended measurement technique used in this study for evaluating factors that enhance the performance of the financial intermediaries in the insurance sector of individuals or consumers' gross household income.

2.2.12.1 Coverage and income

The factor sectors that enhance financial intermediaries' performance in the South African insurance sector are addressed under the conceptual framework of this research. Economic and personal growth are aided by financial intermediation, which reduces inequality. Consumers, entrepreneurs, and small businesses can use financial institutions to get relevant and cheap financial goods offerings, such as funds transfers, reserves, and credit, so they can trade easily and affordably.

To define the extent of total family income and maintain uniformity, a key element of gross household income in South Africa was established to reinforce the conceptual framework developed in this study. According to NMLS Consumer Access (2021), gross household income is the entire amount of money earned by each member of a single household. South Africa's gross household income is comprised of a variety of sources of income. Work-related income (84.3%), capital-related income (4.4%), annuity products and personal retirement (4.7%), subsidies and social security (7.2%), extra earnings (7.4%), and rental (7.6%) are the primary causes of average earnings in South Africa (Statistics South Africa, 2020). Financial intermediaries use household income to decide how much to lend to a customer for the products they offer.

Chamberlain (2018) stated that gross income is the comprehensive household earnings, namely incomes, independent business, rentals, taxable and non-taxable interests, unemployed people, savings for retirement, and the payout of dividends. People rely on their family structures for physical, social, and financial well-being for survival, and most individuals regard their families and households to be the most significant social institutions and social reference groups in their lives. Although family structure systems are changing, they are still highly essential in nations like South Africa, where substantial percentages of the population are impoverished and unemployed, and institutional support is insufficient. According to the Salga Annual Report (2019), there is a variety of alternative explanations for how households can maintain negative net earnings, take on revolving credit, and rely on family members to pay for household expenses.

2.2.13 Macroeconomic factors

Macroeconomic factors play a key role in influencing the performance of financial intermediaries (Dwilson, 2016). As a result, insurance providers make money through premium payments, and the state of the economy can impact on their operations and profitability. Several studies have identified a strong correlation between performance and economic growth (Esho et al., 2004; Garcia, 2016; Stojic & Njegomir, 2012; Akinlo & Apansile, 2014; Chitiyo, 2017). As the economy expands and creates more products and services, consumers find themselves with considerably more disposable income to spend on goods. This increase in financial resources makes people more aware of the risk of losing their possessions, leading them to invest more in insurance to safeguard those assets. Researchers have found that insurance providers' strategic approach to economic performance or the growth of financial systems influences savings and investment choices (Dwilson, 2016).

2.2.13.1 Income levels

Arena (2008) asserted that although the amount of insurance access increases with GDP per capita, distinct gross domestic product thresholds are anticipated to be preceded by a diversity of coverage. In fact, in the middle and early stages of economic development, financial intermediaries have a greater influence on the growth of the economy. Previous studies (Lemarie & Park, 2012; Treerattanapum, 2011) evaluated and addressed the

effect of economic growth on the demand for insurance coverage. However, little focus has been placed on the potential impact that income levels may have on the performance of the financial intermediaries in the insurance sector. Income level has been found to influence the rates provided by financial intermediaries (Arena, 2008). As a result, a significant relationship exists between the number of financial intermediaries and the growth of the economy, and consumer disposable income, which could increase consumer demand for additional financial products and services.

2.2.13.2 Interest rate

Ma and Pope (2003) indicated that consumers use insurance to protect individuals from unexpected uncertainties. When interest rates are high, insurance premiums will be lower due to a higher loss ratio. This suggests that more people will be drawn to insurance products rather than using debt to cover unforeseen losses. Therefore, it is anticipated that interest rates will have a favourable impact on the insurance sector's overall performance. Likewise, Beenstock (1986) affirmed that interest rates have a positive correlation with financial intermediaries' performance.

2.2.13.3 Inflation rate

According to Outreville (2018), higher inflation rates have two effects, namely (i) reduced income available for spending, and (ii) decreased consumer demand for goods offerings to offset expected costs. As a result, it is anticipated that there will be an unfavourable relationship involving the rate of inflation or growth and the interest of intermediaries' products in the insurance sector.

2.2.13.4 Product price

Outreville (2018) found that when the price of insurance products increases, more claims are being paid out by insurance which therefore raises demand from customers. In the past, the loss ratio's exact reverse has been used to calculate the cost of insurance. Research conducted by Ma and Pope (2003), which focused on this variable in developed nations to determine how legal factors influence insurers, found evidence of a negative correlation.

2.2.13.5 Unemployment

According to the Statista Report (2022), during the second phase of 2022, the unemployment rate on the continent of South Africa rate fell to 36.7%. The highest rate achieved was 31.4%, and the lowest rate was 23.5% (Statista, 2022). Arena (2008) speculated that the performance of financial intermediaries would suffer due to unemployment.

Table 2.5 Unemployment Rate (Statista, 2022)

Indicator	Data	Period
Unemployment Rate	33.9 %	2Q/22
Youth Unemployment Rate	61.4 %	2Q/22
Employed Persons	15562 Person 0.016 Million Person	2Q/22
Employment Rate	38.7 %	2Q/22
Unemployed Persons	7994 Thousand Persons 7.994 Million Persons	2Q/22

2.2.13.6 Market structure

Research studies by Ma and Pope (2003), Treerattanapun (2011), and Stojic and Njengomir (2012) demonstrated that market structure has a statistically significant impact on financial intermediaries in nations developed as well as emerging economies. As a result, they consequently impact on financial performance. As noted by Treerattanapun (2011) and Stojic and Njengomir (2012), the Herfindahl Indicator (HI) serves as a measure of market concentration. The HI increases the market presence of financial intermediaries within the insurance sector. Nevertheless, Naldi (2018) asserted that the Hirschman-Herfindahl Index (HHI) is the most widely recognised indicator for assessing market concentration. It is employed as a stand-in for the degree of market competition and assesses how close the market is to either a monopolistic or a scenario of pure competition. When a market for financial intermediaries is less competitive, it does not

attract foreign insurers who can frequently drive innovation in terms of business practices and products, which will result in a slower rise in financial performance (Ma & Pope, 2003).

2.2.14 Social and cultural factors

According to Tucker (2018), financial intermediaries' business is a fiercely competitive sector that relies on a wide range of interrelated social factors. The social component of financial intermediaries' activities is equally as significant as their financial responsibilities, which include handling claims, approval of policies, and carrying out reinsurance operations. To market their products and services, agents of financial intermediaries need to convince customers to make a purchase, which means that they must have excellent interpersonal and social abilities. Any major obstacles to this process would restrict an increase in market share and overall financial performance by limiting the commercial growth of financial intermediaries. As a result, grasping the connection between individual social behaviour and their willingness to engage is crucial when selecting the products and services provided by insurance companies. To gain a deeper insight into how financial intermediaries affect the financial outcomes of the insurance sector in South Africa, this study utilised a relevant and impactful review of existing literature.

Research examining the impact of culture on the insurance industry is still in its early stages. The importance of evaluating various factors related to financial products and services has only been acknowledged recently. In previous studies, when researched in relation to the insurance industry, how culture affects the insurance sector has typically focused on the effect of organisational culture on effectiveness, rather than the influence of culture on insurance demand and performance. Whereas previous research concentrated on how cultural factors affect the insurance industry, Hofstede's (2017) study, outlining four components to be used as the yardstick for defining and evaluating cultural aspects (avoiding ambiguity, power separation, individualism, and masculinity) was used in this study.

2.2.15 Economic endowment

The growth of an economy's gross domestic product and level of income is dependent on its human capital (Mankiw et al., 2004). As people strive to have more assets with their discretionary income, there is a stronger need for products and financial services like insurance as income levels increase. The Solow-Growth model states that emerging economies generate less and have lesser capital's marginal revenue product because the capital for human resources is less than that of nations with greater wealth. With a highly competent agent and broker, there's a good chance that labour force participation will boost economic growth's results. As a result, since insurance products are often not taught at higher institutions, education may not be a reliable measure of an individual's understanding (Treerattanapun, 2011). The insurance sector distribution is controlled by both income and inflation, but financial intermediaries' services are likely to be influenced primarily by income. Fashina (2022) maintained that the association between per capita income and the prevalence of life insurance is higher than the relation between per capita income and product offerings in the non-life sector. Therefore, the demand for life insurance policies is negatively impacted by inflation since it lowers the value and attraction of these policies.

2.2.15.1 Risk of aversion

Kim and Brown (1993) described risk aversion as a measurement of a customer's reluctance to buy insurance products or services on the pretext that they are likely to not need protection from prospective loss. From a business perspective, the possibility that cash reserves will be sufficient to pay for damages without having to purchase additional insurance exists. Should any damages arise, one's personal funds would be sufficient to compensate them. The degree of education has been used as a proxy for evaluating aversion to risk across various segments, and it is most likely linked to increased discretionary income. The risk aversion proxy has also been tricky because it disregards the impact on insurance products and assumes that people with higher education earn more money (Kim & Brown, 1993). The researchers contended that a stronger appreciation of the benefits of insurance results from a higher degree of risk aversion.

More prosperous and more educated individuals are less likely to buy insurance goods unless they are compelled by law to do so.

2.2.15.2 Wealth

According to Kim and Brown (1993), wealth is estimated to improve the performance of financial intermediaries when people exhibit a rising relative risk aversion. Treerattanapun (2011) argued that financial intermediaries' coverage decreases with wealth, a finding that is consistent with Outreville's 2018 study results which demonstrated that demand for insurance is inversely associated with risk aversion.

2.2.15.3 Avoiding ambiguity

A society's discomfort with doubts and ambiguity is measured by preventative measures of ambiguity (Itim International, 2018). When customers feel a lesser sense of control when faced with prospective losses incurred, it is predicted that elevated levels of avoidance of uncertainty will correlate with improved financial intermediaries' performance. Uncertainty avoidance has been found to have a positive statistical significance on financial intermediaries' demand and performance (Lemaire & Park 2012; Treerattanapun, 2011).

2.2.14.4 Power separation

According to Itim International (2018), the power distance index (PDI) measures how much-marginalised members of society understand and anticipate that wealth will not be allocated equitably and fairly. The way society handles individual inequality is the primary issue. It is anticipated that people living in a high-power distance country would take the required safety measures to mitigate the risk that exists. As they do not count on the government to intervene and implement proper precautions to mitigate the risk, nations with low levels of power distance will, by extension, have higher standards of investment opportunities. This conclusion can be beneficial for both developing and developed nations (Lemaire & Park, 2012; Treerattanapun, 2011).

2.2.14.5 Individualism

ITM International (2017) anticipated that more independent individuals will opt for premium insurance products more frequently than those in societies that prioritise

collective values. As a result, individualism would positively correlate with insurance demand, while collectivism would negatively correlate with overall performance.

2.2.14.6 Masculinity

The biological differences that influence social and cultural roles are measured in terms of masculinity (Treerattanapun, 2011). Chui and Kwok (2008) found that female societies bought more financial intermediaries' products and services because they were more aware of their households' needs and wanted to safeguard them. Previous research studies have also shown that the influence of masculinity on financial intermediaries' investment is unclear (Lemaire & Park, 2012).

2.3 Effectiveness of Safeguards

In the South African insurance sector, the effectiveness of safeguards plays a crucial role in influencing the performance of financial intermediaries. Safeguards, which encompass regulatory frameworks, operational controls, and consumer protection measures, are designed to enhance trust and stability within the market. According to the Financial Advisory and Intermediary Services (FAIS) Act and the Insurance Act, these regulations establish standards for transparency and accountability, thereby promoting ethical practices among intermediaries. Studies, such as those conducted by McKinsey & Company (2020), highlight that robust safeguards not only mitigate risks but also enhance consumer confidence, which is essential for sustainable growth in the insurance market. However, challenges such as compliance costs and the dynamic regulatory environment can hinder the effectiveness of these safeguards. Therefore, a comprehensive understanding of how these factors interact is critical for assessing the overall performance of financial intermediaries in this sector, emphasising the need for continuous evaluation and improvement of existing safeguards.

- **Regulatory Frameworks:** The South African insurance sector is fundamentally supported by regulatory frameworks such as the Insurance Act and the Financial Advisory and Intermediary Services (FAIS) Act. These laws establish a structured environment for financial intermediaries, mandating transparency, and ethical conduct. They require intermediaries to disclose critical information—like policy

terms, fees, and risks—enabling clients to make informed decisions. Regular audits and compliance checks further minimise malpractice risks, enhance market stability, and promote healthy competition among providers.

- **Operational Controls:** Operational controls are essential for the effective management of financial intermediaries. They include risk management frameworks, compliance protocols, and performance monitoring systems. By identifying and mitigating risks related to underwriting, claims processing, and customer service, these controls reduce the likelihood of fraud and operational failures. A culture of continuous improvement is fostered through performance monitoring, leading clients to perceive intermediaries as reliable and trustworthy, which bolsters overall market stability.
- **Consumer Protection Measures:** Consumer protection is vital in safeguarding policyholders' interests. Legislation like the Consumer Protection Act provides a framework for consumer rights, allowing policyholders to seek redress against unfair treatment. Key provisions include clear communication, the right to cancel policies, and dispute resolution mechanisms. These protections empower consumers, enhancing their confidence in the market. Educational initiatives further inform consumers about their rights and available products, promoting informed decision-making and strengthening trust in the insurance sector.

2.3.1 Institutional and demographics factors

Several political and legislative factors also impact on the institutional environment in which financial intermediaries operate in addition to financial, economic, social, and cultural factors (Esho, 2004). Although these factors will receive less attention in this study, numerous reports have considered their impact on financial intermediaries' investment and demand. According to Feyen et al. (2013), the legal and regulatory framework is expected to have a significant influence on market development by increasing trust in insurance contracts. Financial services providers are accountable for ensuring the proper execution of insurance contracts, specifically those required by legislative requirements in South Africa.

Esho et al. (2004) argued that population increases boost life insurance demand since it brings in more customers for life insurance businesses. As life expectancy is highly connected with economic conditions, an increase in this statistic indicates an improvement in quality of life. Higher life expectancy can be understood in the non-life sector as increased demand for vehicle and property insurance, while in the life sector as increased demand for annuities.

2.3.3.1 Legal foundation

Insurance providers who offer goods and services must have a legal framework because it creates guidelines for their requirements, allocation, and consumer spending. The legal system is significant to the insurance sector because there is a high likelihood that an insurance provider will go insolvent. These mechanisms of the system are important to safeguard the interests of consumers and use financial markets that also impact how insurers operate (Esho et al., 20004).

2.3.2 Measurement of key performance indicators

It was suggested by Kohlscheen (2018) that the cost-effectiveness of the financial intermediaries may be impacted by a wide range of elements. These elements are often classified as business and economic variables. Pervan et al. (2012) discovered the fundamental factors that impact financial intermediaries' profitability in the insurance sector as follows:

- Microeconomic business factors that influence financial intermediaries include customers, personnel, competitors, media, shareholders, and suppliers.
- Macroeconomic factors that influence financial intermediaries include the rate of inflation, global trade, layoffs, rates of interest, and growth in the economy. It was determined by Kozak and Ahmed (2018) that in different countries, foreign ownership and GDP expansion favourably impact the financial viability of insurers. There are contradictions and insufficient information about the relationship between insurance earnings and competitiveness.

2.3.2.1 Leverage, adequacy and operational cost

The percentage of debt-equity ratio in a financial intermediary's capital structure is referred to as leverage. Leverage preference is a crucial decision-making process since it impacts investor risk and returns as well as the current market value of financial intermediaries. Debt-equity proportion affects dividends and risk for shareholders, in addition to the market value of the business and the cost of financing (Pandey, 2018). Several studies produced results that are inconsistent regarding the connection between financial achievement and greater usage of borrowing in the capital system, according to Pandey (2018). Therefore, proportion is utilised to assess an insurance provider's financial soundness and liquidity. The debt-equity ratio that is high shows that financial service providers are unable to meet their liquidity needs, which forces them to borrow more money. However, if financial services providers have sound risk management. Since it contains more interest-bearing assets, the larger loan ratio may yield more profitability. Additionally, the literature shows that more liquid assets may result in decreased profitability for financial services providers (Kohlscheen, 2018; Demirgüç-Kunt & Huizinga, 2017). As a result, financial services providers that have larger loan-to-asset ratios and fewer liquid assets could be less profitable (Bourke, 1989; Moualhi et al., 2017; Trujillo-Ponce, 2018).

The Basel Committee on Banking Supervision (BCBS, 2019) believed that capital adequacy is the result of dividing main capital into the sum of risk-adjusted assets on risk factors in percentage. Financial intermediaries' capital and assets are two major components in determining the bank's capital adequacy rate. Basel Committee on Banking Supervision (BCBS, 2019) further contended that minimum capital requirements are imposed to ensure that financial intermediaries have sufficient capacity to perform the intermediation function required for the economy's development. Well-capitalised financial institutions can invest more in business expansion and allocate resources to build capacity to compete more effectively in a more liberalised environment. One of the most significant aspects of insurance company supervision is capital adequacy and solvency regimes. An insurance company is solvent if it can meet its contractual obligations under all foreseeable circumstances. Insurance regulators require insurers to keep assets or surplus capital more than liabilities, which is known as a solvency margin.

The cost-to-income ratio is measured by operational efficiency (OE). The higher ratio denotes ineffective operational cost management, which has a negative impact on profitability. According to Shair (2019), lower profitability results from higher expenses. As a result, it is anticipated that a decentralised relationship between an increased proportion of expense to earnings and profitability is in line with previous research (Dietrich & Wanzenried, 2011).

2.3.2.2 Credit quality, structure, and diversification

Credit quality (CQ) contrasts with the debt default provisions with the net borrower's proportion. Poor credit quality is indicated by a higher ratio, which lowers profitability. Loan loss provisions protect financial services providers from risks, but decrease interest earned and profitability. Furthermore, a rise in provision for loan losses is correlated with an increase in non-performing loans, which results in poor credit risk management practices on the part of the financial services providers. Miller and Noulas (2017) previously argued that a greater loan loss ratio determines risky vulnerability, which lowers financial services providers' profitability.

The ratio of deposits to equity acts as a stand-in for financial position. Garca-Herrero (2019) state that a financial services provider's decision to hold more shares is volatile because shareholders anticipate a greater return on their equity. Admat (2013) suggested that efficient financial regulations can normalise the financial system, and greater equity is not an additional cost source for financial intermediaries. Compared to equity, deposits raise the cost of funding and anticipated financial distress. As a result, a rise in demand deposits that do not incur interest can increase profitability. It is not known whether the deposit-to-equity ratio affects profitability.

According to Admat (2013), the percentage of non-interest income of total revenue serves as a diversification index. Therefore, charges, commissions and other non-interest-bearing sources of revenue are ways for the financial intermediaries to increase their actual income. Past studies have found both beneficial and harmful outcomes of

diversification regarding the liquidity or profitability of insurance providers (Tan & Floros, 2012; Demirgüç-Kunt & Huizinga, 2014).

2.3.2.3 Funding and operational cost

Tan and Floros (2012) argued that financial services providers with higher costs should try to lower costs by raising loan interest rates to find a positive impact on profits. The funding cost is calculated as the interest paid over the average amount of deposits, and as a result, deposits are financial services providers' main source of funding. Garcia and Guerreiro (2016) affirmed that funding costs may rise because of intense competition, rates of interest in the market and customers' needs. Previous studies by Dietrich and Wanzenried (2011) and Islam and Nishiyama (2016) suggested that the return on equity (ROE) and return on asset (ROA) were negatively impacted by a greater finance cost (FC) ratio.

According to Lee and Isa (2019), operational costs are measured by dividing operating costs by average assets. Profitability and expenses have a positive relationship, as shown by numerous studies in the past. Additionally, their results provided support for the optimal payment concept, which argues that better workforce performance raises wages and benefits, which in turn raises operating expenses. Numerous studies have indicated that operation cost (OC) and profitability are related (Kohlscheen, 2018; Tan & Floros, 2012).

2.3.2.4 Financial intermediaries' labour productivity

Lee and Isa (2019) maintained that the use of proportions of gross revenue to the average employee score estimates productivity levels. Several studies have used this profitability factor as a determining factor (Tan & Floros, 2012; Athanasoglou et al., 2005). These studies suggested that labour productivity will increase profitability. Therefore, a financial services provider workforce that is well-developed generates more income, which increases profitability (Lee & Isa, 2019).

2.3.3 Historical perspective and international trends

Historically, providers of financial services were classified as either insurance representatives or insurance brokers; the distinction between the two lay in their methods

of conducting business. As per Levin (2002), funding financial institutions and business entities is critical for the growth of the economy, as financial growth increases the effectiveness of resources and economic growth. While Rajan and Zingales (2018) contended that there is a connection between financial stability and economic development, the essential question is whether financial stability encourages economic growth by lowering the cost of further lending.

The focus was on whether industrial sectors that require external financing developed quicker in countries with more developed financial markets. According to Yusuf and Dansu (2014), financial intermediary services operate between two parties in a financial transaction, possibly an insurance company, mutual fund, or pension fund. Consumers as a whole gain from financial intermediaries' safety, liquidity, and economies of scale in the insurance sector or asset management industry. Insurance businesses mostly compete by capitalising on quality and price. For this reason, the insurance sector often uses two forms of insurance: both short-term and long-term insurance. Whereas short-term insurance usually protects consumers against loss namely, valuables or treasures, long-term insurance usually protects clients' well-being or health. The study aimed to unearth factors or variables that influence the performance of financial intermediaries in the South African insurance sector.

Table 2.6 Market Environment (Statista, 2020)

LONG-TERM COMPANIES		2019		2020		Change	
Percentage							
South Africa Branches		1,328	1,687	359		27.0	
Financial Services		39,425	43,400	2,975		5.9	
South African Employees		46,240	49,740	4,500		8.74	
Insured holders (millions)		37.4	38.7	9.3		32.0	
SHORT-TERM COMPANIES		2019		2020		Change	
Percentage							

South Africa Branches	384	612	229	15.9
Financial Intermediaries	18,060	20,300	2,240	1.2
South African Employees	15,040	18,250	13,210	12.1
Insured holders (millions)	22.7	25.6	2.9	11,2

South Africa's financial intermediaries are sophisticated and vast, utilising a domestic asset-to-growth domestic product (GDP) percentage higher than most developing nations. It was determined by Statista (2019) that the insurance sector holds most of these assets – with the pension funds and insurers, South Africa's domestic lending to the private sector as a proportion of growth domestic product (GDP) was 129%, higher than Egypt (29%), Nigeria (13%), Kenya (36%), and Morocco (83%). Although approximately 81% of South Africans over the age of 18 have access to financial products and services (Statista, 2019), practical access to financial services is still limited, as evidenced by low account utilisation.

According to the FinMark Trust Survey (FMT, 2019), individuals from low-income households kept 40% of dormant accounts; however, 20% withdrew the whole amount as soon as the money was transferred. To illustrate the growth of the South African intermediation market to growing global trends, a global evaluation was carried out as a component of this study of financial intermediation in South Africa. This evaluation aimed to identify significant frameworks emerging from other nations, with potential lessons to be learned that could be advantageous for South Africans in the future. Financial intermediaries and insurance brokers are essential to the insurance industry because they offer financial risk protection (International Monetary Fund [IMF], (2017). Insurance firms and financial services providers perform significant economic activities. Therefore, they are important participants in financial industries since they allow market participants to continue to expand unsystematic risk, thereby providing the basic requirements for certain business activities (Liedtke, 2010).

Previous studies have predominantly focused on the evolving nature of insurance activities and their overall contribution to systemic risk (Billio, 2012); for example, the evolution of their product portfolio and investment opportunities may expose insurance providers to greater aggregate, direct or indirect loss risk (Acharya, 2010). Therefore, prior to the global economic crisis of 2007-2009, insurance providers were not regarded as posing significant systemic risks. Insurance companies had longer-term obligations than financial institutions, managed a more diverse asset portfolio, and had fewer interrelationships with other players in the financial system, according to the Global Financial Stability Report (IMF, 2017). However, the South African insurance industry was flagged as a source of systemic financial risk during the economic downturn.

Dungey (2014) maintained that insurance providers have ties with financial services providers and banks, which are becoming stronger as they become more involved in financial markets. Further, additional exposure to non-traditional non-insurance activities (such as derivatives trading) may increase counterparty risk. In many countries, insurance companies are viewed as being more vulnerable to failure (Paulson, 2014). Schwarcz and Steven (2014) pointed out that low interest rates pose a significant risk to insurers, particularly those in the life sector. Long-term low interest rates present a challenge to the business strategy of insurance providers; hence, they offer investment returns on long-term deals that increase the rates of return on available secured assets (Krenn & Oschischnig, 2003).

As stated in the Finscope Consumer Report (FMT, 2018), there are four basic distribution models (see Figure 2.5) for delivering insurance products to low-income individuals on a global scale. Figure 2.5 illustrates the relative size of financial intermediaries in selected countries.

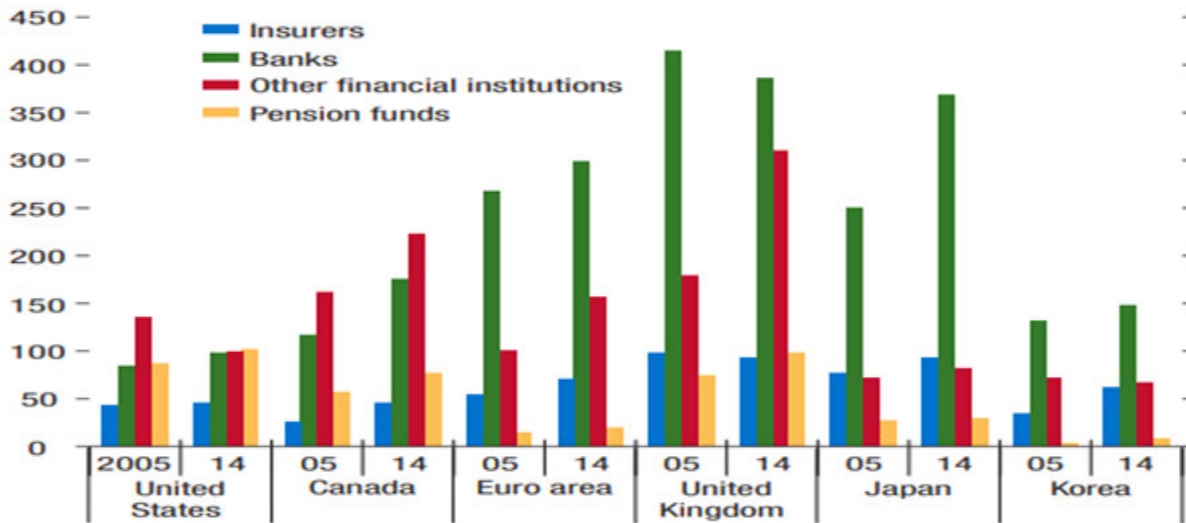


Figure 2.5 Selected Countries - Relative Size of Financial intermediaries (IMF, 2018)

2.3.3.1 Mutual insurer, linked partner-agent, independent intermediary and captive agent

Data from the International Association of Insurance Supervisors Report (IAISP, 2018) affirmed that the mutual insurance industry maintains a significant minority share of the global insurance sector with particularly strong representation in some key countries across the globe. Mutual insurers primarily service disadvantaged populations. This model is most widely used by cooperative societies, credit firms, and informal and formal institutions that offer financial services to their customers. According to the FinMark Trust and Ford Foundation (FMTFF, 2018), the mutual insurer model is frequently employed in situations where there is a robust collaborative or financing channel that necessitates a variety of needs-based insurance products, both voluntary and a cooperative network with efficient systems, and knowledgeable management.

The partner-agent model entails the insurance provider partnering with another financial services provider to disperse financial products and services to the customer of the agent. In general, these captive agents of insurance dispersion are microfinance institutions and other types of non-governmental organisations (NGOs). The common factor is that the agent already offers some form of financial services to its customers. The insurance

provider oversees product development and sales prices, while an agent oversees customer service and sales (International Cooperative Alliance, 2018).

The FMFFF (2018) described a captive agent as being involved in recruiting and managing a sales team that offers insurance products to its customers. Insurance providers oversee product design, sales prices, and customer service. This model enables insurance providers to maintain business control. Insurance providers should use the captive agent model if they want to provide low-income groups with insurance products, especially in areas with high population density, exercise strict control over agents due to certain characteristics of product offerings such as financial investment and create a specialised distribution agency with low costs for customers.

An independent intermediary provides services while availing insurance product lines on behalf of several insurance providers; however, they bear no insurance risk. In many cases, broking licences necessitate significant capital expenditure as well as specific requirements for resourcing, and employee training and development. The most significant benefit of using an independent intermediary is the variety of insurance providers and product lines available to customers (ICA, 2018). This model is best suited to the following contexts (FMFFF, 2018):

- Through a reputable channel/platform which already dispenses other product lines, and if there is a substantial captive market accessible to the prospective independent intermediary.
- Numerous client groups that need extensive (and a variety of) voluntary insurance products.
- Customer intermediaries are gaining from a more sophisticated intermediary that has the cooperation of one or more insurance providers because of the insurance providers' growing interest in insurance.

2.3.3.2 Global insurance sector trends

2.3.3.2 1 Macro-economic prospects, structural changes and climate risk

The rising of interest rates can benefit financial intermediaries' solvency soundness, but significant rises in interest rates may lead to liquidity risks (International Association of Insurance Supervisors [IAIS], 2022). Also, higher inflation raises expenses and claims severity for financial services providers, as well as revaluations of reserves. Worldwide, regulators enhanced their oversight and supervision of current environmental hazards affecting the insurance business, including credit risk and liquidity risk:

- The IAIS (2022) reported that private equity groups operate in the insurance industry through mergers, acquisitions, and the reinsurance sector, among others. Insurers associated with private equity investments have been linked to activities such as asset allocation, complex and illiquid assets, and cross-border reinsurance, even if these operations are not limited to insurers taking part in private equity in certain jurisdictions.
- The insurance business is witnessing a rise in transition and physical risks associated with climate change because of the absence of progress in cutting emissions from fossil fuels worldwide. The IAIS website (n.d.) affirmed that it assists regulators in improving their awareness of the kinds of scope of atmospheric conditions or climate-related vulnerabilities in the insurance sector so that effective supervisory actions can be developed.

2.3.3.3 South African trends

The rationale behind using financial assets is to measure financial intermediaries' stability. Since financial assets are the property of financial services providers, they offer a reliable assessment of financial intermediaries, compared to prior indicators such as stock market liabilities (IMF, 2020). The best penetration rates globally were in 2020, measured by premiums as a proportion of gross domestic product (GDP) was 13.7%. This exceeded the market values in both the United States and the United Kingdom. Products for funeral insurance make up most of this insurance. Seventy per cent (70%) of the market premium for African insurance is held by South Africa (FMT, 2020). Figure 2.6 displays the trends of South African financial intermediaries.

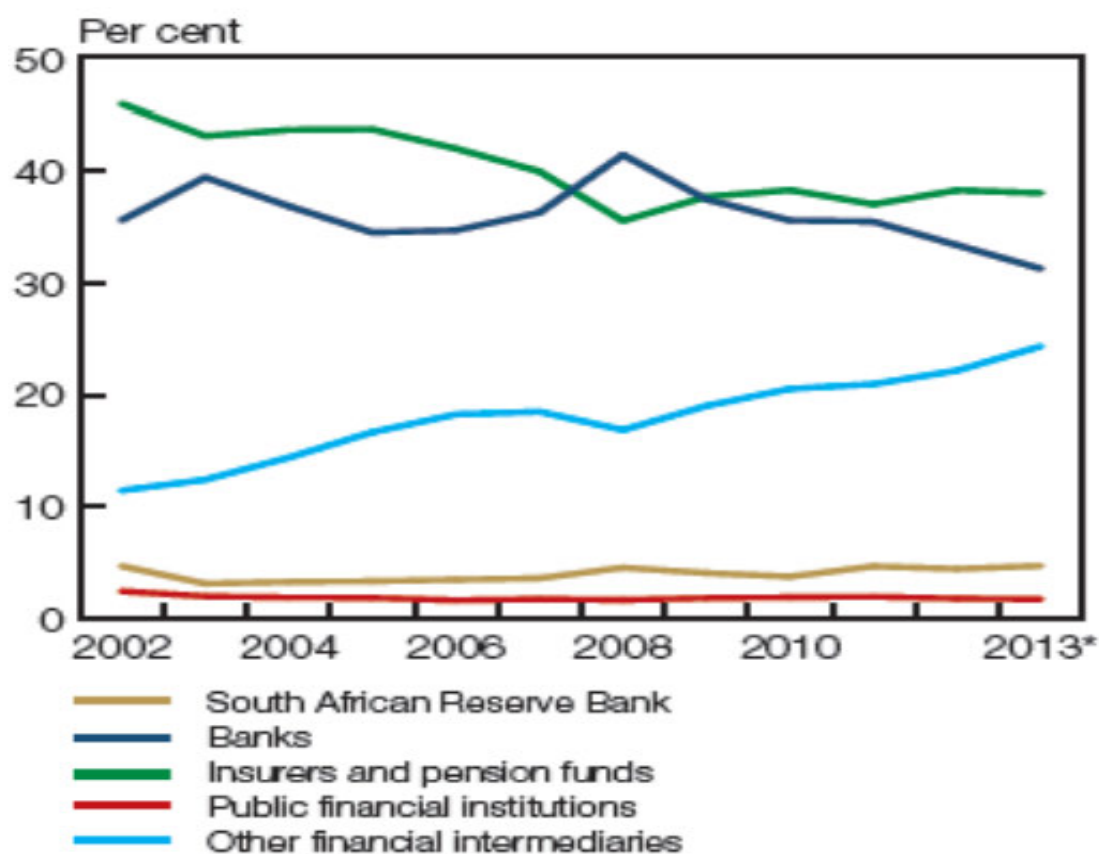


Figure 2.6 Intermediaries' Trends (SARB, 2020)

As a result of sanctions being lifted, financial intermediaries were able to provide enterprises with funds, which contributed to South Africa's economic expansion. Interest on loans and fees were used to pay the costs for this intermediation. The consistent increase in financial assets in Figure 2.6 illustrates how, starting in 1996, investors abroad expressed assurance in putting money into the economy. Consequently, financial intermediaries' assets grew steadily until 2008, when they reduced marginally in the third quarter of 2008, a decline that could be associated with financial instability, which resulted in a decrease in profits for most intermediaries.

Since trade continued to progress, there was no intervention by the Government to save financial services providers that were experiencing issues with financial resources and their ability to repay depositors on request. A widespread belief prevailed in South Africa

that the nation's economy did not experience a recession. However, Figure 2.6 confirms that financial assets continued to decline in 2009, which could be attributed to a decrease in loan demand as well as intermediaries' need to waive a certain amount from debtors who were not able to pay during the financial collapse. This, again, indicated that intermediaries' priorities had changed, with a focus on maintaining liquidity in the event of a 'bank run' by customers. Ultimately, this trade-off between expanding the financial services industry and preserving liquidity during the fiscal crisis led to a decline in financial assets that had to be disposed of.

Evidently, the crisis wreaked havoc on most economies, except for the South African economy (Figure 2.6). During the first quarter of 2010, this success of financial intermediaries began to shift the economy into recovery mode with the emergence of the first indications of an increase in investment assets. The recovery, characterised by a steady increase in financial assets rather than significant gains, arose because money lending and other intermediary activities had since undergone more regulations, ensuring that those who borrow are doing so for reliable investments while also increasing banks' risk aversion and cautioning engaging in risky lending.

In summary, South Africa has a prominent level of financial assets, indicating a strong and stable financial system that supports the nation's access to savings and investments while also promoting a developing economy. The availability of broad money and the liquidity of the stock market are additional factors that could be used to assess the trend of expansion regarding financial intermediaries. Figure 2.7 aptly illustrates the trend in financial intermediaries' asset growth.

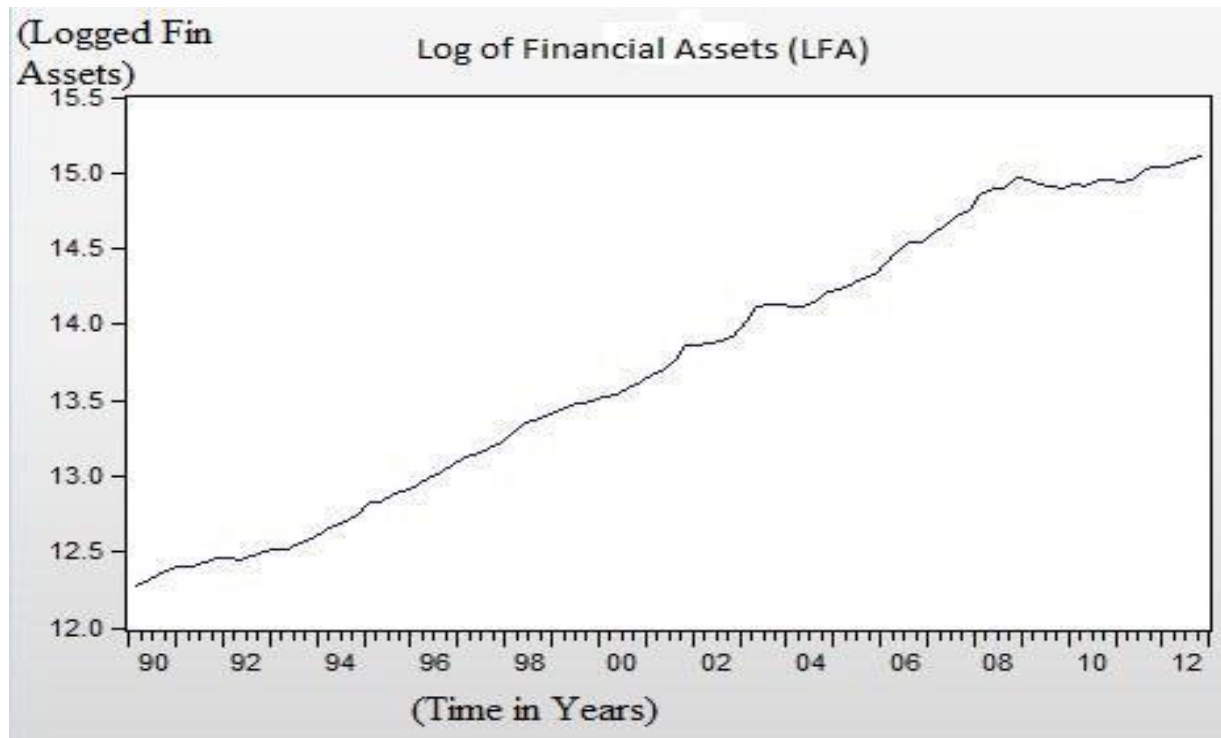


Figure 2.7 Financial Intermediation Asset (SARB, 2013)

2.3.4 South African financial intermediaries

2.3.4.1 Recognition, crisis effect, competitiveness and risk environment

Based on the Swiss Annual Report (SR, 2016), despite the South African insurance sector being a solid player with significant growth over the years, the current performance is lower compared to that of developed players in the market that contribute to the sector and other evolving international players. The A.M. Best Company (2018) found that countries with a large increasing population and solid economic practices gain the interest of insurance businesses. As a result of the current insurance costs prior to the COVID-19 pandemic's breakout, crude oil prices collapse, and stagnant tourism, insurance providers' market share and premium volumes decreased (SR, 2019). Despite numerous intervention measures by insurance providers, such as business restructuring, customer education, improved distribution channels, and regulatory requirements, financial intermediaries struggle with slow growth (A.M. Best Company, 2018).

The insurance industry is facing numerous difficulties, including claim challenges, licensing, and a lack of regulatory oversight collaboration. Therefore, financial intermediary stakeholders are either internal (shareholders, management staff, and exclusive agents) or external (agents, financial services providers, and corporate and private customers). The primary aim of an insurance provider should be to create solutions and operational structures and processes that fully meet the requirements of the clients and expectations of different stakeholder groups. According to Greenbaum (2018), financial intermediaries are organisations that intermediate between financial services providers. Brigham et al. (2003) advocated that financial intermediaries such as financial advisors should have a knowledge and understanding of the products offered by the financial intermediaries. In support, Churchill (2006) affirmed that consultants play a crucial part in helping consumers who are purchasing a product offered by financial intermediaries.

Churchill (2005) asserted that trade and financial markets caused the global financial crisis. This was protected in South Africa by a lowering of the standards for loans from financial institutions. Furthermore, risk aversion increased during the global financial crisis, which led to a reduction in international borrowing and a reversal in the flow of foreign alternative investment schemes into emerging markets. Although South Africa benefited significantly from the thriving economy that existed before the global financial crisis, like all emerging markets, it was unable to completely escape the negative effects of the financial crisis. The effects of the meltdown on South African financial institutions were secondary due to higher interest rates, even though the financial system had previously shown stability. Financial institutions were exposed to a wide range of risks, including risks related to credit and the possibility of default, from which the banking sector was not exempt.

Market volatility, also known as interest rate risk, is the first risk that financial institutions are subjected to. This poses the risk of interest rates increasing, which would result in a capital loss for the lending institution. Due to this inverse link, this is equivalent to a decline in bond prices. During this period, since most financial institutions served as underwriters when the loan providers were unable to pay back the principal amount of their mortgage

bonds in full or in part, financial institutions were left in an unfavourable position with no way to recover their investments. Market risk frequently precedes credit risk in this manner. Many infrastructure investments in developing nations like South Africa saw their funding decrease because of this risk. Given that the financial system was in a slump, and that there was a high likelihood that debtors would default, it meant that financial institutions had to exercise discretion when lending money. One disadvantage that financial institutions faced was the exchange rate risk. As some financial institutions were subsidiaries of major institutions, the devaluation of the South African rand by 40% was evidence of this risk.

In 2018, the International Monetary Fund (IMF) and World Bank reported that South African regulators in 2010 protected the banking industry following the worst of the global financial crises when markets for financial services suffered more severely from the collapse of the market due to weak financial standards (IMF, 2017). This demonstrated that local banks and insurance companies maintained their profitability throughout the crisis while maintaining capital adequacy ratios above the required minimum. The South African case study is crucial because it offers global banks operating guidance on what to do both before and after a financial crisis.

Total global financial assets grew robustly in 2021, rising by 7.7% (\$486.6 trillion), primarily due to the growth of the financial intermediary sector. In 2021, the financial intermediary industry expanded by 8.9%, growing to \$239.3 trillion (for the 21+EA-Group). While the financial intermediary sector's asset growth in 2021 was less than that of financial institutions (12.0%), it was still higher than the 5.0% average over the previous five years (2016-20). In most jurisdictions, asset growth in public financial institutions slowed down in 2021 after showing rapid growth in 2020, which could be attributed to the COVID-19 pandemic. This exemplified some of the pandemic-related interventions implemented to support the economy and the operation of the key economy.

Starting in 2021, the economy and the operation of the major financial markets began to gradually transition to more focused measures (Financial Stability Board [FSB], 2020). As a result, in 2021, the overall financial intermediary sector's relative share of all global

financial assets rose from 48.6% to 49.2%. The possibility of a pandemic resurgence kept uncertainty at prominent levels even as government agencies continued to support the economy. Selected sovereigns, non-financial corporations, and households all continued to have prominent levels of debt. In general, higher valuations resulted from financial institutions accommodating monetary policy and low interest rates. Figure 2.8 illustrates the total global financial assets.

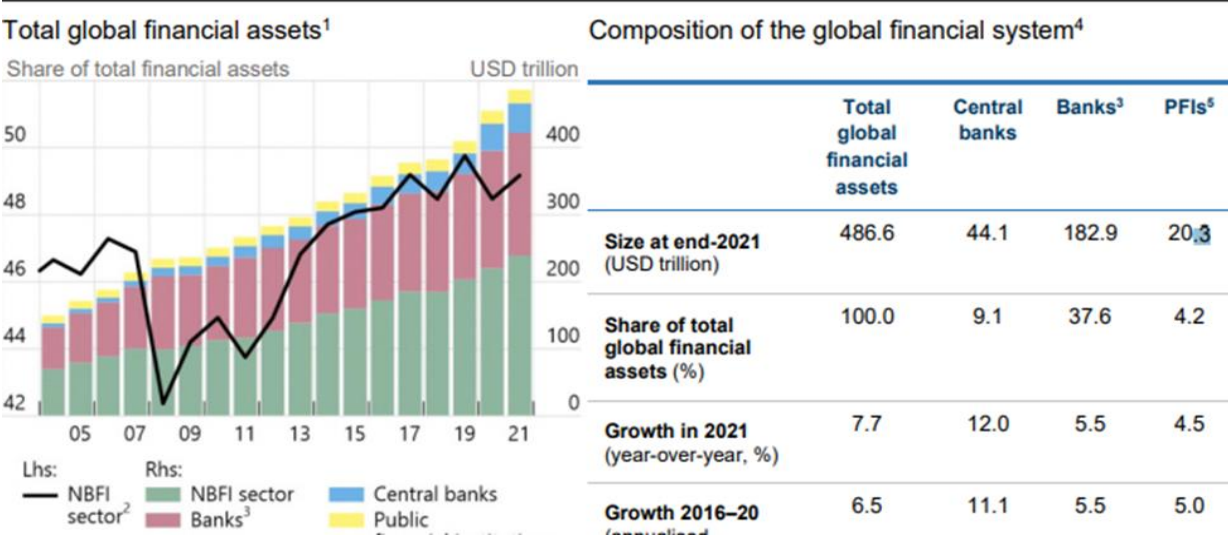


Figure 2.8 Global Financial Assets (FSB, 2020)

2.3.5 Conceptual issues and systemic risk

Monkiewicz and Marian (2014) maintained that systemic risk in financial systems is caused by the inability to fulfil key financial capabilities which hinders the economy. Insurance or financial services providers may contribute to systemic risk, with systemic implications. Another source of systemic risk, as stated in the Global Risk Regulator report, is having familiar sources of exposure across firms which may jeopardise the system's financial intermediation in the occurrence of adverse shock (Zurich Insurance, 2018). Therefore, an unexpected event occurs when insurance providers decide to take on more aggregate risk without considering the likelihood that their actions will impede intermediation in the other areas of the financial system.

2.3.5.1 Default Risk

Cummins and Weiss (2014) opined that systemic vulnerability assessment has concentrated on the risks of financial services providers or insurance providers' failures and the possible consequences. When assessing the systemic risk posed by insurance providers, six key characteristics are critical.

2.3.5.2 Technology

Digital solutions capitalise on efficiency; hence it is essential for financial intermediaries to continue with viable IT platforms in the insurance sector (Anderson & Billou, 2007). The digital insurance approach to attract customers will be the modern trajectory to change the insurance sector for the better. This will inspire financial intermediaries of all sizes to search for innovative solutions. McKinsey and Company (2020) reported that the use of artificial intelligence quickly expanded the insurance sector because financial intermediaries could now improve claim-turnaround times and fundamentally change the underwriting process. Robotics and machine learning technology have the potential to improve productivity and efficiency in almost every operation within the insurance sector. Additionally, salient features such as costing price, data gathering, identification of fraud, and claim assessment can change using modern technology (Makina, 2017). Figure 2.9 comprises the background of artificial intelligence.

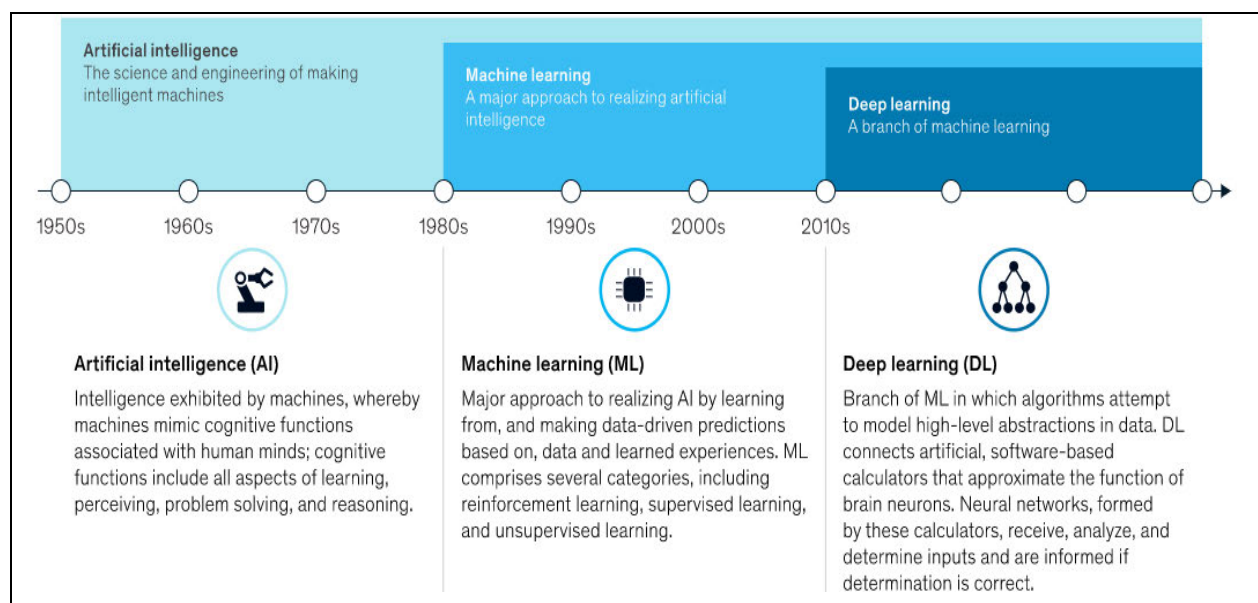


Figure 2.9 History of Artificial Intelligence (Nvidia, 2017)

2.3.5.3 Insurtech

According to Edwards & Olavsrud (2023), Insurtech is an innovative technology that is used by financial intermediaries to reduce costs for customers and insurers which expands operational effectiveness and improves the entire customer understanding. Consequently, Insurtech technology is changing the insurance sector in real-time while promoting the development of insurance products that are responsive to emerging risks (Edwards & Olavsrud, 2023). For Edwards and Olavsrud (2023), Insurtech is reconfiguring the insurance sector's operational ecosystem. Big data, cloud technology, machine intelligence, and blockchain are all technological developments that have aided in making the insurance sector more efficient and beneficial to allow for an overall restructuring of the sector. The following are the listed benefits of Insurtech (Chen & Wong, 2004):

- In addition to products, markets, and distribution networks, insurance and reinsurance are affected by underwriting, pricing, settlements, and the value chain system. Ultimately, it will make it possible to develop a completely new integrated solution and functional ecosystem for the insurance industry.
- Insurtech is assisting the insurance market in addressing its deficiencies which will accelerate the growth of the financial services providers' infrastructure, enhance the risk management component of insurance providers, and strengthen authorities' skills, abilities, and supervision methods. Insurtech will also enable industry role-players to share infrastructure.
- Insurtech is bolstering the insurance sector with high-quality innovation which will aid in the implementation of scenario-analysis on based insurance and product features, in addition to accessing all information tailored for underwriting. As a result, it will identify all aspects that were originally the subject of widespread criticism, thus enabling high-quality industrial growth.
- Insurtech will aid in making insurance more accessible to all because it has the potential to increase efficiency while decreasing costs. Such technologies will enable the future provision of diverse and high-frequency insurance services and products at reduced costs. In sum, Insurtech will eventually make financial services more readily available.

2.3.5.4 Predictive analysis

Edwards and Olavsrud (2023) described predictive analysis as the use of data to estimate future results based on historical data using statistical modelling and machine learning. With predictive analysis, financial intermediaries can identify and exploit patterns contained within data sets to distinguish risks and to foresee the prospects for the organisation.

2.3.5.5 New entrants

As reported by the Insurance Innovation Reporter (IIR, 2019), new entrants in financial intermediation appear to emerge from nowhere. The Insurtech transformation, the advancement of modern technologies, and the desire of global tech giants are all positively influencing new entrants, collaborations, and business strategies. Eventually, the desire to create businesses and earn a significant amount of money will be the driving force underpinning these different initiatives. For example, BMW and Swiss Re collaborated on Automated Driver Assistance Systems (ADAS) scores to collect telematics data from vehicles related to ADAS. These new entrants were well-positioned to focus on meeting client needs, benefiting from a lack of outdated technologies. They relied on a strategy centered around efficiency and financial return on capital, which provided them with greater flexibility and the ability to respond to, utilize, and create data that primary insurance companies could leverage (IIR, 2019).

2.3.6 Regulatory frameworks

A simple transaction is at the heart of insurance: an insurance provider sells a product to a consumer, which is a commitment in exchange for a premium such that the insurance provider will pay the consumer an agreed-upon financial reward in the event of a specific event. The item is sometimes distributed and marketed through a third-party financial intermediary. The risk of keeping the commitment is borne by the insurance provider, whereas the intermediary only acts as a point of contact, offering the product or service and advising the client on the benefits of the product. Before providing insight into the regulations governing both the insurance and financial intermediary markets, consider the importance of complying with legislative requirements. According to the Financial Sector Conduct Authority Report (FSCA, 2021), the insurance transaction can be regulated in

three ways: the buyer and the seller, the product, and the way the stakeholders communicate directly. Several functions of insurance regulations are discussed based on the above:

Determines the type and standard of the financial services provider, as well as the type and level of intermediation institutions: According to the National Treasury Report (2019), the regulatory framework affirms the general approach to financial services regulation and the institutional structures required to formalise it. This is referred to as institutional regulatory oversight, also known as regulatory oversight, which is authorised to provide insurance, sell financial products, and offer guidance on product options. Authorised financial intermediaries are subject to strict regulations set by the authorities overseeing the insurance industry. They are required to submit frequent reports to the regulator. Those who are unable to meet these requirements are barred from entering the industry.

Determines strategies and mechanisms required to complete the insurance transaction: This entails how an insurance sale should proceed, what documentation should be revealed to the customer, what guidance should be provided and how it should be provided, what documentation is required, whether a cooling-off timeframe is required, to what extent should the intermediate services be compensated, and ways an insurance provider needs to manage complaints and handling of claims.

Product control regulation: It governs what is allowed to be marketed, what characteristics should be incorporated into a product, what terms and conditions are significant, the minimum rewards, and premium level restrictions.

According to Herring and Santomero (2000), it is crucial to consider whether a regulatory framework contributes to the creation of a stable environment which aims to encourage the growth of institutions when evaluating and supervising financial intermediaries. An inappropriate regulatory structure that encourages changes in laws and regulations within the insurance industry may limit the opportunities to promote the growth of financial intermediaries, while also exposing substantial undiscovered risks and weaknesses. The IMF Report (2018) advised that financial intermediaries in the financial system must abide

by regulations governing competitive practices and business conduct (including market integrity).

Carmichael and Pomerleano (2002) asserted that certain features for intermediaries in the insurance sector are critical in determining the extent of supervision by the regulator. These features include the complexity of executing legally binding contracts or agreements, the challenge consumers face in determining the financial status or soundness of the financial services providers, and the adversity generated by breaching contractual obligations. To encourage the growth and upward mobility of financial intermediaries into reputable and established financial institutions, an effective regulatory environment is necessary. However, the legal and regulatory environment for financial services seems to be disjointed and lacking in many emerging markets. It is important to evaluate financial intermediaries by applying the laws and regulations governing their operations to ensure clarity and appropriateness. While strict regulations may slow the growth of financial intermediaries, an ineffective or poorly designed regulatory framework may weaken the industry. Such situations do exist, even though stringent laws are frequently enforced. The lack of a clear legal foundation in many emerging market countries impedes the expansion and advancement of a financial system globally. As a result, they pose a special challenge to financial services providers. The financial guidance strategy may grant the regulator more latitude and flexibility, which could be especially beneficial for financial intermediaries, given that the various laws governing several types of financial intermediaries and markets frequently overlap.

A more prescriptive law, however, might provide a workable solution if the regulator's lack of operational independence prevents it from exercising discretion effectively. According to FSCA (2018), when determining whether the institutional structure for supervising financial intermediaries is appropriate, there should be a comprehensive legal framework for the financial services providers' oversight in the insurance sector. The degree to which the financial intermediary functions inside this regulatory framework must also be considered. An appropriate institutional structure for overseeing financial intermediaries will depend on the quantity and size of financial intermediaries. Hence, there must be a link between financial services providers and other participants in the financial system.

The ideal institutional framework for overseeing financial intermediaries would depend on the level of financial growth and the extent of understanding of rules and regulations (Carmichael & Pomerleano, 2002). Therefore, placing all financial entities, including financial intermediaries, under a single supervisory framework in most countries would reduce the possibility of breaches of regulation and arbitrage activities while making more effective monitoring feasible.

The 2018 World Bank Report asserted that the regulatory framework for financial intermediaries should support the achievement of the regulatory goals of greater competition, ethical market conduct, financial stability, and prudent operations to ensure that the laws reflect the unique operational traits of financial intermediaries to encourage their growth. From this perspective, financial intermediaries are also subject to the fundamental rules of effective financial supervision and regulation (Herring & Anthony, 2018). A few additional guidelines and considerations can facilitate the supervision of financial intermediaries from diverse backgrounds. These additional requirements regarding financial regulation can promote sound market behaviour and the prudent operation of financial intermediaries when financial sectoral laws are in the process of being developed. What are the policy goals for the financial intermediary's regulation in South Africa? As previously stated, the primary objectives of insurance intermediaries in the South African insurance sector are to protect clients, educate, and empower clients regarding their financial well-being.

Based on the 2019 Genesis Report, regulatory governance will never be satisfactory to all people, as policy objectives may sometimes conflict. Since the privileges and services offered to the customer are not generated for free, they are founded on favourable actions taken by insurance providers and intermediaries, which could result in increased costs. This culminates in an increase in premiums or costs twin for the customer. The outcome makes the policy's goal of making it harder for customers to access financial products more challenging. There are essentially two competing policy forces at play here: one wants to make financial goods more accessible, which means they must be more affordable, while the other wants to make them harder to obtain, as illustrated in Figure 2.10.

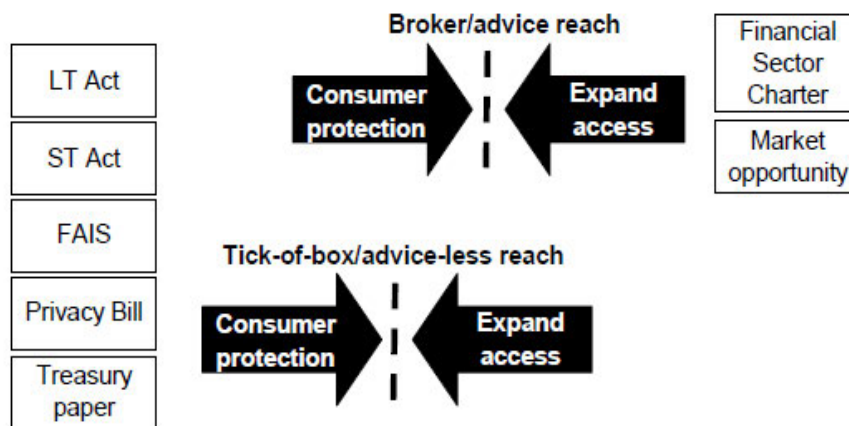


Figure 2.10 The Link Between Two Policy Objectives (Genesis Report, 2017)

The Twin Peak Model was established with the passing of the Financial Sector Regulation Act (FSRA) in August 2017. The Prudential Authority (PA) was established in April 2017, operating under the auspices of the SARB and the Financial Sector Conduct Authority (FSCA), as the legal successor to the former insurance supervisor (Financial Services Board). The SARB is still in charge of ensuring the PA's financial stability. Although institutional arrangements allowed for greater specialisation, increased collaboration between the two components is required. According to the FSCA (2019), micro-insurance is regulated under the Long-Term Insurance Act 52 of 1998 and the Short-Term Insurance Act 53 of 1998. These Acts replaced the Insurance Act of 1943 which covered both short-term and long-term insurance. The Financial Sector Conduct Authority Report (2018) described a regulatory framework as a set of procedures instituted by supervisory bodies to ensure that financial intermediaries adhere to rules and regulations in the insurance sector.

The regulatory framework outlines the general framework for the regulation of financial services as well as the institutional architecture that's required to carry out its implementation (Financial Sector Conduct Authority Report, 2018). The Central Bank of South Africa's main goal is to maintain the value of the country's currency to promote a

balanced and steady economic expansion. Consequently, the effectiveness and long-term sustainability of the nation's monetary infrastructure and payment systems are assessed by the South African Reserve Bank. Regulation is required to safeguard customers' self-confidence in the insurance sector to protect customers against any market abuse (Casu et al., 2018). The Financial Sector Regulation Act 2017 (FSR Act) promulgated on 29 March 2018, required the SARB, FSCA, and other structures of the state to organise their functions to ensure financial stability, while seeking to provide a structure for oversight and legislation which encourages the following concepts:

- Insurance provider's sustainability;
- Reliability of insurance providers offering insurance services;
- Reasonable conduct and safety of consumers;
- A financial system that operates effectively;
- Reducing money-related crimes;
- Access financial services;
- Abrupt changes in shaping the financial sector;
- Confidence throughout the financial system; and
- The structure for ensuring consumer safety and market behaviour.

2.3.6.1 Licensing requirements and principles for financial intermediation

The goal of licensing financial intermediaries was to ensure an optimal capital base and sound management - just like with any other financial institution - rather than to prevent entry or limit competition (FSCA,2018). Regulatory authorities should screen potential owners and managers so that those without the required education, resources, or moral character would not be able to obtain a licence. As a result, a candidate who is unable to satisfy the criteria to qualify for a financial services provider's licence should not automatically be granted one. In this regard, easy-to-enter nations frequently struggle with institutions that are inadequately regulated, undercapitalised, and poorly managed.

The regulatory framework should minimise negative effects on competition while encouraging it. Restrictive and ineffective regulation can be detrimental to the development of financial intermediaries (Bakker et al., 2004.)

- The regulatory regime must clearly identify the regulator's power as well as the admissible activities of financial intermediaries. The regulatory structure should be clear in terms of (a) the regulator's development and abilities and (b) the regulatory presence and behavioural patterns of the institutions being regulated. Disclosure and accounting rules, private property and contract enforcement should all be bolstered by sufficient infrastructure in regulatory frameworks.
- Financial intermediaries should be supervised in the same way that financial services providers are being supervised. The authority that supervises financial intermediaries is responsible for ensuring some absolute steps are implemented before first obtaining consent from the regulator.
- It is critical to pay close attention to how financial intermediaries and other industry players interact. It is important to evaluate the risk exposure resulting from stake ownership and interrelationships to investment (especially when it comes to financial intermediaries) as these ties make each sector highly susceptible to negative developments in other sectors.
- The unique risks encountered by financial intermediaries must be acknowledged within the supervisory framework irrespective of whether financial intermediaries are subject to a unified or separate supervisory framework. The institutional structure needs to emphasise identifying threats related to the oversight and regulation of financial intermediaries. Prudential standards for financial intermediaries should be defined specifically when appropriate. Statutory minimum capital ratio, asset valuation, provisioning, leverage ratio, acquisition, and investment are all common regulations that will need to be revisited.
- Monitoring should be equitable to the costs and benefits. The full regulatory regime levied on more high-risk and complex institutions should not be borne by simple and low-risk institutions.

- The higher-impact and more complex financial intermediaries should receive priority when it comes to capabilities and resources to prevent wasting constrained supervisory resources or burdening institutions with needless regulatory requirements. The intensity of off-site oversight and the complexity of on-site supervision consider the institution's size.
- The ability to self-regulate must be improved. Affiliations can effectively represent the perspectives of financial intermediaries according to appropriate supervisory and regulatory frameworks. They can also represent market participants to public servants, especially when the legislation is not directly monitored by any regulatory body. In addition, they can offer services that are expressly designed to meet the objectives of financial intermediaries, such as legal, financial, learning opportunities, and advertising.

2.3.6.2 Supervision of financial intermediaries

According to the IMF (2018), financial intermediaries engage in financial intermediation, which entails transferring funds provided by investors to borrowers through extra investing activities or their own accounts. IMF's (2018) research indicated that the small scope of the financial intermediary may minimise the systemic impact in certain countries. Issues with financial intermediaries may have a systemic effect as they reduce confidence in saving activities. Additionally, regulatory arbitrage caused by ineffective rules and guidelines for financial intermediaries may increase the vulnerability of the financial system in the insurance sector (Herring & Santomero, 2000). National pension funds are important sources of main contract cash reserves, offering a steady stream of long-term investments to support growth while also exerting a major influence on financial markets through their investment practices.

2.3.6.3 Risk-based approach

The World Bank Report (2018) recognised a new strategy for addressing oversight challenges in the insurance sector's increasingly interconnected environment, namely the risk-based approach (RBA) that focuses on assessing current and potential risks, and by pin-pointing emerging threats faced by the financial services providers and financial

intermediaries. The RBA is a guiding principle to focus on areas that pose the greatest potential risk to an FSP's financial soundness. The RBA is essential for the Financial Action Task Force's (FATF) rules to be implemented successfully. Regulators must implement the intervention plans that were most successful in the past. After establishing their customer base, insurance providers and financial intermediaries must evaluate and understand the money-laundering and terrorist financing risks to which they are exposed. The FATF which sets worldwide requirements, encourages international collaboration, and monitors compliance with rules and regulations, is essential to international efforts to prevent illicit financial transactions and terrorist funding.

The assessment of risk approach guides the insurance industry by assessing possibilities of money laundering, and terrorist financing, as well as regulatory and legal frameworks to obviate future risk. The guidance was developed in cooperation with the private sector to ensure that it reflects current knowledge and best practices in the industry. The guidance emphasises that for insurance providers and intermediaries to apply the RBA, the development of the illicit financial transactions and terrorist financing strategy plan is an essential first step. This should be appropriate for the business's size, complexity, and nature. This means that where insurance providers or intermediaries are part of a group, risk assessments should consider a group-wide risk appetite and framework. A simple risk assessment may be sufficient for smaller or less complex life insurers or intermediaries.

The Financial Action Task Force (FATF) glossary states that policy contracts with other investment-related insurance products are contracts that are primarily created to financially protect the customer/policyholder and any related third parties such as the insured's beneficiary or beneficiaries, and the beneficial owners against the risk of an uncertain future event, such as death or a serious illness. Related third-party beneficiaries can include both natural persons and legal entities or contractual arrangements. They can also include the policyholder or another designated or nominated beneficiary.

Additionally, insurers' products can be purchased as investment or savings tools, as well as to aid in pension or estate planning. In terms of risks in the insurance, the following is significant:

- Independent agents: Financial intermediaries subject to money laundering and anti-illicit financial transaction regulations as defined by the FATF, must act primarily on behalf of the client and are unaffiliated with the insurance providers whose products they offer. They are generally referred to as 'independent agents' according to the Financial Action Task Force glossary. These intermediaries have access to a range of marketable products and are subject to AML laws.
- Intermediaries not acting as financial institutions: Intermediaries, also known as tied or 'captive' agents, may sell products for and on behalf of a single insurance provider. The AML or CFT policies and procedures of the insurance provider must generally be followed by intermediaries who have ties to that insurer.
- Bancassurance: Financial intermediaries and insurance providers enter into a contract known as a 'Bancassurance' where the financial intermediaries sell the insurer's insurance products to its clients. A group-wide AML and CFT programme should be in place, in addition to policies and procedures for information-sharing within the group(s).
- Outsourcing: Insurance providers must include third parties in their own AML internal control procedures and supervise them for adherence to AML and CFT programmes, especially when outsourcing or distributing products to a third-party provider that is not legislated, monitored, or supervised. In such outsourcing contracts, the life insurance provider retains full accountability for AML and (CFT controls such that the outsourced entity exercises due diligence on the insurer's behalf to conform with processes while under the insurer's guidance for the successful implementation of such procedures.

When conducting a risk analysis, the following should be considered by insurance providers who use intermediaries to distribute their goods and services:

- Regulatory and oversight approaches: In some jurisdictions, there is no differentiation between the various categories of insurance intermediaries, such that supervision is conducted in accordance with the nature of the activity. Based on the customer relationship and service provided, intermediaries' supervision

may change in other jurisdictions. When evaluating money-laundering (ML) and terrorist financing (TF) risks, insurance providers should consider the status of the intermediaries they work with, particularly if they are financial intermediaries as defined by the FATF Glossary that are regulated, monitored, or supervised by the AML/CFT supervisor for the relevant activities they undertake.

- Intermediary's responsibility in managing clients' funds: The insurance provider should consider whether the intermediary handles funds directly from the customer (including in relation to handling contract payouts) or whether the intermediary merely facilitates or introduces business when determining the risks associated with an intermediary. It should be noted that insurance intermediation can also be facilitated via telemarketing, call centres, online internet portals, or digital means such as mobile phone applications.

2.3.6.4 Regulatory trends

According to the FSCA (2019), regulatory measures will impact insurance intermediaries resulting in the following three key market trends:

2.3.6.4.1 Trend one

After the Financial Advisory and Intermediary Service Act 37 of 2002 came into effect, the effect of regulatory supervision. Due to this, it is now more expensive to participate and remain in the insurance market, especially for brokers who make low earnings. Because of the extremely stringent regulations, there are now fewer or will soon be fewer intermediaries in the market. Hence, the requirements of the FAIS legislation, although rigid, are gaining recognition and are viewed as a positive move by insurance providers, especially by intermediaries representing the topmost of the insurance sector (FMT, 2018).

2.3.6.4.2 Trend two

Based on the growing regulatory cost of offering information and guidance, the FMTFF (2018) the insurance industry will be divided into two categories for distribution: selling with guidance and selling without offering any advice. The imposition of extended legislative compliance on advice offered has resulted in the provision of advice becoming more costly. This could be attained in large businesses but may not be possible in low-

premium businesses. As a result, the market has further been divided into selling based on guidance sales which is primarily focused on the highest end with higher sales and selling without giving some advice focused on the lowest end of the market. Furthermore, the FMTFF maintains that intermediaries are reluctant to engage in “selling without giving some advice” because of the distinction between “selling based on guidance” and “selling without giving some advice” for the following reasons:

- Intermediaries typically see their fundamental principle as advice as customers will be hesitant to make the transition to selling without advice or guidance.
- Relying on the comprehension or viewpoints of brokers, agents, intermediaries, or anybody else providing advice is in the mind of the customer. Even advice-free selling by agents and intermediaries would be regarded as selling based on guidance or advice by consumers, exposing the agents or intermediaries to legislative evaluation.
- Agents, intermediaries, or brokers that receive fees for regulated products; it is unlikely that an adviser will promote less expensive plans without providing guidance.

2.3.6.4.3 Trend three

The FMTFF (2018) asserted that compliance restrictions on non-advice selling may force the closure of the only channels serving the market's lower end. According to the General Code of Financial Advisory Intermediary Service Act (FAISA), a determination that needs evaluation is only necessary in circumstances where guidance or advice is being offered by brokers and financial advisors. In accordance with the FAISA, guidance suggests providing suggestions, advice, or financial proposals. However, it excludes information that is only given in response to general operational concerns, including the features of an investment product, details regarding the process of concluding an agreement, or accurate, desired result information about a particular financial product. Therefore, if the "intermediary," who is not required under FAISA to do needs assessments or advise clients, does not give suggestions or directions to lead the client in any direction, then the "intermediary" is not providing advice to clients.

2.3.6.4.4 Recent regulatory changes

Financial Intelligence Center Act (FICA) No .8 of 2001 was enacted as Guidance Notice 7 for financial intermediaries or accountable institutions to have a comprehensive understanding of their business and be able to design and implement an appropriate Risk Compliance Management Programme (RMCP). Financial services providers, banks, and insurers need to develop a Risk Management Compliance Programme with the executive management being fundamentally in charge of its execution. The FICA was amended in 2017 to enhance South Africa's financial service's capability to detect and penalise financial crimes such as financial laundering, illegal investment, evading of taxes, corrupt practices, and funding for terrorist organisations. The amended FICA added several new requirements consisting of the risk-based strategy, specific financial penalties, maintaining records mandates, management of risks, and client due diligence procedures. Insurance providers are required to have more oversight and training, as well as to appoint a compliance officer to oversee FICA legislation compliance to implement these new regulations.

As a result of the new regulations and risk-based strategy, financial services businesses made efforts to integrate robotics, machine learning, and artificial intelligence (AI) into their operations to improve the effectiveness and efficiency of their productivity. Consequently, financial crime prevention costs reached record-breaking levels. Yet, it was observed that compliance processes continued to be dominated by high levels of manual, repetitive, and data-intensive tasks that were not only inefficient but also failed to limit fraud and financial crime. Additionally, innovative technologies such as cryptocurrencies, blockchain, and open banking introduced new risks.

- Risk Management Compliance Programme (RMCP)

The following are the new concepts in the FICA regarding RMCP:

- Financial services providers must identify risks and assess, monitor, and control compliance.
- The RMCP framework must be robust enough to demonstrate how the concepts of money laundering and terror are risks in financing.

- Risk indicators may relate to products or services, geographical location, clients, or delivery channels.
- Consider the risk levels based on the complexity risk and the size of the financial institutions or insurers who provide the insurance products of services and goods.
- Identifying or verification must be done during the course and before the conclusion of the business transaction.

- Customer Due Diligence Procedures

As was stated by Triki and Faye (2018), financial services providers should be aware of who they conduct business with to properly evaluate and mitigate risks. Customer due diligence (CDD) is the knowledge that a financial services provider or a banking institution should have about its client. Therefore, it is important as a financial services provider to know your customers. The Financial Intelligence Centre (FIC) added that financial services providers must understand the business relationship with their customers. Therefore, the occupation, source and origins of funds, and the nature and level of business activity of the client should be well noted.

- Beneficial Ownership

A requirement of the FIC Guidance Notice (2018) was that all accountable institutions should conform to this regulation by classifying the beneficial owner(s). It is imperative to understand who the controlling person of the legal entity is, together with the information that identifies the beneficial owner.

- Record-keeping Requirements

- Record-keeping works together with CDD to ensure that a paper trail of all transactions is available when requested by authorities which allows for transparency and accountability to the financial system which helps in criminal investigation.
- The FIC requires financial services providers to allow supervisory bodies and law enforcement authorities to access the records for inspections.

- Record-keeping applies to all the information collected on behalf of the client.

2.4 Level of Risk Tolerance

The assessment of financial intermediaries' risk tolerance aids in understanding their ability and willingness to handle various types of financial risks. This is crucial for making informed decisions and managing risk effectively. By effectively assessing risk tolerance, financial intermediaries can better manage their risk exposure, make strategic decisions, and enhance overall performance in the financial markets.

According to Dickason and Ferreira (2019), financial risk tolerance (FRT) is often demonstrated by a customer's willingness to tolerate a certain level of risk while purchasing insurance products from investment providers. Higher risk tolerance is positively correlated (m+) with both regular and elegant investment opportunities for men, but for women, it is a standard investment (Aven & Renn, 2009). Moreover, there is no connection between women's sophisticated investment opportunities and risk tolerance. The theory of planned behaviour (TPB) advises that norms, laws, and perceptions have a causal effect on behaviour through rational means (Snelbecker, 1990) such that insurance providers benefit from the knowledge provided on how to deal with risk in investment opportunities, and to avoid precarious behaviour patterns when making investment decisions. This is because there are many obstacles to overcome in the insurance sector to attain superior financial performance and sound business results to stimulate economic growth and job creation (Gold & Taib, 2020; Wang et al., 2020).

Several variables can be considered to ascertain the viability of a financial behaviour component. Paisarn (2021) suggested that demographic factors like gender, years of trading experience, age, and income all influence the investment behaviour of market investors. Furthermore, Paisarn (2021) advised that financial education must be applied to significantly clarify people's financial behaviour. However, it was discovered that this variable performed below par in low- and low-to-middle-income economies. Financial education must be formalised as expeditiously and efficiently as possible because certain

behaviours like managing debt, must be established in the early stages of business transactions.

2.4.1 Understanding Risk tolerance and Its Impact on Financial Performance

Risk tolerance is a crucial concept in financial planning and investment management, influencing both individual investment decisions and broader market behaviour. Understanding risk tolerance and its impact on financial performance involves examining how investors' willingness to accept risk affects their portfolio choices and, consequently, their financial outcomes (Statman, 2004).

Risk tolerance significantly influences financial behaviour, including asset allocation, investment horizon, and reaction to market fluctuations. Investors with high-risk tolerance are likely to engage in more speculative investments and may react differently to market downturns compared to their risk-averse counterparts. This behavioural divergence is critical for understanding how risk tolerance translates into actual financial performance.

Moreover, risk tolerance is dynamic and can change with life stages, economic conditions, and personal experiences. For instance, younger investors might exhibit higher risk tolerance due to a longer investment horizon, whereas those nearing retirement may become more risk-averse as they approach their wealth-preservation phase (Grable & Joo, 2004).

Understanding risk tolerance is essential for effective financial planning and investment management. While traditional theories like Modern Portfolio Theory provide a foundation for assessing risk and return, incorporating behavioural finance insights reveals the complexity of individual risk preferences and their impact on financial performance.

2.4.2 Definition and Measurement of Risk tolerance

Risk tolerance is regarded as a crucial element that affects a variety of individual investment choices (Snelbecker, 1990). It is acknowledged as a key determinant of behaviour regarding investment opportunities such as purchasing insurance products and retirement savings (Hanna & Lindamood, 2018). Also, it concerns how asset managers and financial intermediaries advise market participants to transfer their financial assets,

both long- and short-term, to meet their goals and maintain their financial well-being, which is correlated with their degree of risk tolerance (Grable, 2017, p. 629).

Risk tolerance is the level of risk that an organisation is prepared to accept in pursuit of its goals. It can be measured through various indicators such as risk appetite statements, capital reserves, risk management frameworks, and historical risk-taking behaviours (Grable, 2017).

Additionally, each investor has a different risk tolerance level, which causes each to behave uniquely when making financial choices (Masenya, 2018, p. 26). Clients with greater risk appetites are expected to act differently from those with low-risk tolerances when making investment decisions. Clients with higher-risk appetites engage in greater financial risk opportunities than those with lower-risk appetites (Grable, 2017).

2.4.3 Relevance to study objectives

The objective of assessing risk tolerance and the impact of poor performance is to gain insights into how financial intermediaries navigate risk and the consequences of inadequate performance. This is relevant for the following reasons:

- **Risk Management:** By evaluating risk tolerance, we can understand how financial intermediaries make decisions regarding risk exposure and management. This insight helps in identifying whether these entities are adequately prepared to handle financial uncertainties and market fluctuations.
- **Regulatory Compliance:** Understanding risk tolerance ensures that intermediaries comply with regulatory requirements, which are designed to maintain financial stability and protect consumers. Assessing risk tolerance against regulatory standards helps to prevent regulatory breaches and financial crises.
- **Financial Stability:** The impact of poor performance on financial intermediaries is directly linked to their overall stability. Poor performance can lead to financial losses, reduced profitability, and even insolvency. Assessing this impact is

essential for identifying potential vulnerabilities and implementing corrective measures.

- **Strategic Planning:** Insights into risk tolerance and performance outcomes contribute to strategic planning. Intermediaries can align their strategies with their risk tolerance levels, ensuring that they are prepared for potential risks and can sustain long-term growth.

2.4.4 Contribution to Research Objectives

By assessing risk tolerance, intermediaries can clearly define their risk appetite and establish effective risk management strategies. This process aids in balancing risk and reward, optimising investment decisions, and mitigating potential losses. A thorough understanding of risk tolerance is crucial for developing comprehensive risk management frameworks, which encompass risk assessment tools, policies, and procedures. These frameworks ensure that intermediaries are well-equipped to manage risks systematically and make informed decisions that align with their strategic objectives.

2.4.5 Factors Affecting Financial Risk tolerance

In the past, several studies were conducted which explored variables that affect financial risk tolerance (FRT). Irandoust (2017) claimed that factors such as portfolio structure, financial planning, educational achievement, income, financial soundness, age, gender, marital status, and family size affect FRT among Swedish consumers. Shah (2020) agreed that the same factors influence Pakistani prospective clients. The study's goal was to determine if demographic variables such as age, gender, education, occupation, experience, income, location, and savings affect consumers' financial risk tolerance regarding customers purchasing insurance products. According to the study, people with higher incomes, greater savings, advanced levels of education, and older ages have greater financial risk tolerance.

Fan (2020) stated that the role of demographics in a variation of risk tolerance in the United States influenced risk, restrictions, belief systems, and behaviour patterns among adults during the COVID-19 pandemic which were categorised by gender, political beliefs,

and income. The study showed differences in risk tolerance between men and women, which is consistent with most earlier studies. As they typically provide more income for their families than women do, men are found to be more risk tolerant. Additionally, Mankuroane (2021) emphasised that demographic factors impact investors' risk tolerance, which also affects how satisfied they are with their lives.

According to Mankuroane (2021), characteristics including achievement, diligence, positive and negative emotional reactions in an unfamiliar environment, and employment significantly influence financial risk tolerance in male investors and employed people with matriculation. Additional factors including gender and the avoidance of uncertainty, contribute significantly to the definition of risk tolerance. Furthermore, it was believed that the outlook cannot majorly influence financial risk tolerance. The personality traits were confirmed by Pinjisakikool (2018) as potential explanations for variations in financial risk tolerance in Dutch households where emotional stability, social intelligence, and social competence, significantly predict financial risk tolerance.

Dickason-Koekemoer's (2020) study questioned the transparency of financial risk tolerance and its demographic characteristics in South Africa by insurance providers. According to the study's analysis, consumers' ability to uphold their desired standard of living in the present and the future, as well as their financial well-being, are both important. Bunyamin and Wahab (2022) who described the various levels of financial risk tolerance in insurance purchasing and selling decisions by insurance providers, revealed that the willingness of single female investors aged 35 to 49 to invest in extremely risky portfolio management is associated with high financial well-being and high-risk tolerance which showed that local consumers are more risk tolerant than foreigners.

A key risk factor to consider when planning a customer's personal financial profile is risk tolerance. This is advisable when providing financial advice as financial intermediaries or investment providers should be aware of risk tolerance and the underlying factors that impact risk tolerance. Ethnic background, age, relationship status, education status, and yearly earnings are a few variables that previous research by Makina (2017) has proven to impact risk tolerance. Further, financial and investment risks are specific to each

customer profile and are primarily based on volatility and the likelihood of loss. Therefore, when engaging in financial planning, it is important to establish the risk tolerance of the customer. Many researchers have concluded that higher education levels are frequently associated with people who have high-risk tolerance levels (Zhong & Xiao, 1995; Sung & Hanna, 1996). Yet, according to Grable (1997, p. 38), this association is not conclusive, thus more research is required. The presumptive correlations between demographic trends and risk tolerance are summarised in Table 2.7.

Table 2.7

Demographic component	Accepting low risk	Accepting high-risk	Author
Age group	Older	Younger	Plosson (1996); Wallach & Kogan (1961); Jianakoplos & Bernasek (1996a; 1998)
Education	Fewer	Greater	Sung & Hanna (1996b); Zhong & Xiao (1995); Masenya (2017)
Earnings	Low	High	Sung & Hanna (1996b); Grable (2000); Finke & Huston (2003); Anbar & Eker (2008)
Race	non-white people	white people	Yao et al. (2005); Zong & Xiao (1995)
Marital status	Married	Single	Yao et al. (2005); Grable (1997);

			Hallahan et al. (2004)
Gender	Female	Male	Sung & Hanna (1996b); Xiao & Zhong (1995); Hawley & Fujii (1993); Grable (1997)

Presumptive Correlations Between Demographic Trends and Risk Tolerance (Masenya, 2018)

2.4.6 Correlation Between Risk and Return

Financial intermediaries must assess and modify the potential losses associated with the level of return on a particular investment. As in every investment decision process, an informed choice regarding the insurance product is imperative (Akotey et al., 2011, p. 471). All of this will strengthen the assessment technique to the extent that financial intermediaries can choose and diversify a portfolio made up of a variety of financial assets to receive the desired level of return through the financing period. The fundamental portfolio model created by Harry Markowitz in 1952, produced a measurement for the estimated rate of return, and a financial instrument for financial intermediaries or insurance providers (Akotey et al., 2011).

According to Reilly and Brown (2015), Markowitz's model is built on several different assumptions of a consumer.

- The financial intermediaries or insurance providers must assess each financial investment as being a probability of future returns over a specific timeframe.
- Financial intermediaries or insurance providers must optimise their period of total return so that their utility patterns demonstrate diminishing returns.
- Financial intermediaries or investment providers evaluate the investment risk using the technique of variation of future returns.

- The utility curves of financial intermediaries and insurance providers only consider the average standard deviation of earnings and the anticipated return in their decision-making processes.

Financial intermediaries or insurance providers will decide on which investment opportunities to grasp by using the Markowitz basic portfolio model and their risk preferences. The efficient frontier, which was developed by Markowitz in 1952, is a collection of investments or portfolios that have the lowest risk possible at every given return level or the highest return possible at every risk rate.

2.4.7 Types of Financial Risks for Intermediaries

Alao and Adebawojo (2012) discovered fundamental economic risks that may affect people in society (e.g., unemployment). However, not all risks that insurance organisations are exposed to when covering basic insurance providers and risks, are circumstantial. Financial risks can also result from shifting financial obligations, as well as those originating from transactions involving valuable assets (Valsamakis, 2018, p. 5). The possibility of pecuniary loss because of the purchase of an insurance provider's product and its ongoing use and maintenance is known as financial risk (Martins, 2018, p. 5). Alao and Adebawojo (2012) affirmed that financial and investment decisions both carry some risk. Fundamental risks not only negatively influence customers, but also influence financial intermediaries.

According to (Malik 2011) financial risks are risks that come from financial markets such as share price or interest rates. Non-financial risks are from the external financial market environment such as regulatory changes or an issue with consumers. The BIS (2019) maintains that the supervision practices of insurance providers and financial intermediaries are more advanced with respect to financial risks than non-financial risks. Furthermore, Harland (2009) advised that the main issue should be confronted by following a more proactive approach to the administration of non-financial risks. Reinsurance risks, market volatility, default risk, strategic risk, and liquidity risks are among the major threats to financial intermediaries (Sambasivam & Ayele, 2020).

Financial risk was described as an overarching framework for various types of risks associated with financial intermediaries, or insurers (Malik, 2011).

As stated by Hardwick and Adams (1999), evaluating financial intermediaries' performance has become more prevalent recently. The insurance sector serves as a mechanism to allocate funds properly from business activities to deficit economic sectors, thereby supporting economic activities. Hence, financial performance which involves measuring the financial intermediary's soundness, is crucial. Also, the financial performance of financial intermediaries is critical to the growth of the insurance sector as it contributes to the economy's success. All things considered, financial implications affect the earnings of consumers such that insurance product preferences and risks related to their investment, interest rates, liquidity and currency are vital.

2.4.2 Interest risk

Interest rate risk, as defined by Reilly and Brown (2015, p. 138), is the volatility of financial asset returns due to variations in interest rates over time. "Interest rates serve as the primary input for financial intermediaries or insurance providers' expected returns when considering various uses of their assets" (Vaz, 2008, p. 226). Considering that the rates of interest affect investment income, it is clear that "interest rate risk has a significant impact on investment decision-making" (Khurshid, 2015, p. 82). Additionally, as interest rates rise, the cost of investing rises as well, which in turn lowers the demand for investing. However, Khurshid (2015, p. 81) cautioned that "if interest rates decline, investment costs will as well", which will increase the demand for investment.

2.4.3 Investment risk

The foundation of the financial intermediary's theory is that diversification of assets portfolio reduces risk and that high returns are typically correlated with higher risk. Modern portfolio theory (MPT) is based on the idea that diversification is a key component of minimising investment risk (Forbes, 2009, p. 1561). An investment structure known as "modern portfolio theory is used to choose and create financial assets that are based on maximising expected returns while simultaneously minimising risk" (Mangram, 2013, p.

60). According to Markowitz's investment risk theory, this is the “variation in the future value of an insurance product the client acquired as a result of risks to which the investment is exposed” (Mangram, 2013, p. 62).

2.4.4 Liquidity risk

Guijarro et al. (2019, p. 750) stated that “When an asset cannot be rapidly acquired to avoid or minimise a loss, liquidity risk exists”. Even though financial intermediaries or insurance providers take the existence of a market for the assets into consideration, liquidity risk significantly affects the asset's value. According to Moeinadin (2013), empirical evidence indicates that liquidity is critical when making decisions. In addition to expected returns, financial intermediaries or insurance provider’s accessibility and stability, liquidity also plays a significant role in determining how attractive an asset is as an investment. If all other factors are equal, financial intermediaries prefer liquid assets like government securities and common shares over non-liquid assets like private equity funds or property investments because they need to be credited and consider liquidity as a risk factor.

2.4.5 Currency risk

“The degree to which currency fluctuations affect investment opportunities is referred to as currency risk” (Fiador & Asare, 2012, p. 138). When choosing a suitable investment, people without any financial experience should consider the insurance products offered in foreign currencies as well as buy and sell them through exchange offices (Aren & Aydemir, 2014, p. 130). The profitability of making investments is significantly impacted by the synergy of currency changes involving the international currency and the investor's domestic currency. “The most frequent risk associated with international investments is fluctuating exchange rates” as per Addae-Dapaah and Hwee (2009, p. 59).

2.4.6 Strategic risk

Strategic risk is when financial intermediaries as an organisation influence its strategy implementation (Malik, 2011). Insurers are increasingly confronted with a wide range of strategic risks like emerging hazards that might jeopardise a company’s value proposition

and its business model. Innovative technology and new competitive paradigms are fast and dramatically affecting practically every aspect of business.

2.4.7 Consumer risk

This type of risk is when consumers no longer see benefits or quality in the financial intermediary's product offering as per the following (Malik, 2011):

- Poor investment-related information: Lenders and investors are not given enough investment-related information;
- Insufficient prior information when considering or making investments or buying a product offered by the insurance provider;
- Inadequate format of information provided;
- Misleading marketing regarding investment/lending opportunities; and
- Inadequate ongoing information about the performance and status of their investments/loans.

2.4.8 Assets impairment risk

This type of risk relates to when assets start losing their capacity to produce income (Malik, 2011). It seeks to ensure that an insurance provider's assets are not valued larger than their recoverable amount. Except for goodwill and some intangible assets, this must be tested for impairment annually.

2.4.9 Underwriting risk

The underwriting risk provides insight into the efficiency of the insurer's reinsurance action, which is evaluated by the loss ratio, which is calculated as a percentage of gross claims to total claims (Malik, 2011).

2.5 Role of Risk Management in Financial Intermediaries

Financial intermediaries generate profit by taking risks. Risk management encompasses insurance coverage and aims to lower costs and take risks while providing

reasonable coverage. Risk management is an important aspect that financial intermediaries must address if they are to achieve sound financial performance. A procedure of risk management in the insurance industry entails a range of activities such as recognising, evaluating, and mitigating risk. Risk management has emerged as one of the most important practices to employ, particularly in the insurance industry, to increase profits. Numerous risk management methods exist to assist financial intermediaries which include loss financing, risk avoidance, and loss prevention and control. It is advocated that financial intermediaries carefully assess fully insured risks to avoid incurring excessive losses when trying to settle claims.

2.5.1 Risk profiles of financial intermediaries

When a customer, assisted by an intermediary, chooses to invest to achieve their financial goals and level of financial well-being, risk characteristics involve different degrees of financial exposure or risk (Barclays 2018; Fidelity Investments, 2018). Compiling “risk profiles and determining customers’ risk tolerance are important processes” in financial planning (Carr, 2014:31). As a result, “creating, analysing, and implementing strategies to assist clients in making reasonable and successful financial decisions that involve risk presents a challenge for financial intermediaries” which is exacerbated by the many different terms used to describe customers’ risk perceptions (Nobre & Grable, 2015, p. 18).

2.5.2 Key concepts defining risk profiles

Financial intermediaries or brokers are frequently challenged to explain and identify specific elements of a risk profile to customers. This is because financial intermediaries or brokers interchangeably use terms like “tolerance for risk”, “perception of risk”, “risk appetite”, and/or “risk need” (Nobre & Grable, 2015, p. 18). It is crucial to first distinguish between and properly define these terms because they are central to the creation of a customer’s risk profile. The following is an explanation of the terms used to develop a customer's risk profile:

2.5.3 Terminology of risk concepts

- *Risk Awareness*: The capacity of a customer in understanding risk, and the trade-off between risk and return (Brayman et al., 2017, p. 74).
- *Risk Capacity*: Clients' or investors' financial capacity to overcome risk is evaluated objectively (Brayman et al., 2017, p. 74).
- *Risk management*: A customer's or investor's ability to behave honorably despite uncertainty regarding the actual insurance product(s) or investment decisions that have been made (Klement, 2018, p. 37).
- *Risk need*: The level of risk that is used to create a customer's risk profile is explained below the risk that a customer must accept to achieve a financial goal. Usually, it relies on the intended rate of return (Nobre & Grable, 2015, p. 9).
- *Risk perception*: A customer's or investor's subjective estimation of the riskiness of a choice's result, which is based on an analysis (Klement, 2018, p. 37).
- *Risk preference*: Regardless of whether an investor or customer has a general opinion in favour of or against taking a certain risk, the opinion is still valid. It may also be referred to as a person's decision to take a risk (Nobre & Grable, 2015, p. 9).
- *Risk aversion*: The propensity of an investor or customer to avoid taking a risk when presented with the opportunity (Carr, 2014, p. 29).

2.5.4 Components of risk profiles

When given the choice between risky financial products offered by financial intermediaries or insurance providers, client preference for an investment product or service that offers the best returns with the least degree of risk (Nobre & Grable, 2015, p. 18). Because each client has a different level of risk tolerance, financial intermediaries use risk levels to assist clients in making prudent financial decisions. When selecting the best forms of investment for their clients, financial intermediaries frequently refer to customer characteristics and other considerations using the phrase “overall risk” (Klement, 2018, p. 2). Figure 2.11 illustrates aspects of risk tolerance.

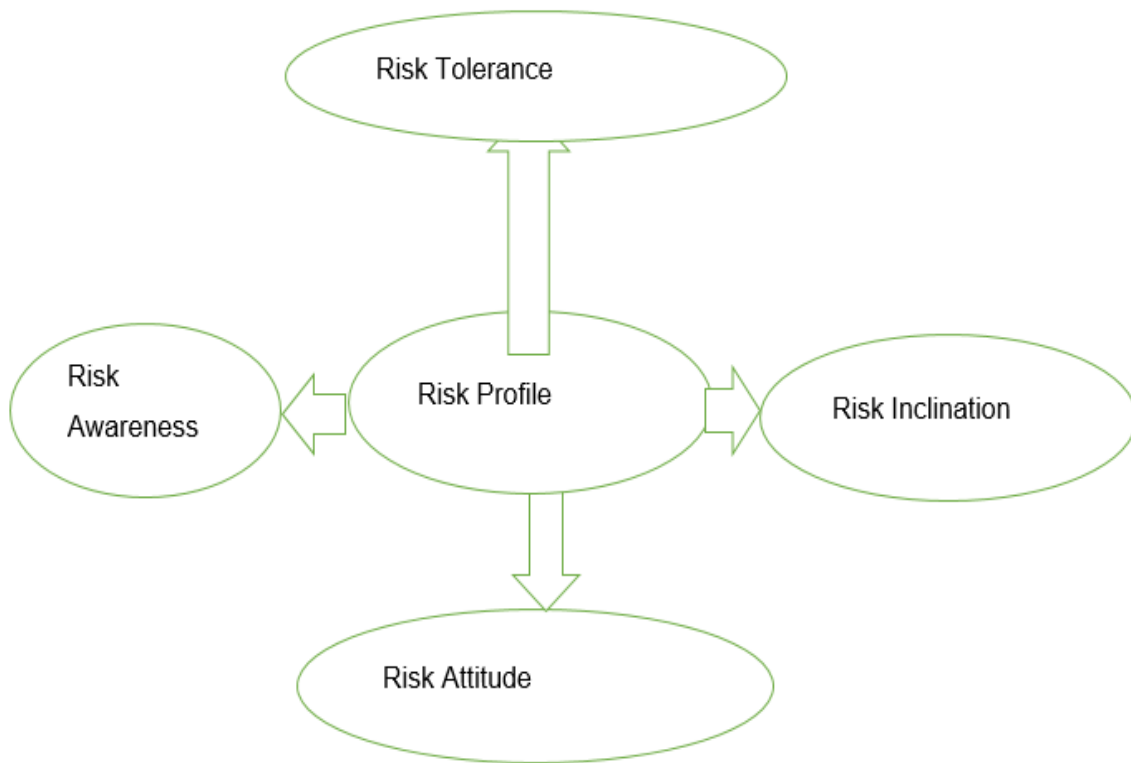


Figure 2.11 Risk Profile Component 1 (Cordell, 2001)

Financial intermediaries must consider variables such as a willingness to take risks, awareness of risk, risk-taking mindset, and risk inclination when developing the risk profiles of their clients (Cordell, 2001). The degree of risk tolerance of a customer is influenced by these variables. Customers' identification levels of "risk tolerance, risk awareness, risk attitude, and risk inclination" impact their choice to change, modify, or stop engaging in risky behaviours (Dickason & Ferreira, 2019, p. 17). Since they affect a customer's risk tolerance and the level of risk, they choose to accept it Cordell (2001) believes that these variables (see Figure 2.12) need to be assessed during risk profiling.



Figure 2.12 Risk Profile Component 2 (Cordell, 2001)

The three elements that constitute a risk profile are risk knowledge, risk profile, and risk attitude, according to Adajania (2013). These involve assessing risk capacity which requires looking at the income of the customer such that financial intermediaries can inform their clients of the advantages/disadvantages of the insurance product (Kruger, 2018). Also, to determine how much financial risk the insurance provider is willing to accept, it is necessary to analyse the economic circumstances of the customer such that financial intermediaries can provide goods or products towards them at a lower price. Further, the degree of risk tolerance must be evaluated to ascertain the client's willingness to accept risk. Adajania (2013) contended that risk tolerance is a psychological assessment, where intermediaries use their own assessment and powers of observation to holistically comprehend the client's attitude toward risk. By considering the client's risk, assessing risks must be considered within a particular timeframe to meet the customer's objectives (Grable, 2017, p. 629).

Adajania (2013) stated that by assessing customer risk tolerance, financial intermediaries perform a crucial task for regulators and the insurance industry. Legislative requirements stipulate that among the information that intermediaries must gather to comply with the regulatory requirement when offering financial advice or managing a client's portfolio, is the risk profile of the client and risk propensity. An application form is part of the questionnaire which also gathers data on the client's social demographics, financial

situation, and goals, is the tool used by intermediaries or insurance providers to evaluate risk attitude. However, different evaluations may produce different profiles for the same person as the actual risk-taking behaviour that corresponds to the observed financial decisions does not always reflect the risk tolerance as determined by the questionnaire. Both problems point to an urgent need for improvement concerning the intermediaries' assessment methods. Figure 2.13 illustrates profile component 3.

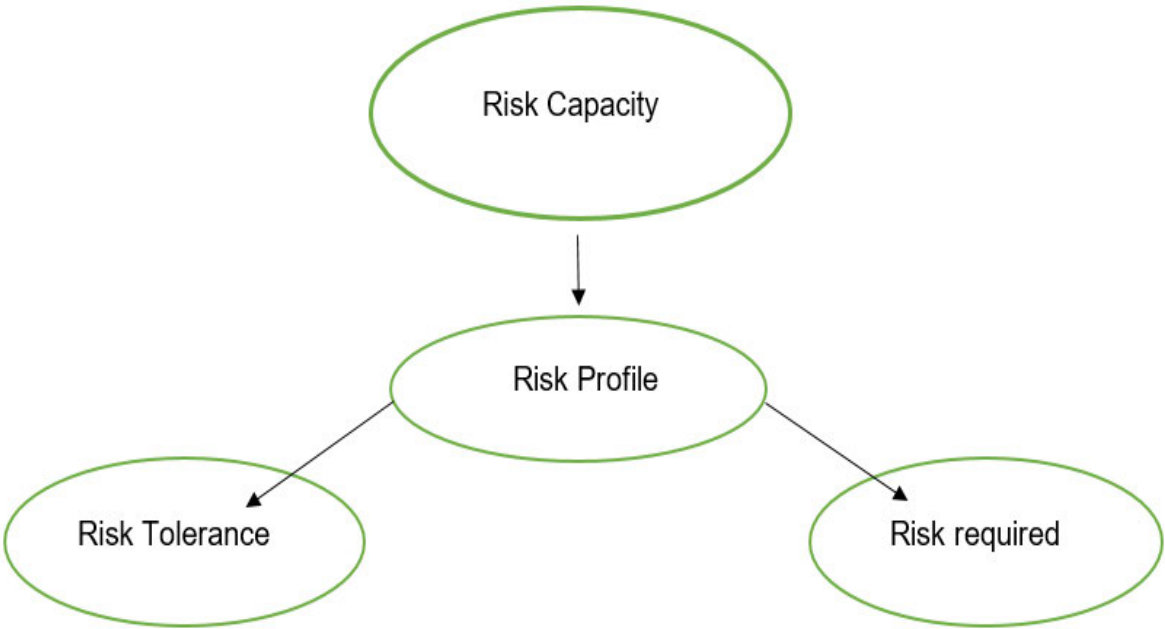


Figure 2.13 Risk Profile Component 3 (Cordell, 2001)

According to Carr (2014, p. 125), components of the client's risk profile include risk tolerance, risk capacity, and risk required. Cordell (2001) defined risk tolerance as the "maximum degree of uncertainty a customer is prepared to accept when making an investment choice". Since risk awareness is mainly "a behavioural activity that entails an accurate evaluation of risk, both internally and externally", it is incorporated into a risk profile (Brayman et al., 2017, p. 74). The last factor is risk required or risk preference, which refers to a client's psychological tendency to accept a particular level of risk in exchange for a perceived benefit which is significant when risk profiling (Carr, 2014, pp. 73-74).

As per Kitces and Barclays (2018), a risk profile is comprised of two components, risk tolerance and risk capacity. Barclays (2018) referred to risk capacity as a customer's capacity to accept investment or financial risk which is determined by the asset base, liquidity requirements, and timeframe of the customer. How much or how serious a customer is might influence overlooking targeted investment objectives while still being able to finance long-term financial objectives depending on their risk capacity. Kitces and Barclays (2018) highlighted that a risk profile, which includes clients' risk capacity and risk tolerance, can be used by financial intermediaries or insurance providers to recommend appropriate insurance products to clients. Figure 2.14 illustrates risk profile component 4.

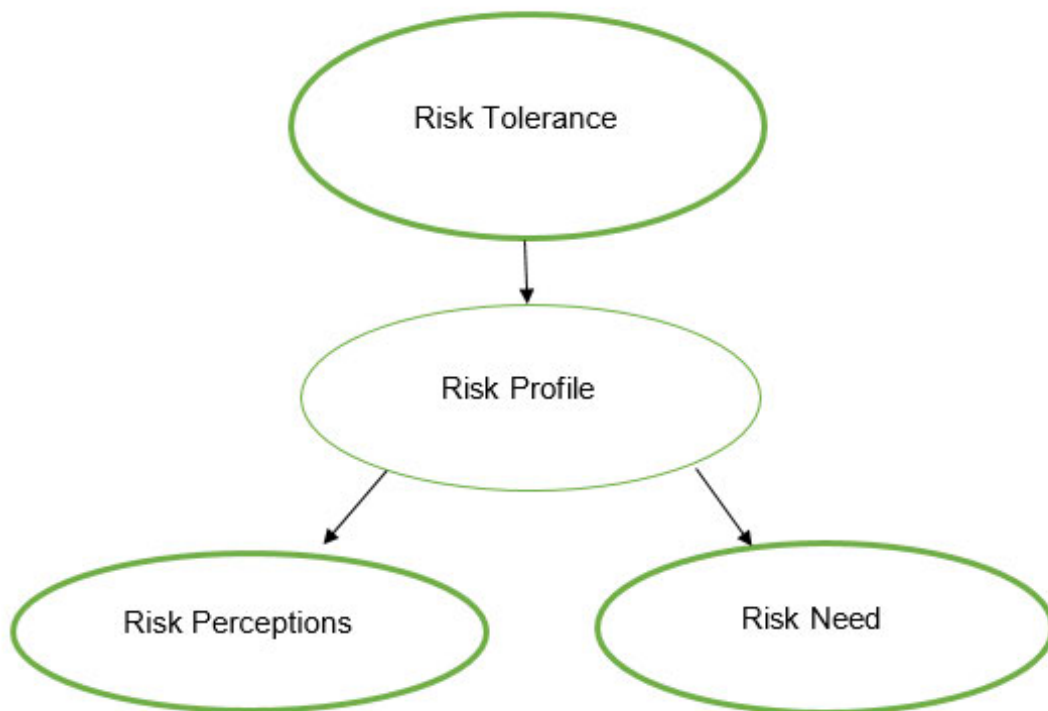


Figure 2.14 Risk Profile Component 4 (Cordell, 2001)

Risk need and risk perception are two variables that depend on the context of the decision-making process (Krishna, 2017). Risk need, risk perception, and risk profile can be combined to better understand how financial intermediaries or insurance advisors make financial decisions (Masthead, 2018). According to Brayman et al. (2018, p. 72), the risk profile of a customer is a mix of both objective and subjective characteristics. Prior to

offering advice on risky financial products offered by insurance providers, intermediaries or brokers must consider these characteristics (see Figure 2.15), which are made up of several stable attributes.

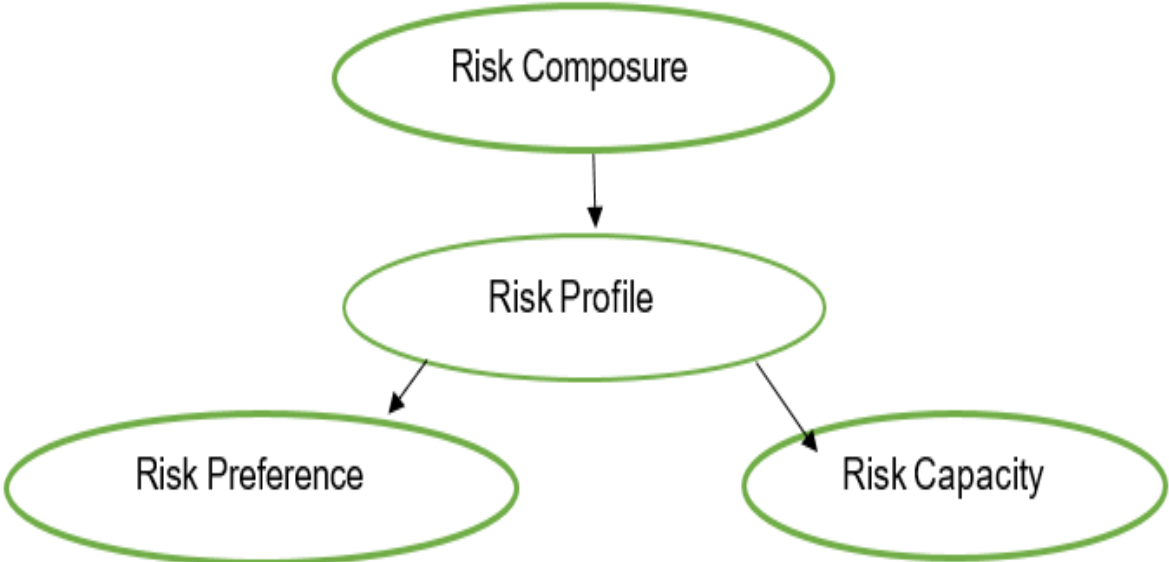


Figure 2.15 Risk Profile Component 5 (Cordell, 2001)

The chosen characteristics illustrated in Figure 2.15 are risk composure, risk preference, risk profile and risk capacity which are regarded as being stable over time and across situations. Figure 2.16 illustrates risk profile component 6 which includes risk capacity, risk profile, and risk aversion.



Figure 2.16 Risk Profile Component 6 (Cordell, 2001)

Klement (2018, p. 3) argued that in the financial sector, a risk profile is established by the interaction of risk capacity and risk aversion. In this instance, risk capacity refers to customers' willingness to accept financial risk (Krishna, 2017). Additionally, risk tolerance is determined by objective economic factors including the duration of the investment, earnings, assets, liquidity obligations, rates of taxes, and other considerations. A customer's decision to take financial risk is determined by a combination of psychosocial factors known as risk aversion. Aversion to risk is determined by how much physical or psychological inconvenience a client experiences because of loss of income (Klement, 2018, p. 3). The risk aspects that constitute a risk profile can be combined in several ways, as discussed above. Therefore, a profile only includes the risk elements that a financial intermediary or insurance provider considers as being essential when risk-profiling a customer. Financial intermediaries or insurance providers that create the risk profile will evaluate how the risk factors are integrated.

2.5.5 Importance of understanding client risk profiles

The process of choosing the best financial plan while taking risks into account is known as risk profiling (Krishna, 2017). Masthead (2018) described the technique of determining the appropriate level of risk a consumer can tolerate while considering his or her risk appetite and risk capacity is known as risk profiling. Risk profiling evaluations of customers are generally recognised as a framework for the growth of an individual's solid financial success (Roszkowski & Davey, 2010, p. 42). Therefore, customers must first go through risk profiling before acquiring any investment advice during financial planning while still enjoying a minimal level of security.

Carr (2014, p. 34) maintained that customers generally believe that after they assess the degree of financial risk, they should be prepared to accept. However, the choices and needs of a customer normally differ from the real financial choices they make. This is because customers do not understand how much risk they should be taking in relation to their financial plans (Rattiner, 2005, p. 42). Such customers only have a broad understanding of their financial goals. Therefore, an intermediary or broker must first accurately determine clients' risk profiles (Carr, 2014, p. 4). After examining the

customer's risk profile, financial advisors or intermediaries can match a person's financial goals and targets with insurance products with the appropriate level of risk (Callan & Johnson, 2002, p. 36). A broker or intermediary should only assist customers who are prepared and willing to accept the risks associated with the insurance products being offered (Carr, 2014, p. 4). Financial intermediaries are obliged to assess the level of risk associated with a customer's financial plan (Carr, 2014, p. 281). Adherence to this obligatory principle is crucial to the financial intermediaries' ethical standards and reputation.

The fiduciary requirement stipulates that intermediaries must act in the customer's best financial interest when assisting with investment advice (Carr, 2014, p. 3). In other words, intermediaries should never be biased when providing financial advice to a client (Finke & Huston, 2003, p. 1). Financial professionals may be subject to legal action from dissatisfied customers if they improperly manage a customer's risk profile, which results in dissatisfying financial outcomes (Masthead, 2018). As a financial intermediary establishes a customer's risk profile at the commencement of the planning stage, accuracy is essential (Carr, 2014, p. 34). If a customer's risk profile is not accurately analysed, the entire financial planning process may be in default (Carr, 2014, p. 6). In the event of negative outcomes, an incorrect analysis of the customer's risk profile may result in missed financial objectives and, thus, significantly lower the customer's financial satisfaction.

The value of risk profiling is evident when it pertains to financial planning. Customers' financial choices are more likely to match their financial requirements and personalities through informed risk profiling (Carr, 2014, p. 1). As a result, there is a better chance that the customer will receive a positive financial outcome. In shaping customer investment planning recommendations, risk tolerance is typically regarded as a critical risk factor.

2.5.6 Repercussions of poor performance in financial intermediaries

Poor performance among financial intermediaries, particularly in the insurance sector, can lead to significant negative consequences, including financial instability, reputational damage, and regulatory repercussions. A summary of studies detailing these repercussions follows.

2.5.6.1 Financial instability

Poor performance can jeopardise the financial stability of intermediaries, leading to liquidity issues, solvency problems, and potential insolvency, which in turn affects the broader financial system.

2.5.6.2 Reputational damage

Failure to deliver quality services and maintain high-performance standards can damage the intermediary's reputation, resulting in loss of trust, reduced client base, and long-term market disadvantages.

2.5.6.3 Regulatory repercussions

Non-compliance and poor performance can attract regulatory scrutiny, leading to fines, operational restrictions, and increased compliance costs, which can further strain the intermediary's resources and operations. These repercussions underscore the importance of maintaining high-performance standards to ensure financial stability, protect reputation, and comply with regulatory requirements.

2.5.7 Evaluating risk tolerance in the South African insurance sector

Assessing risk tolerance among South African financial intermediaries is crucial for evaluating their operational stability and investment strategies. This includes their ability to handle market fluctuations, regulatory changes, and operational uncertainties, ensuring they can sustain operations amidst varying market conditions. Financial intermediaries in South Africa's insurance sector, including brokers and investment advisors, manage client assets and offer financial products. They navigate stringent regulatory requirements from the FSCA and the Reserve Bank to maintain risk management and capital adequacy.

Regulations aim to maintain risk management and capital adequacy in intermediaries, such as insurance companies and brokers. Their risk tolerance influences their investment strategies, influencing aggressive returns and potential losses, with high-risk tolerance promoting aggressive strategies and low-risk tolerance focusing on capital preservation. Risk tolerance in the insurance sector is influenced by factors such as financial health, operational efficiency, regulatory changes, market conditions, and economic factors. As such, strong financial foundations and robust operational processes are better positioned to absorb losses and withstand market shocks (Carr, 2014, p. 1). Regulatory changes and compliance requirements can also influence risk management. Additionally, market conditions and economic factors affect risk tolerance, and intermediaries must adapt their strategies to maintain financial stability and meet client expectations. Effective governance and risk management frameworks help intermediaries identify, assess, and mitigate risks effectively (Carr, 2014, p. 1).

Financial intermediaries must balance their risk appetite with clients' expectations and preferences to manage risk tolerance effectively. Technological advancements like artificial intelligence and blockchain can enhance risk management but may introduce new risks. Intermediaries must evaluate these changes and adjust their risk tolerance accordingly to ensure efficient risk management processes and potentially higher risk tolerance (Krishna, 2017).

Finally, industry benchmarks and comparative analysis provide valuable insights into the risk tolerance of financial intermediaries. By comparing their risk profiles and management practices with industry peers, intermediaries can gauge their relative risk tolerance and identify areas for improvement. Benchmarking against industry standards helps ensure that their risk tolerance aligns with best practices and competitive norms.

Assessing the level of risk tolerance among financial intermediaries in the South African insurance sector involves evaluating their financial health, regulatory compliance, market conditions, governance practices, and client expectations. Understanding these factors provides a comprehensive view of how intermediaries manage risk and adapt to changing

circumstances, ensuring their stability and effectiveness in a dynamic financial environment.

2.6 Evaluating the effectiveness of existing safeguards in mitigating performance

This objective aimed to assess how well the current safeguards were working to prevent or mitigate performance issues in financial intermediaries. Financial intermediaries, such as banks, insurance companies, and investment brokers, facilitate the flow of funds between savers and borrowers, enhancing financial system efficiency and stability. Performance metrics like profitability, ROA, ROE, and capital adequacy are crucial for evaluating the effectiveness of financial intermediaries, guiding strategic decision-making, risk management, operational optimisation, and stakeholder value delivery. Thus, the literature review evaluated how well safeguards address performance issues in financial intermediaries such as banks, investment firms, and insurance companies. It highlighted the effectiveness of these safeguards in improving financial performance and identified the challenges that contribute to performance gaps.

This evaluation sought to ensure that the safeguards in place were effectively contributing to the stability and performance of financial intermediaries, helping them manage risks better and achieve their operational and financial objectives. To address the objective of assessing how effectively existing safeguards mitigate performance issues in financial intermediaries and identifying the challenges that contribute to performance gaps, your research should cover several key topics and explanations. Below is a structured approach to guide this research.

2.6.1 Importance of performance metrics

To assess the effectiveness of financial intermediaries, it is crucial to use performance metrics like profitability, return on assets, and capital adequacy. These metrics play a key role in strategic decision-making, managing risks, optimising operations, and delivering value to stakeholders (Ehrhardt & Brigham, 2016; Froelich, 1999). Overall, these performance metrics are integral to the conceptual framework, facilitating a comprehensive analysis of how financial intermediaries manage risks, optimize

operations, and deliver value to stakeholders. By regularly monitoring and analyzing these metrics within the framework, organizations can make informed decisions that align with their strategic goals and enhance overall effectiveness (Ehrhardt & Brigham, 2016; Froelich, 1999)

2.6.2 Overview of safeguards

Safeguards within the financial sector play a vital role in ensuring stability and adherence to regulations for financial intermediaries, offering protection against risks such as professional liability and operational setbacks while also managing potential losses and legal issues. Moreover, compliance protocols are essential for making sure that financial intermediaries follow industry standards and legal mandates. These protocols are instrumental in maintaining regulatory compliance and enhancing the overall stability of the financial sector (Smith, 2020; Johnson & Brown, 2019). Internal controls also represent a critical safeguard, involving a variety of procedures and policies designed to guarantee accurate financial reporting, prevent fraud, and protect assets. These controls, which include duties segregation, regular audits, and control assessments, are effective in identifying and reducing risks that may threaten the operational efficiency of intermediaries (Smith, 2020; Johnson & Brown, 2019).

- **Compliance:** Adherence to internal policies, rules, and laws controlling financial activities is referred to as compliance. Compliance for intermediaries is making sure that all activities adhere to legal and ethical norms as well as adhering to regulatory regulations established by organisations like the Financial Sector Conduct Authority (FSCA). Adherence to regulations protects the company from legal liabilities and builds credibility (Arner, & Barberis, & Buckley, 2016).
- **Basel Accords Act:** Regulatory frameworks like the Basel Accords and the Dodd-Frank Act are designed to enhance the stability and performance of financial intermediaries by enforcing capital requirements, risk management standards, and transparency (Basel Committee on Banking Supervision, 2019). Studies have shown that these regulations have generally improved risk management practices

and reduced systemic risk (Goodhart & Leahy, 2007). However, challenges remain in ensuring compliance and addressing emerging risks.

- **Insurance Regulation:** For insurance companies, regulations such as the Solvency II Directive in Europe and state-level regulations in the U.S. aim to ensure financial stability and consumer protection by setting solvency margins and disclosure requirements (Eling & Schmeiser, 2010). The effectiveness of these regulations in mitigating performance issues has been debated, with some studies indicating that while they improve overall stability, they may also lead to increased operational costs (Schroeder & Zeng, 2018). Insurance provides financial protection against risks, including professional liability, errors, and property damage, aiding financial intermediaries in managing unexpected setbacks and ensuring business continuity.
- **Internal Audit and Compliance:** The implementation of robust internal controls and audit mechanisms is crucial for identifying and mitigating performance issues. Research highlights that effective internal auditing can significantly reduce the incidence of financial irregularities and operational inefficiencies (Moses & El-Helou, 2019). However, internal control systems are not foolproof and may fail to detect sophisticated fraudulent activities or errors (Kothari & Lester, 2021).
- **Risk Management Strategies:** Financial intermediaries employ various risk management strategies, including diversification, hedging, and stress testing, to mitigate performance issues (Jorion, 2007). Evidence suggests that while these strategies can enhance performance stability, they may not fully eliminate risks, especially in highly volatile markets (Engle, 2015).

2.6.3 Insurance and loss prevention

Insurance coverage is a crucial safeguard for financial intermediaries, particularly in mitigating operational and financial risks. For insurance companies, effective risk management involves not only underwriting practices and pricing but also reinsurance arrangements that spread risk across multiple entities. Loss prevention strategies, such as internal controls and compliance measures, are designed to reduce the likelihood of operational failures and fraud. For instance, robust internal controls can prevent

unauthorised transactions and financial misconduct, which can adversely affect performance (COSO, 2013). By integrating insurance and loss prevention measures, intermediaries can better protect themselves against significant financial losses and operational disruptions.

2.6.4 Challenges in implementing safeguards.

Implementing safeguards within financial intermediaries refers to the process of integrating protective measures designed to manage risk, ensure compliance, and enhance operational integrity. Addressing these challenges is essential for the successful implementation and effectiveness of safeguards in protecting financial intermediaries from various risks. The following challenges were outlined by Legal and General (2019):

- **Regulatory Challenges:** Navigating complex and evolving regulations can be difficult, especially for smaller firms with limited resources. Compliance requires ongoing investment and adaptation to meet stringent standards set by authorities.
- **Operational Challenges:** Integrating new safeguards into existing systems can disrupt operations. This integration often necessitates changes to workflows and processes, potentially causing inefficiencies and resistance from staff.
- **Behavioural Challenges:** Changing organisational culture and employee attitudes towards compliance and risk management can be challenging. Effective safeguards require a shift in mindset and behaviour, which may meet with resistance.
- **Technological Challenges:** While technology can enhance safeguards, it also introduces new risks and requires significant investment in updates and cybersecurity. Keeping pace with rapid technological advancements adds to the complexity.
- **Data Management Issues:** Effective safeguards rely on accurate and timely data. Challenges include ensuring data integrity and managing data across various systems, which can impact risk assessments and compliance.

- **Cost Constraints:** Implementing safeguards can be expensive, particularly for smaller firms. Budget constraints may limit the ability to invest in necessary technology, training, and compliance infrastructure.
- **Legal and Compliance Risks:** Misinterpretations of regulations or inadequate safeguards can lead to legal disputes and financial penalties. Ensuring alignment with current legal requirements is crucial and resource-intensive.
- **Inadequate Training and Awareness:** Effective safeguards depend on well-informed staff. Inadequate training can lead to improper implementation and increased risk exposure, making comprehensive education essential.
- **Resistance to Change:** Employees and management may resist new safeguards, perceiving them as disruptive or unnecessary. Overcoming this resistance involves effective change management strategies.
- **Alignment with Business Objectives:** Safeguards must align with business goals without hindering growth. Balancing risk management with strategic objectives requires careful planning and communication between risk management and business leaders.

2.7 Strategies to Enhance Safeguards and Improve Performance of Financial Intermediaries

To improve the financial performance of financial intermediaries, particularly within South Africa's insurance sector, there is a growing body of literature that emphasises the importance of strengthening safeguards such as internal controls, regulatory compliance, and risk management practices. These strategies ensure that intermediaries remain resilient and effective amidst an increasingly complex and dynamic financial environment. Below is an expanded analysis of these strategies based on existing literature.

2.7.1 Regulatory requirements

Compliance with regulatory requirements is essential for maintaining the integrity and trustworthiness of financial intermediaries. In this context, regulatory frameworks, such as those imposed by the Financial Sector Conduct Authority (FSCA) in South Africa, require

stringent adherence to guidelines aimed at safeguarding clients' interests and the broader financial system. According to Gomber et al. (2018), the creation of dedicated compliance departments and the use of technology to monitor regulatory changes can help intermediaries meet these requirements effectively.

Brown et al. (2012) argued that continuous training programs that update staff on regulatory changes and industry best practices are vital in fostering compliance. However, the literature also pointed out the heavy resource burden that regulatory compliance imposes, especially for smaller intermediaries, which may struggle with the costs and complexities of adhering to evolving regulations (Mackenzie & Pearson, 2017).

2.7.2 Internal controls

Strong internal controls are crucial in preventing fraud, minimising errors, and improving operational efficiency. According to Spathis and Constantinides (2004), well-structured internal controls reduce operational risks and enhance financial reporting accuracy. Efficient internal control systems consist of clear policies, routine audits, and established protocols to monitor financial activities and compliance. Zainuddin and McLean (2015) argued that continuous employee training and the integration of automated control systems can significantly enhance the effectiveness of these controls, especially in reducing human error and fraud.

Additional literature highlighted the role of technology in improving internal controls. Automated systems that track transactions and flag anomalies can streamline financial oversight, thereby improving transparency and accountability (Spathis & Constantinides, 2004). However, these improvements often require significant financial and infrastructural investments, which may pose challenges for smaller financial intermediaries.

2.7.3 Risk management

Effective risk management is pivotal in improving financial performance and safeguarding financial intermediaries. Jorion (2007) emphasised that risk management strategies should focus on both quantitative and qualitative measures, allowing firms to identify,

assess, and mitigate potential risks. Advanced analytics, risk modelling tools, and scenario analysis are widely recognised as critical components of modern risk management frameworks (Bessis, 2015). These tools enable firms to anticipate future risks more accurately and respond proactively.

Bessis (2015) also stressed the importance of fostering a "risk-aware" culture within organisations. Such a culture ensures that employees at all levels recognise and take responsibility for managing risks, thereby reducing the likelihood of unanticipated operational failures. This cultural shift can be encouraged through regular training, workshops, and strong leadership commitment to risk management.

2.7.4 Technological integration

The integration of advanced technologies is increasingly recognised as a powerful tool for improving performance and safeguards within financial intermediaries. Technologies such as artificial intelligence (AI), blockchain, and cognitive computing have the potential to automate processes, enhance decision-making, and increase transparency (Gomber et al., 2018). Blockchain, in particular, offers enhanced security features by creating immutable records of transactions, thereby reducing the risk of fraud (Arner et al., 2016).

However, Mackenzie and Pearson (2017) highlighted that adopting these technologies requires substantial investment in infrastructure, as well as overcoming challenges related to employee adaptation and system integration. Smaller firms may find it difficult to justify such investments, but the long-term benefits of increased efficiency, security, and risk mitigation make technological integration a critical strategy for performance improvement.

2.7.5 Training and development

Ongoing employee training and professional development are essential for maintaining effective safeguards and improving performance. Brown et al. (2012) emphasised that regular training helps employees stay abreast of regulatory changes and new industry practices. This is particularly important in the context of risk management, where evolving

risks such as cyber threats demand that employees possess up-to-date skills and knowledge.

Lee and Chen (2016) argued that financial intermediaries should offer a combination of in-house training, external certifications, and workshops to ensure employees are equipped to handle complex tasks. Continuous professional development fosters a culture of competence and accountability, improving the organisation's overall resilience and adaptability.

2.7.6 Performance metrics

Kaplan and Norton's (1996) Balanced Scorecard approach highlighted the importance of setting clear performance indicators, such as compliance rates, risk occurrence, and financial performance. Regular reviews of these indicators enable firms to identify best practices and areas for improvement. The use of industry benchmarking and periodic audits ensures that financial intermediaries remain competitive and aligned with best practices (Fitzgerald et al., 1991).

The performance of financial intermediaries in the South African insurance sector can be evaluated through a variety of metrics.

Financial performance includes profitability measures like Return on Equity (ROE), Return on Assets (ROA), and net profit margin, as well as investment performance metrics such as investment yield and capital adequacy ratios. Operational efficiency is gauged through expense ratios and market share growth. Risk management metrics focus on credit risk, liquidity risk, and adherence to reinsurance standards, while customer satisfaction and retention are measured by customer satisfaction indices and policyholder retention rates. The framework also incorporates technological adoption like digital transformation and cybersecurity, human capital with a focus on employee productivity and retention, and the influence of external factors like interest rate sensitivity, regulatory compliance, and ESG (environmental, social, governance) performance. These metrics provide a comprehensive evaluation of financial intermediaries' performance.

This performance management process is essential not only for identifying shortcomings but also for making strategic adjustments to safeguard systems and operational procedures. Performance metrics provide a feedback loop that encourages continuous improvement.

2.7.7 Stakeholder engagement

Stakeholder engagement is a crucial component of any strategy aimed at enhancing safeguards. Freeman (1984) contended that collaboration with clients, industry peers, and regulators leads to more effective safeguards, as these groups often provide valuable insights into potential risks and areas for improvement. Building trust-based relationships with stakeholders can also help intermediaries align their risk management processes with industry best practices and emerging regulatory requirements.

2.7.8 Limitations of existing safeguards

Despite the various strategies outlined above, several limitations hinder the effectiveness of current safeguards in financial intermediaries:

- **Regulatory Compliance Burdens:** Regulatory requirements can be complex and costly, especially for smaller intermediaries, diverting resources from other crucial areas like innovation and client service.
- **Operational Inefficiencies:** Outdated technology and weak internal controls increase intermediaries' exposure to operational failures and fraud, limiting their performance potential.
- **Behavioural and Organisational Issues:** Leadership's reluctance to fully commit to risk management practices and decision-making biases can undermine the effectiveness of safeguards.
- **Adapting to Emerging Risks:** Existing safeguards often fail to keep up with new and evolving risks, such as cyber threats and climate change, which require new strategies and technologies to mitigate effectively.

- **Systemic Risk:** While individual safeguards may protect a single institution, they may fail to address systemic risks arising from the interconnected nature of the financial system. This increases the potential for widespread performance failures across the sector.

Incorporating these strategies into the operations of financial intermediaries is crucial for improving their financial performance and resilience. Strengthening internal controls, enhancing risk management, embracing technological advancements, and promoting ongoing training and stakeholder engagement can collectively ensure a more robust and adaptive financial ecosystem.

2.8 Synopsis

This chapter scrutinised the corpus of literature related to the research. The discussion is divided into subsections that relate to the research questions that guided the investigation. First, the factors influencing the performance of financial intermediaries provided insight into the identification and assessment of key factors that impact their effectiveness are examined. This chapter then assessed the risk tolerance of financial intermediaries and explored the consequences of poor performance within the South African insurance sector. The existing safeguards were then reviewed, aimed at mitigating performance issues while identifying the challenges that contribute to performance gaps. Finally, strategies were proposed to enhance these safeguards and improve the overall performance of financial intermediaries in the sector. The next chapter (3) unpacks the theoretical frameworks of the study.

CHAPTER 3: THEORETICAL FRAMEWORK

3.1 Introduction

This chapter unpacks the theoretical frameworks of this study. Theoretical frameworks serve as essential analytical tools that help in understanding and evaluating the roles, challenges, and performance of financial intermediaries. The theoretical framework of this study serves as a foundation for understanding the dynamics and complexities involved in the performance of financial intermediaries within the South African insurance sector. By integrating several key theories, this framework aims to provide a comprehensive lens through which to assess the effectiveness of existing safeguards, identify gaps, and evaluate the risk tolerance of financial intermediaries. By synthesising these theories, the framework not only supports the study's objectives but also offers actionable insights for enhancing the overall performance and resilience of financial intermediaries in the sector.

The theory of agency theory is the starting point of this framework, highlighting the relationship between agents (financial intermediaries) and principals (clients and regulatory bodies). This theory emphasises the incentives that drive performance and the importance of aligning interests to mitigate potential conflicts. Typically, the following contributing elements contribute to the presence of financial intermediaries: increased transaction-related costs, insufficient knowledge, or information as well as regulatory technique (Mayoma, 2020). The Arrow-Debreu theory posits that under certain economic assumptions, informational asymmetry causes market shortcomings, or anomalies that deviate from the idea of the perfect market. The mainstream perfect market system (the Arrow-Debreu theory) states that the following scenarios must be met:

- Neither any single market component has the ability to influence the total cost;
- The theory of financial intermediation is Lending circumstances are similar across all the same situations;
- There are no subjective obligations;
- There are no scale economies; and
- Information expenses, transactions, and bankruptcy risk are non-existent.

The connection between economic growth and financial stability has been extensively investigated in theoretical and empirical studies. According to Mayoma (2020), flaws exist in the market, as asymmetric information and imperfect competition through financial liberalisation have an adverse effect on the expansion of the economy and development. The theoretical underpinning for this relationship was established by McKinnon and Shaw (1973), Kapur (1976), Mathieson (1980), and Fry (1989 and 1995). To comprehend the existence of financial intermediaries, one must return to the fundamental concept of similar products offered by financial services providers (Goulielmos, 2018). Various theories elucidate the function of financial intermediaries in the expansion of the financial services sector within today's business landscape. This study examines two of these theories and their relevance to the ongoing research. The Ansoff Matrix and the Marketing Mix Theory both provide insights into the elements influencing the effectiveness of financial intermediaries in the South African insurance market. These theories are discussed next.

3.2 Ansoff Matrix

The Ansoff Matrix theory, created by Igor Ansoffin (1957), is one of the key instruments used by financial services providers to build a framework for insurance intermediaries that determines how customers use a product or service. The primary goal of insurance intermediaries' strategies is to match the company's objectives with product offerings (Kiple & Lewis, 2018). Financial intermediaries and underwriters use the framework to evaluate market opportunities to increase their market coverage by combining the various strategies suggested in this framework to combat the fierce competition in the insurance industry (Kiple & Lewis, 2018). A crucial promotional approach outlined by the Ansoff Matrix is aligning business strategies with broader organisational strategies. This matrix offers various strategic avenues that a company can pursue to enter the market and optimise its potential. Among these tools are market penetration which focuses on how the financial services provider can enter a market using the current services and products in established markets, and market expansion which mainly focuses on entering a new market using the insurance intermediaries' existing products and services. Product

development is concerned with how the insurance intermediaries can enter the market by creating or modifying new goods and services. To diversify, a business must take a calculated risk to enter a new market with novel products (Kipley & Lewis, 2018). The Ansoff Matrix aligned with the objective of evaluating the effectiveness of safeguards and enhancing the performance of financial intermediaries. Specifically, it allowed for the identification of key factors influencing performance and the assessment of risk tolerance by mapping potential growth avenues. This strategic analysis ultimately supported the research objective of offering recommendations to improve safeguards, ensuring that financial intermediaries could effectively navigate market challenges and enhance their overall performance.

3.3 Agency Theory

The concepts of agency theory, stakeholder theory, and theory of optimal structure were all considered when designing the conceptual framework for this research study. According to the agency theory, each aspect of control, ownership, and motivation must be examined separately. Also included are the conflicting interests of debt holders, shareholders, and management can impact a company's net profit, which in turn provides information about the company's financial performance. The agency theory is critical for planning the governance and managing organisations (Bosse & Phillips, 2018). The Agency Theory was related to identifying key factors that influenced the performance of financial intermediaries in the South African insurance sector. By exploring the dynamics between agents (financial intermediaries) and principals (clients or regulatory bodies), this theory helped elucidate the motivations and actions that impacted performance.

3.4 Stakeholder Theory

The stakeholder theory, which is referred to as an organisational management theory, has been utilised by organisations to regulate the profitability of financial services providers (Bosse & Phillips, 2009). Freeman (2010) offered that the stakeholder theory suggests that the prevention of risk can enhance an important financial distress cost and customer

trust; thus, taking risk management into account is effective for resolving financial issues as it utilises a variety of variables to assess performance.

The Stakeholder Theory was directly linked to the study's objectives, as it emphasised the importance of various parties involved in the insurance ecosystem, including clients, regulatory bodies, and financial intermediaries. By considering the interests and influences of these diverse stakeholders, the theory supported the objective of identifying key factors that influenced the performance of financial intermediaries in the South African insurance sector. Additionally, it aided in evaluating the effectiveness of safeguards by recognising how stakeholder expectations shaped operational practices. This perspective was crucial for assessing financial intermediaries' risk tolerance and understanding the repercussions of poor performance, ultimately guiding recommendations for enhancing safeguards to improve overall performance in the sector.

3.5 Theorists Gurley and Shaw

Gurley and Shaw were among the first theorists to create the concept of a financial intermediary in 1960. The informational asymmetry theory and the agency theory inspired this financial intermediation theory. Financial intermediaries are created because of the following: increased transaction-related fees, asymmetry knowledge theory, and governing mechanism (Stolbov, 2013). Transaction fees are significant; for example, immovable fees for assessing assets give financial intermediaries a competitive edge over institutions that enable these fees to be consolidated. Therefore, the information asymmetry is a critical component for financial intermediaries. The information asymmetry is known as ex-post, and the primary result is the use of methods that are commonly expensive, this includes standards for inspection and monitoring. As a result, lenders may eventually face the required implementation. Imperfect markets are caused by asymmetric information. These are the volatility assumptions in the Arrow-Debreu perfect markets. The insights from Gurley and Shaw regarding the role of financial intermediaries established a foundation for assessing the effectiveness of safeguards in mitigating negative impacts on performance, which were directly related to the study's objectives.

Their work highlighted the importance of regulatory frameworks and institutional structures that upheld the operational integrity of these financial intermediaries.

3.6 Theorists McKinnon and Shaw

The initial theoretical arguments against financial suppression strategies were introduced by McKinnon in 1973 who emphasised the financial sector's critical role in raising the volume of savings by providing adequate products and services for consumers. The McKinnon and Shaw paradigm (1973) deliberated that regulations governing the government financial system, such as reserve requirements and interest rates, obstruct financial deepening which in turn slows down economic growth. The plan was to promote economic transformation so that Black people could participate meaningfully in the economy. The push for increased financial inclusion stemmed from the recognition of its impact on policy goals such as education, poverty reduction, and socioeconomic development. In McKinnon's view, interest rates are crucial because, with low real interest rates, consumers have a limited chance to preserve money since they expect rates to rise, which would increase their expected payments for dividends at the end of the fiscal year, while mortgage prices increase because of increased demand.

According to McKinnon (1973), the incentives for holding cash balances change as households and companies shift from investing because investment is perceived to take longer to yield dividends. Thus, McKinnon proposed that rising interest rates will increase the ability of potential savings through financial intermediation. This raises investment resources due to the greater amount of funds available. There are advantages to real estate, monetary investments, and physical cash reserves being beneficial. As a result, it raises real money balances which increases efficiency, thus boosting productivity sufficiently to compensate for declining investment-related productivity. Furthermore, McKinnon (1973, p. 46) asserted that a greater rate of interest is necessary to increase income, increase financial intermediaries, and integrate the financial system. Ensuring the availability of resources, particularly limited capital, are utilised efficiently. Therefore, the complement correlation in both money and capital accumulation can only last if the true percentage of earnings from investments is higher than the actual favourable interest rate.

Building on the findings of Gurley and Shaw (1955), McKinnon and Shaw (1973) proposed a new idea known as the liberalisation of the economy, which posed a challenge to the restrictive financial practices. Consequently, they contend that the false statements made by the financial services providers on lending processes, requirements for reserves, and mortgages approved at reasonable interest rates were incorrect and unjustifiable. According to McKinnon and Shaw (1973), inhibiting the insurance industry had negative consequences such as reduced investments, ineffective resource allocation, and alienation of wealth creation. Hence, when the rate of interest is anticipated to change and adapt to the forces of the market. Investors are encouraged to fund projects that will provide them with high returns, thus contributing to the growth of the economy.

McKinnon and Shaw's theory was closely linked with the study's objectives by emphasising the pivotal role of financial intermediaries in fostering economic development and stability. Their work highlighted the importance of effective regulatory frameworks and institutional structures in supporting the performance of these intermediaries. This supported the objective of evaluating the effectiveness of safeguards in mitigating negative impacts on performance, as it underscored the necessity for strong oversight mechanisms. Furthermore, their insights contributed to understanding the factors that influenced the performance of financial intermediaries in the South African insurance sector, thereby informing assessments of risk tolerance and the repercussions of poor performance. Ultimately, their theory provided a foundation for developing recommendations aimed at enhancing safeguards to improve the overall performance of financial intermediaries in the sector.

3.6.1 Assessment of McKinnon and Shaw's Theory

The McKinnon and Shaw Theory, formulated by economists Edward McKinnon and Richard Shaw in the early 1970s, focuses on the critical role that financial intermediaries play in economic development. This theory posits that effective financial intermediation is essential for fostering savings, investment, and overall economic growth. The McKinnon and Shaw Theory emphasises the necessity of financial liberalisation to enhance competition among financial intermediaries, thereby improving efficiency and resource

allocation within the economy. It also highlights the importance of maintaining positive real interest rates to encourage savings, warning that artificially low rates can diminish savings and impede investment and economic growth. Furthermore, the theory underscores the critical role of a robust institutional framework, asserting that effective regulatory structures are essential for the stability and operational integrity of financial intermediaries, enabling them to manage risks and contribute to economic stability (McKinnon & Shaw, 1973).

McKinnon and Shaw's Theory is closely linked to the study's objectives by highlighting the importance of financial liberalisation, which enhances competition among financial intermediaries and improves efficiency and resource allocation. This aligns with the study's objective of evaluating the effectiveness of safeguards that can bolster performance in the insurance sector. Additionally, the theory's emphasis on maintaining positive real interest rates to encourage savings supports the assessment of financial intermediaries' risk tolerance, as low rates could negatively impact investment and growth. Finally, the focus on a robust institutional framework and effective regulatory structures underscores the necessity of evaluating safeguards to ensure the stability and operational integrity of financial intermediaries contributing to overall economic stability in South Africa.

3.7 Theorists Benson and Smith Jr.

According to Benston and Smith Jr (1975), the intermediaries' role is to create products and services that customers can afford. Financial intermediaries' product demand is viewed as a derived mandate. This is because transaction fees are imposed. Financial intermediation entails "lowering the costs of acquiring information and reducing transaction fees" (Yusuf & Dansu, 2014, pp. 76-94). Benston and Smith Jr (1975) confirmed that numerous forms of intermediation have been introduced in the financial services industry to reduce transaction costs, adding that they saw financial intermediaries as passive channels used to implement monetary policy tools. Financial intermediaries should play a more significant economic role than earlier studies had suggested, hence various intermediations have been created to lower transaction costs, with the market-

maker being the most basic type. To significantly lower transaction fees, the market-maker sets up a marketplace where prospective sellers and buyers can interact.

In this study, Benson and Smith Jr.'s theory supported the understanding of the dynamics between financial intermediaries and their operational environments. Their work underscored the necessity of aligning organisational practices with external regulatory and market conditions, which directly relates to the objective of identifying key factors influencing the performance of financial intermediaries in the South African insurance sector. Additionally, this theory highlighted the significance of risk management and compliance, which supports the objective of evaluating the effectiveness of safeguards in mitigating negative impacts on performance. By focusing on how institutional frameworks and market pressures affect intermediary operations, their insights contributed to assessing financial intermediaries' risk tolerance and the repercussions of poor performance. Ultimately, their theory informed the recommendations for enhancing safeguards, aimed at improving the overall resilience and performance of financial intermediaries in the sector.

3.8 Theorists Leland and Pyle

Leland and Pyle (1977) indicated that the theory of informational asymmetry primarily focuses on the dynamics between financial intermediaries and their clients. Financial intermediaries can acquire more information to process and analyse customer patterns more effectively since they are larger. To provide the best possible investment advice on the products and services available, financial intermediaries' information is secure, reliable, and trustworthy. Data and information communication technology (ITC) are critical in this process to regulate products which result in the marketing of financial assets. All of this is accomplished by the intermediary issuing securities and investing the proceeds in businesses with which it has favourable insider information. As a result, financial intermediaries are motivated to invest in gathering confidential information about investment managers because doing so will boost their profitability.

Leland and Pyle's theory was aligned with the study's objective of improving the performance of financial intermediaries by highlighting the critical role of information

asymmetry in the financial services sector. Their work emphasised how effective communication and transparency can mitigate risks associated with asymmetric information, which directly relates to the objective of identifying key factors influencing the performance of financial intermediaries in the South African insurance sector. Additionally, their insights on the importance of trust and reputation in financial transactions support the objective of evaluating the effectiveness of safeguards in mitigating negative impacts on performance. By understanding how information flow impacts risk assessment and decision-making, their theory also contributed to assessing financial intermediaries' risk tolerance and the repercussions of poor performance. Ultimately, their perspectives inform the development of recommendations for enhancing safeguards, aimed at improving overall performance and stability within the sector.

3.9 Theorist Fama

According to Fama's (1980) theory, which does not violate the concept of complete markets, transaction technology should be used by all financial intermediaries. This approach highlights a variety of technological techniques available to financial intermediaries to differentiate portfolios and change the quality of financial products offered by financial intermediaries. As a strategy, it showcases the various innovative technologies that participants use. Financial intermediaries play the part of a group of savers or borrowers who combine forces to take advantage of the economy's size in terms of the technologies involved in transactions where transaction costs include expenses for monitoring, evaluating, researching, transferring, and exchanging. As a result, one of the roles played by intermediaries is to change the features of the assets. The qualitative transformation of financial assets, the provision of liquid assets, and the investment portfolio are additional features.

Fama's theory was directly linked to the study's objectives by emphasising the significance of market efficiency and the role of financial intermediaries in facilitating optimal resource allocation. Fama's work highlighted how well-functioning intermediaries can reduce transaction costs and enhance market transparency, which directly relates to the objective of identifying key factors that influence the performance of financial intermediaries in the

South African insurance sector. Furthermore, his insights into how information dissemination impacts investment decisions support the objective of evaluating the effectiveness of safeguards in mitigating negative impacts on performance. By understanding the dynamics of market efficiency, Fama's theories also contribute to assessing financial intermediaries' risk tolerance and the repercussions of poor performance. Ultimately, his perspectives provide a foundation for developing recommendations aimed at enhancing safeguards to improve the overall performance of financial intermediaries in the sector.

3.10 Theorist Diamond

According to Diamond's Theory (1997), financial intermediaries were created because of knowledge gaps between borrowers and savers. Therefore, financial intermediaries were able to achieve cost reduction. Financial intermediaries are responsible for mobilising funds, enabling commerce, and supporting effective resource allocation. Financial intermediaries are defined as people who act as middlemen for policyholders. As a result, the intermediaries can achieve economies of scale. Since direct monitoring by each lender would require maximising investment, intermediaries have a clear cost advantage when gathering information. When financial intermediaries are given the task of acquiring information, it will create difficulties for the intermediary in terms of incentive schemes, which are referred to as outsourcing costs. At times, outsourcing costs could prove so high that there would be no net benefit from using intermediaries. Hence, the financial intermediary's capacity for diversification is essential.

The theory of Diamond was closely linked to the study's objectives by highlighting the critical role of financial intermediaries in managing liquidity and mitigating risks within the financial system. Furthermore, Diamond's work emphasised how intermediaries can provide stability by transforming short-term liabilities into long-term assets, directly relating to the objective of identifying key factors that influence the performance of financial intermediaries in the South African insurance sector. Moreover, his insights into the importance of trust and information asymmetry in financial transactions support the objective of evaluating the effectiveness of safeguards in mitigating negative impacts on

performance. By understanding how intermediaries operate within the framework of risk management and liquidity provision, Diamond's theory contributed to assessing financial intermediaries' risk tolerance and the consequences of poor performance. Ultimately, his perspectives provide a foundation for developing recommendations aimed at enhancing safeguards to improve the overall performance of financial intermediaries in the sector.

3.11 Theorist Merton

Financial intermediaries are urged to develop products that are not complicated for consumers. They should create products that are safe, secure, and profitable. This technique of financial intermediation was based on methods to “control money-generation, saving, and financial prudence” advocated by Merton (1995).

The theory of Merton directly supports the study's objectives by underscoring the significance of financial intermediaries in providing essential services that enhance market efficiency and stability. Merton's work emphasised the role of these intermediaries in risk management and the creation of financial products that facilitate effective capital allocation, which directly relates to the objective of identifying key factors influencing the performance of financial intermediaries in the South African insurance sector. Furthermore, his insights into the importance of regulatory frameworks and the impact of financial innovation support the objective of evaluating the effectiveness of safeguards in mitigating negative impacts on performance. By exploring how intermediaries can adapt to market changes and manage risks, Merton's theories contributed to assessing financial intermediaries' risk tolerance and the repercussions of poor performance. Ultimately, his perspectives informed the development of recommendations aimed at enhancing safeguards to improve the overall performance of financial intermediaries in the sector.

3.12 Digital Financial Intermediaries Theory

Digital Financial Theory examines the transformative impact of digital technologies on financial services, focusing on how innovations such as blockchain, artificial intelligence (AI), machine learning, big data, and digital platforms are reshaping the landscape of

financial intermediation. This theory explores the shift from traditional financial models to digital-first approaches, emphasising the potential for increased efficiency, cost reduction, enhanced customer experiences, and expanded financial inclusion.

3.12.1 Core Concepts and Components

3.12.1.1 Disintermediation and re-Intermediation

- **Disintermediation:** Digital finance reduces the reliance on traditional financial intermediaries by enabling direct transactions between parties. For example, peer-to-peer (P2P) lending platforms connect borrowers directly with lenders, bypassing traditional banking systems (Gomber, Koch, & Siering, 2017).
- **Re-intermediation:** New digital intermediaries, such as fintech companies and digital banks, emerge to provide services like payment processing, robo-advisory, and crowdfunding, positioning themselves as tech-driven alternatives to conventional financial institutions (Philippon, 2016).

3.12.1.2 Technological innovations

- **Blockchain and Cryptocurrencies:** Blockchain technology supports decentralised and secure transactions without the need for traditional intermediaries. Cryptocurrencies like Bitcoin and Ethereum exemplify how digital finance can operate independently of central authorities (Nakamoto, 2008; Peters & Panayi, 2016).
- **Artificial Intelligence and Machine Learning:** AI and machine learning improve decision-making in credit scoring, fraud detection, and personalised financial advice. These technologies allow for the analysis of large datasets, improving service delivery (Cheng & Qu, 2020).
- **Big Data Analytics:** Big data enables financial intermediaries to derive insights into customer behaviour, market trends, and risk profiles, enhancing customisation and risk management (Chen, Chiang, & Storey, 2012).

3.12.1.3 Efficiency and cost reduction

- Digital finance reduces transaction costs by automating processes and minimising the need for physical infrastructure. This efficiency is evident in digital payments, online banking, and electronic fund transfers, where transactions are faster, cheaper, and more convenient than traditional methods (Böhme, et al., 2015).
- Automation, such as robotic process automation (RPA), reduces human error and operational costs in back-office functions, compliance, and customer service (Lacity & Willcocks, 2016).

3.12.1.4 Financial inclusion

- Digital finance expands access to financial services for underserved populations. Mobile banking, digital wallets, and microfinance platforms reach individuals in remote or low-income areas, providing basic banking, savings, and credit services (Demirgüç-Kunt et al., 2018).
- Fintech solutions targeting small businesses and informal sectors help close the financial inclusion gap, supporting economic growth and stability (Beck, Demirgüç-Kunt, & Levine, 2007).

3.12.1.5 Customer-centricity and personalisation

- Digital finance fosters a customer-centric approach, tailoring services to individual needs through data analytics, which segments customers based on behaviours, preferences, and life stages (Gomber et al., 2018).
- AI-powered chatbots and virtual assistants offer real-time, personalised support, enhancing customer satisfaction and engagement (Wang & Siau, 2019).

3.12.1.6 Regulatory challenges and compliance

- Digital finance's rapid growth presents regulatory challenges, as existing frameworks may not fully address risks associated with digital assets, data

privacy, cybersecurity, and cross-border transactions (Zetsche, Buckley, Arner, & Barberis, 2017).

- New regulations, such as the European Union's General Data Protection Regulation (GDPR) and the Financial Action Task Force's (FATF) guidelines on virtual assets, aim to ensure that digital finance operates within safe and secure boundaries (FATF, 2019).
- Regulatory sandboxes allow fintech firms to test innovative products in a controlled environment under regulatory oversight, fostering innovation while protecting consumers (Jenik & Lauer, 2017).

3.12.1.7 Cybersecurity and risk management

- As financial services become increasingly digital, cybersecurity threats like hacking, data breaches, and identity theft pose significant risks. Financial intermediaries must invest in robust security measures, including encryption, multi-factor authentication, and real-time monitoring, to protect data and maintain trust (Kashyap & Garfinkel, 2020).
- Digital finance theory emphasises risk management strategies, such as using AI for predictive risk assessment, fraud detection algorithms, and blockchain for secure, transparent record-keeping (Gai, Qiu, & Sun, 2018).

3.12.1.8 Ecosystem and platform dynamics

- Digital finance operates within interconnected ecosystems comprising fintech startups, traditional financial institutions, technology providers, and regulators. Platform-based models, such as digital banking and payment gateways, facilitate collaboration and competition within these ecosystems (Puschmann, 2017).
- Network effects are crucial, as the value of digital platforms increases with more users, driving growth and scalability but also raising concerns about market concentration and the dominance of large platforms (Parker, Van Alstyne, & Choudary, 2016).

3.12.1.9 Impact on traditional financial institutions:

- Traditional banks face disruption from digital finance, prompting them to adopt digital transformation strategies, including technology upgrades, partnerships with fintech firms, or the development of their own digital products (Dapp, 2015).
- Competition from agile, tech-savvy entrants forces traditional intermediaries to rethink their business models, customer engagement strategies, and operational efficiencies (Alt & Puschmann, 2016).

3.12.1.10 Future trends and implications

- Decentralized Finance (DeFi): DeFi aims to create an open, permissionless financial system built on blockchain technology, offering decentralised services like lending, borrowing, and trading, challenging traditional finance's role (Schär, 2021).
- Embedded Finance: The integration of financial services into non-financial platforms, such as e-commerce and social media, is another trend. This model allows users to access financial products within their daily digital interactions (Öztürk & Beraha, 2022).
- AI-Driven Innovation: Continued advancements in AI will drive further innovation in digital finance, from hyper-personalised financial planning to autonomous financial agents that manage investments on behalf of users (Brynjolfsson & McAfee, 2017).

The Digital Financial Intermediaries Theory was closely linked to the study's objectives by highlighting the transformative role of technology in enhancing the performance of financial intermediaries within the South African insurance sector. This theory emphasises how digital platforms can improve efficiency, accessibility, and customer engagement, directly relating to the objective of identifying key factors that influence the performance of these intermediaries. Additionally, the theory supported the evaluation of the effectiveness of safeguards by illustrating how digital tools can mitigate risks and enhance compliance through automation and real-time monitoring. Furthermore, it provided

insights into the risk tolerance of financial intermediaries by examining how digital solutions can help manage operational challenges and improve resilience. Ultimately, the Digital Financial Intermediaries Theory informed recommendations for enhancing safeguards, ensuring that intermediaries leverage technology to navigate market complexities and improve overall performance in the sector.

3.13 Rationale for Conceptual Framework

Whereas Agency Theory and Stakeholder Theory respectively focus on financial intermediaries from different perspectives, Agency Theory views the agents or financial intermediaries-principals or clients-regulatory entities relationship in terms of conflicts of interest and the need for mechanisms of governance as a means of aligning these sets of interests. At the same time, Stakeholder Theory widens this perspective to include the multifarious agents of the financial ecosystem. As a result, the theory still emphasised that performance depends on the multivariate interests of various stakeholders comprising clients, employees, regulators, and the community at large. In turn, the McKinnon and Shaw Theory emphasises that financial liberalisation, positive real interest rates, and a strong institutional framework are essential for the stability and performance of financial intermediaries while the Digital Financial Intermediaries Theory points to the way technology is changing financial intermediation ways to better efficiencies, greater access, and risk management using digital platforms. These theories collectively illustrate the elements that impact the effectiveness and operational reliability of financial intermediaries in today's world (McKinnon & Shaw, 1973).

After evaluating the theories, the Agency Theory was discarded in the context of the study on financial intermediaries in the South African insurance sector. While Agency Theory offers valuable insights into governance and conflict resolution, it is less relevant in a comprehensive analysis of the performance of financial intermediaries in the insurance sector compared to theories that consider broader stakeholder influences and the impact of technology.

3.14 Synopsis

This chapter addressed the theoretical foundations that supported the research on financial intermediaries in the insurance industry in South Africa. It commenced with an analysis of agency theory, which emphasised the dynamics between agents and principals and the incentives that influenced performance. The various interests of customers, authorities, and middlemen influenced operational procedures and the efficacy of safety measures, as demonstrated by the Stakeholder Theory that followed, illustrating how the diverse interests of clients, regulatory bodies, and intermediaries shaped operational practices and the effectiveness of safeguards. The chapter also explored the ideas of theorists like Benson and Smith Jr., McKinnon, and Gurley and Shaw, who all emphasised the significance of strong institutional structures and regulatory frameworks in promoting financial performance and stability. Additional levels of knowledge on the dangers and operational integrity of financial intermediaries were provided by the works of Leland and Pyle, Fama, and Diamond. These theories were closely linked to the study's goals of evaluating safeguards and assessing risk tolerance.

The chapter also discussed Merton's contributions to the perception of financial markets and implications for performance measures in the insurance industry. Finally, it presented the Digital Financial Intermediaries Theory, from which the transformative influence of technologies for efficiency and risk management was realised. By integrating these different theories, this chapter provided an excellent foundation upon which one could set a base to analyse the performance of financial intermediaries and offer actionable recommendations to enhance safeguards in the sector. T

The next chapter delves into the research methodology, outlining the approach and techniques employed in the study. Additionally, the chapter will address the rationale behind the chosen methodology, ensuring it aligns with the study's objectives. By detailing these aspects, the chapter aims to provide a clear framework for understanding how the research was conducted and the validity of its findings.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

Chapter 3 discussed the conceptual framework employed in this study and the rationale behind choosing this approach. This chapter elucidates the philosophical stance underpinning the study of the research strategy. The research strategy directs the investigation by identifying the background in which it will be conducted. Additionally, it explains how research activities and objectives are related (Cooper & Schindler, 2018). This is followed by an elaboration of the research design and methodology employed to investigate the Conceptual framework for factors that influence performance of financial intermediaries in the South African Insurance Sector (Cooper & Schindler, 2018). A well-defined research methodology comprises a body of techniques for acquiring, determining, identifying, and validating knowledge. Quantitative research methods were followed, using a probability sample of 300. The many phases of research, including defining the population, sampling strategy, and the size of the sample are discussed in this chapter. An explication of the data-gathering techniques that facilitated achieving the aims of the research ensues.

The steps needed for data analysis follow the introduction of the questionnaire as these procedures are carried out to ensure the reliability and accuracy of the study findings. This study employed a quantitative research design that made use of primary data analysis. Neuman (2014) believed that a prevalence study provides a true understanding of the development of a model within the context of the insurance sector in South Africa. Additionally, Teddlie and Tashakkori (2021) asserted that the research methodology entails a set of methods for obtaining, defining, categorising, and validating knowledge. Data collection, sampling and a well-crafted questionnaire were considered the elements in the study design process by Bhattacharjee (2012). A positivist approach was adopted for this study to objectively identify, determine, and compare the prerequisites that influence financial intermediaries' performance and risk tolerance in the South African insurance sector to develop a conceptual framework.

4.2 Research Paradigm

Adopting a research paradigm is the first step in selecting an appropriate research method and approach for a study. Research paradigms represent how researchers gain knowledge by understanding reality and collecting data on the topic under investigation (Tracy, 2013, p. 48). A research paradigm refers to a framework that encompasses a wide range of philosophical assumptions (Kirkwood & Campbell-Hunt, 2007, p. 221). Research paradigms are often defined as the structures or perspectives held by research participants and their views on social situations (Strydom, 2005). The three major research paradigms that are commonly acknowledged are post-positivism, pragmatism, and positivism. For this study, the positivist paradigm was chosen. The positivist approach was deemed suitable as positivist researchers typically seek to identify relationships or "correlations" between two or more variables, a technique referred to as the comparative method. The key aspects of the positivistic approach include objectivity, repeatability, and the interactions among variables. Quantitative analysis is the primary research method suited for positivism.

4.3 Research Approach

For Edmonds and Kennedy (2017, p. 23), determining the research design strategy should involve a clear description of the theoretical model and an outline of how data will be gathered. The three primary research approaches are qualitative, quantitative, and mixed methods. As Nardi (2018, p. 17) noted, qualitative research seeks to understand human behaviour from an individual's perspective in a natural setting, as opposed to quantitative research which takes a more structured, scientific approach that includes statistical analysis. Therefore, qualitative research focuses on open-ended questions without predetermined answers, whereas quantitative research centres on closed-ended questions, as highlighted by Creswell and Creswell (2018, p. 43).

Neuman (2014) further explained that a quantitative approach evaluates objective theories by analysing relationships between variables, often through surveys or questionnaires, and interpreting results using statistical methods. Creswell and Creswell

(2018) highlighted several advantages of quantitative research, such as its capacity for both inductive and deductive testing, its reduction of researcher bias, and its ability to generate broad generalisations from findings. For instance, in this study, the researcher could gather in-depth insights about specific phenomena while applying their findings to larger populations. Thus, research design choices accounted for the philosophy and theoretical framework underpinning the study.

This study, grounded in post-positivism and inductive reasoning, adopted a quantitative research approach. Moreover, the deductive method, central to the post-positivist philosophy of this study, aligns with the quantitative, scientific analysis of verifiable theories (Saunders & Thornhill, 2016). This view correlates with Creswell and Creswell's (2018) assertion that certain research problems, such as those involving variable identification and outcome prediction, are best addressed through quantitative methodologies. Quantitative research is systematic, reliable, and well-structured, testing the validity of theories and providing results that are easy to interpret and recognise (Kumar, 2018, p. 132). It relies on numerical data collection and analytical techniques like statistical correlation, often combined with theory testing (Nardi, 2018). Therefore, these methods were adopted for this study.

4.4 Research Designs

Research design serves as the blueprint for conducting a study and encompasses the processes, techniques, and strategies that researchers adopt to gather, analyse, and interpret data. According to Nardi (2018), research philosophies, on the one hand, represent how researchers acquire knowledge, understand reality, and collect data related to the problem under investigation. Research designs, on the other hand, refer to the structured methods and procedures that enable researchers to achieve the study's objectives by collecting, evaluating, and presenting evidence systematically (Creswell & Plano Clark, 2011). Kumar (2011, p. 122) described research design as the framework and strategy chosen by the researcher to ensure that the research question is addressed as accurately, objectively, and truthfully as possible. It is a step-by-step plan that explicitly outlines the procedures and techniques used throughout the research process.

Welman et al. (2005, p. 52) argued that research design also involves selecting research subjects and determining the appropriate method for data collection. The design plays a crucial role in translating research objectives into measurable and reliable data, ensuring that the process is both systematic and aligned with the study's goals (Nardi, 2018). As per Creswell and Creswell (2018), research design is a comprehensive process applicable to qualitative, quantitative, or mixed-methods research. It is essential for providing a clear roadmap for gathering and interpreting data.

There are several critical steps in developing a research design, as outlined by Nardi (2018):

1. Generating ideas based on hypotheses or prior research: The first step involves identifying a research topic or question that aligns with existing theories or previous studies.
2. Refining ideas into measurable variables: Concepts must be translated into variables that can be empirically tested or observed.
3. Accommodating suggestions for improvement: It's important to refine hypotheses or variables based on feedback or further exploration.
4. Selecting a sampling strategy: Researchers must decide how to select the population for the study, determining whether a longitudinal (over time) or cross-sectional (at one point in time) approach is appropriate.
5. Choosing statistical and analysis tools: The final step involves determining the appropriate methods for data analysis, whether through qualitative analysis, statistical correlations, or other techniques that ensure a meaningful interpretation of the data.

These steps constitute the core of any research design and must be carefully followed to ensure the study is methodologically sound. However, it is important to recognise that research design can vary depending on the approach taken, especially in comparative quantitative research, where the design may be more structured to assess the relationships between variables.

For instance, this particular study aimed to identify the factors influencing the performance of financial intermediaries within the insurance industry. As such, a descriptive research design was adopted. Descriptive research focuses on observing and documenting specific behaviours, characteristics, or phenomena within a population without attempting to explain causal relationships. According to Edmonds and Kennedy (2017), a descriptive approach is often used to evaluate the current status of an event or phenomenon, providing a detailed account of what exists in a given context with respect to individuals or populations. Gray (2016) emphasised that descriptive research seeks to document "what" happened, rather than "why" it occurred. This type of research is often used in statistical studies that aim to assess current circumstances and trends (Akhtar, 2016).

Descriptive research is particularly valuable when the goal is to paint a clear picture of a specific situation or to evaluate the distribution of behaviours or characteristics within a population. In the case of financial intermediaries in the insurance industry, this approach enabled the researcher to collect and analyse data on performance factors without needing to establish causal relationships. By focusing on describing the characteristics of participants and their behaviours within this industry, the research provided valuable insights into how these factors operate and interact within the specific context of insurance intermediaries.

The research design is considered an essential element of any study. Whether employing qualitative, quantitative, or mixed methods, it serves as the guiding structure for data collection and analysis, ensuring that the research is conducted rigorously and systematically. In descriptive studies, such as this one focused on financial intermediaries, the design allows for a detailed exploration of current conditions, providing insights that can inform both theory and practice.

4.4.1 Quantitative research design

Quantitative research design is a systematic approach that involves the use of numerical data to draw inferences about a larger population. Maree (2019) stated that quantitative research aims to gather data from a sample in a structured, scientific, and logical manner

to estimate outcomes applicable to a broader group of people. This approach is advocated for researchers who aim to test hypotheses, establish facts, demonstrate relationships between variables, and make generalisations based on statistical evidence (Weinreich, 2009). Additionally, quantitative research relies heavily on the use of numerical statistics and statistical evaluations to present and interpret data, which must be analysed objectively to minimise researcher bias. By employing secondary data analysis, quantitative researchers can explore correlations between factors and predict potential outcomes, providing a more comprehensive understanding of the phenomena under investigation.

Quantitative research design emphasises the importance of eliminating bias and ensuring objectivity in data collection and analysis. This is achieved by using standardised methods such as surveys and questionnaires, which allow for the collection of measurable and replicable data. As Delport and Roestenburg (2011) pointed out, these tools are essential for gathering statistical information that can be subjected to rigorous analysis. The focus on numerical data enables researchers to test relationships between variables and make inferences that extend beyond the immediate study sample.

For this study, various statistical analyses were applied to the collected data using specialised software tools. The following software packages were used to facilitate the analysis of data:

- **Demographics analysis:** IBM SPSS Statistics 27 was employed to analyse demographic data, providing insights into the characteristics of the sample population.
- **Data visualisation:** Microsoft Excel was utilised to generate charts and graphs, making the presentation of statistical data more accessible and interpretable.
- **Reliability analysis:** IBM SPSS Statistics 27 was used to conduct reliability analysis, ensuring that the measurement instruments used in the study were consistent and dependable.

- **Factor analysis:** IBM SPSS Statistics 27 was applied for factor analysis to identify underlying relationships between observed variables and reduce the data to key factors.
- **Structural Equation Modeling (SEM):** IBM SPSS Amos 27 was employed to test the relationships between variables and to assess the conceptual framework through SEM. SEM is crucial for understanding the causal relationships between variables in complex models.
- **Scalar estimates:** IBM SPSS Amos 27 Output was used to generate scalar estimates, providing insights into the relative importance of each variable in the model.
- **Maximum likelihood estimates:** These estimates, generated through IBM SPSS Amos 27 Output, were critical for assessing model fit and parameter estimates.
- **Regression weights and standardised regression weights:** IBM SPSS Amos 27 Output provided these estimates, allowing researchers to quantify the strength and direction of the relationships between variables.
- **Means, intercepts, and variances:** These statistics were also generated by IBM SPSS Amos 27 Output, further aiding in the analysis and interpretation of the relationships between variables in the study.

The use of these software packages ensured that the data were subjected to rigorous statistical analysis, enhancing the validity and reliability of the findings. Each tool played a specific role in analysing different aspects of the data, from descriptive statistics to more advanced multivariate analyses, such as SEM. This multifaceted approach enabled the researchers to comprehensively explore the relationships between variables and to generate accurate predictions.

A crucial component of quantitative research is determining an adequate sample size. For this study, a sufficiently large sample was obtained to ensure that the results were representative of the population of market conduct employees within the South African insurance sector. By achieving an appropriate sample size, the study enhanced the

generalisability of its findings, making it possible to draw broader conclusions about the factors influencing the performance of financial intermediaries in this industry.

The study's primary objective was to identify relationships between key variables and predict outcomes that could contribute to the development of a conceptual framework for understanding the role of financial intermediaries in the South African insurance sector. By employing a quantitative approach, the study was able to establish these relationships in a scientifically rigorous manner, providing valuable insights for both researchers and practitioners in the field. Using statistical tools such as regression analysis and SEM, the study not only identified key predictors but also provided a clear framework for future research and practical applications in the insurance industry.

Quantitative research design plays a pivotal role in generating objective, reliable, and generalisable data. By utilising numerical data and sophisticated statistical analyses, researchers can test hypotheses, explore relationships between variables, and make informed predictions about broader populations. In this study, the use of various software tools such as IBM SPSS Statistics and Amos, combined with adequate sample size, enabled the development of a robust conceptual framework for financial intermediaries in the South African insurance sector. The findings of this study underscore the value of quantitative research in informing evidence-based practice and guiding future research.

4.4.2 Primary and secondary data sources

In the context of research, data can be broadly categorised into primary and secondary sources, each serving distinct purposes based on the research design and objectives. Hox and Boeije (2005) considered primary data sources as the original data collected directly by the researcher for the specific purpose of addressing the research question. These sources include tools such as surveys, observations, experiments, questionnaires, and personal interviews. The data gathered from primary sources is often tailored to the precise needs of the study, allowing researchers to gather specific insights and details directly related to their research objectives. In contrast, secondary data sources involve data that has already been collected and recorded by others for purposes other than the

current study. Examples include government reports, internet articles, magazines, newspapers, and internal organisational documents. Secondary data can provide valuable background information, historical context, or broad trends, but it may not be as specifically tailored to the research at hand. For this study, primary data was collected with the objective of gaining insights into several key areas related to financial intermediaries in the South African insurance sector. The study sought to understand the following:

1. Key factors that influence performance of financial intermediaries in the South African Insurance Sector: This involves identifying the variables and conditions that are crucial for constructing an effective framework that supports the activities and performance of financial intermediaries.

2. Assess financial intermediaries' risk tolerance and the repercussions of poor performance in the South African insurance sector: This study aims to assess the risk tolerance of financial intermediaries in the South African insurance sector and explore the repercussions of poor performance. It seeks to understand the factors influencing risk tolerance, evaluate performance metrics, and investigate the potential consequences of inadequate performance, such as financial losses and reputational damage.

3. Existing safeguards mitigate performance issues in financial intermediaries: This study aims to evaluate how existing safeguards mitigate performance issues in financial intermediaries. Specifically, it seeks to identify the types of safeguards currently in place, assess their effectiveness in addressing performance challenges, and analyze their impact on risk management and operational efficiency.

4. Identify challenges that contribute to performance gaps: This study aims to identify the challenges that contribute to performance gaps in financial intermediaries. It seeks to analyze various factors, including operational inefficiencies, regulatory constraints, market dynamics, and internal management issues. By understanding these challenges, the research will highlight their impact on overall performance and effectiveness.

5. Recommendations for enhancing the safeguards: This study aims to develop recommendations for enhancing the safeguards used by financial intermediaries to

address performance issues. It seeks to evaluate the effectiveness of current safeguards and identify any gaps or weaknesses that need to be addressed.

To collect the primary data needed for this study, a questionnaire was developed (see Appendix B). The questionnaire was carefully designed to align with the key concepts and objectives of the research. It included questions related to the development of models for financial intermediaries, strategies for achieving regulatory compliance, methods for measuring market conduct, and the challenges faced by intermediaries. The questionnaire also included questions aimed at assessing the role of financial intermediaries in promoting financial inclusion. By structuring the questionnaire around these key themes, the research aimed to gather detailed and specific data that would provide insights into the issues most relevant to the study.

4.5 Sampling Process And Approaches

In research, sampling refers to the process of selecting a subset of individuals from the larger population to participate in a study. According to Onwuegbuzie and Collins (2007), a sample is a simplified group of participants that represents the broader population from which it is drawn. By studying a sample, researchers aim to make inferences about the entire population without needing to collect data from every individual. This approach is not only practical but also essential for the efficient conduct of research. Sampling enables researchers to achieve their study objectives while overcoming the logistical and financial constraints associated with studying an entire population.

As Sarantakos (2005, p. 139) pointed out, sampling is primarily conducted for reasons of feasibility. In most cases, it is neither practical nor possible to study every member of a population, especially when dealing with large and dispersed populations. The time, effort, and financial resources required to locate, interact with, and collect data from every

individual are often prohibitive. Gravetter and Forzano (2015, p. 133) noted that attempting to gather data from the entire population would involve significant time and money, making it an inefficient and often impossible approach. In contrast, using a sample allows researchers to collect data more efficiently and produce reliable results that can be generalised to the larger population. De Vos et al. (2005, p. 224) emphasised that sampling is often a more accurate method of studying a population, as it allows for more manageable data collection and analysis while minimising errors that could occur if researchers attempted to study the entire population.

Sampling involves several key steps, beginning with selecting a representative subset of the population. Onwuegbuzie and Collins (2007) explain that the process of selecting a sample involves carefully choosing a portion of the entire population that reflects its key characteristics. By doing so, researchers can ensure that the results of the study are generalisable and applicable to the larger population. However, achieving this requires careful attention to the sampling method used, as an inappropriate sampling technique can lead to biased or unreliable results. The accuracy of the study's findings is highly dependent on how well the sample represents the population.

In this study, sampling methods were a crucial component of the primary data collection process. Various methods and techniques were employed to ensure that the sample was representative of the population under investigation. These methods included:

- **Data-gathering techniques:** Structured methods were used to collect data from the chosen sample, ensuring consistency and reliability in the responses.
- **Questionnaires:** Questionnaires were designed to collect data relevant to the research objectives, and preliminary testing was conducted to refine the questions and ensure they were clear and effective.
- **Preliminary testing:** Before full deployment, the questionnaire underwent preliminary testing to identify any ambiguities or issues with the questions, ensuring that the final instrument was both reliable and valid.

- **Questionnaire delivery:** The method of delivering the questionnaires to participants was carefully considered to ensure high response rates and the collection of accurate data.
- **Exploratory data analysis:** Once the data was collected, exploratory data analysis techniques were used to gain initial insights into the data and identify any potential patterns or trends.
- **Statistical assessment:** Finally, the collected data was subjected to rigorous statistical analysis to test hypotheses and draw meaningful conclusions from the sample.

Onwuegbuzie and Collins (2007) cautioned that selecting the appropriate sample is critical for the validity of any research study. The sample must be carefully chosen to ensure that it accurately reflects the broader population and is large enough to provide meaningful results. Selecting an inappropriate sample, or using a sampling method that introduces bias, can lead to skewed results and reduce the generalisability of the findings. Therefore, researchers must carefully plan their sampling strategy to ensure that the sample is both representative and sufficient to answer the research questions.

In this study, the sampling approach included several key considerations:

1. **Target group:** The target group refers to the specific population from which the sample is drawn. In this case, the target group was employees and stakeholders in the financial intermediary sector, particularly those involved in market conduct. Identifying the target group is essential for ensuring that the sample is relevant to the research objectives.
2. **Sample size:** The sample size refers to the number of individuals or units selected for participation in the study. Determining an appropriate sample size is crucial, as a sample that is too small may not provide enough data for reliable analysis, while a sample that is too large may be impractical or inefficient. The sample size must be large enough to represent the population while remaining manageable for data collection and analysis.
3. **Sampling techniques:** Several sampling techniques can be used depending on the research design and objectives. In this study, the sampling technique was chosen based on the need to balance feasibility with the requirement for a representative sample.

Common sampling techniques include random sampling, stratified sampling, and convenience sampling, among others. Each technique has its strengths and weaknesses, and the choice of method depends on the specific context of the research.

By employing a well-planned and carefully executed sampling strategy, the study aimed to ensure that the data collected was both accurate and generalisable to the broader population. The combination of appropriate data-gathering techniques, statistical analysis, and careful consideration of the target group and sample size allowed the researchers to draw meaningful conclusions from the sample and apply them to the financial intermediary sector.

Sampling is a fundamental component of research that allows researchers to study a subset of the population to make inferences about the entire group. By selecting a representative sample and using appropriate sampling methods, researchers can overcome the logistical challenges of studying large populations while still producing accurate and reliable results. In this study, careful attention was given to the sampling methods and techniques employed to ensure that the sample accurately reflected the population of financial intermediaries. This approach allowed for the collection of meaningful data that could be used to explore the key factors influencing market conduct and regulatory compliance in the sector.

4.5.1 Sampling methods

According to Gerber (2019), the sampling method describes the process used to create a sample for the study. Non-probability sampling and sampling based on probability are two types of sampling methods. Respondents are chosen at random to partake in a questionnaire or evaluation of another method of investigation using probability sampling and when a sample is generated in a non-probability manner, a researcher could do this by sending a survey link to the participants.

4.5.1.1 Probability sampling methods

The likelihood that each component of the population will be included within the chosen group may be determined when the method of probability sampling is applied (Welman,

2005, p. 56). There are identifiable probabilities for choosing a particular individual, and they might potentially be calculated by probability sampling (Vehovar et al., 2016, p. 327). Probability sampling is subject to the following three important conditions (Gravetter & Forzano, 2015, p. 138):

- Every participant must be able to be listed, and the population's precise size must be identified.
- There must be a possibility for every member of the population to be selected.
- It is critical that the selection process be fair when several people are given the same chances so that each member of the group has an equal probability of being selected.

4.5.1.2 Non-probability sampling methods

Non-probability sampling is a method in which samples are taken without giving all population members an equal chance to be included (Fama et al., 1980, p. 1). With this approach, the researcher chooses participants based on their accessibility and availability. This method is therefore efficient, cost-effective, and useful (Elfil & Negida, 2017, p. 2). Using non-probability sampling makes it impossible to estimate sampling errors. This limits the range from which reliable conclusions about a population may be made (De Vos, 2018, p. 567). A positivistic paradigm was used to develop a conceptual structure for the factors that affect financial intermediaries' performance in the insurance industry in South Africa. In essence, objectivity, repeatability, and interactions between variables are the focal points of the positivistic approach.

4.5.2 Sampling technique

4.5.2.1 Stratified random sampling

This study adopted a stratified sampling method. Stratified sampling may be applied when a population is segmented based on shared attributes such as gender, age, and place of residence (Dubey et al., 2016, p. 194). The population is divided into a mutually exclusive group, and homogeneous participants are categorised according to characteristics such as financial status, race, age, and spoken language (De Vos et al., 2005, p. 230). By employing this type of sampling process, the sampled data for various categories can be

evaluated independently. One advantage of stratified sampling is that it assures the representation of the relevant population classes (Acharya et al., 2010, p. 33).

According to Welman et al. (2009, p. 62), stratified random sampling serves two important goals. First, it is highly improbable that a sample taken from a population that is gender-stratified will only include one gender. Second, to verify that the sample contains a representation of the relevant categories, stratified random sampling requires a lower sample size than ordinary random sampling (Welman et al., 2009, p. 64). Edmonds and Kennedy (2017) maintained that this is when respondents are randomly chosen from each subgroup of the population. Stratified random sampling has the advantage of being significantly representative of the general population, and because of the specific representation of the sample, there is minimal sample bias (Dubey et al., 2016). Stratification improves sample reliability by allowing a smaller number of participants to achieve the same level of statistical significance as simple random sampling (Carson & Hanemann, 2006). The stratified sample used for each division is shown in Table 4.1.

Table 4.1 Stratified Sample Per Division

Division	Sample size
Investment providers	53
Collective investment scheme	22
Insurance	30
Micro and access	30
Financial advisory intermediary	30
Market integrity	45
Hedge funds	30
Consumer education	30
Regulatory framework	30
	300

Stratified random sampling was used to collect the sampling frame for the primary data. Adopting a stratified technique in this study led to the diversity of the population and a precise measure for the subgroups. A sample size of 300 analysts at a market conduct

authority was evaluated. A stratified random sample was selected from each stratum according to the percentage of representation in each division (Rubin & Babbie, 2009).

Table 4.2 Defined Sampling Methods

Sampling methods	Type	Meaning
Probability sampling	Simple random sampling	Everyone in the population has the same theoretical chance of being chosen for a sample. With simple random sampling, each participant receives an equal chance of inclusion in the sample, and each sample of a particular size has an equal chance of being selected (Gelo et al., 2018, p. 275). It is necessary to give each person in the population a special number (Sharma, 2017, p. 750). The sampling frame for this method must be used. All participants in the study should be given a numerical in ascending or descending order (Gelo et al., 2018, p. 275).
	Stratified random sampling	The population is divided into mutually exclusive groups, and homogeneous participants are categorised according to characteristics like age, language, gender, and income level (De Vos et al., 2005, p. 230). With this kind of sampling, it is possible to analyse the sampled data separately for various groups. The benefit of stratified sampling is that it ensures that the necessary population classifications are represented (Gelo et al., 2018, p.

		275).According to Welman et al. (2005), stratified random sampling serves one important goal. To highlight differences amongst groups in a population. There is zero chance that a sample drawn at random from a population that is divided into gender-based groups will contain only one gender.
	Systematic sampling	The first person is chosen at random from the population. Only the first case is randomly chosen in systematic sampling, and the preference is chosen from a sample table (Tyrer & Heyman, 2018, p. 58). Depends on the desired proportion sample.
	Cluster sampling	A two-stage procedure in which a random sample of clusters is drawn first, followed by a random sample of components within each cluster. When the population is too large for random sampling, cluster sampling is typically used. When a predefined list of respondents is not accessible (Taherdoost, 2017, p. 21). The groups or clusters are selected at random. Cluster sampling is used when it is impractical to sample a population that is widely dispersed and when selecting a sample that will accurately reflect all the components (Gelo et al., 2018, p. 275).
Non-probability sampling	Convenience sampling	Participants who are easily accessible to a researcher. The researcher chooses the

		<p>sample for practical reasons (Gelo et al., 2018, p. 275). Convenience sampling is a type of non-random sampling where the target population is easily reachable, nearby in time and space, readily available, and willing to participate in the research as participants (Gelo et al., 2018, p. 275)</p>
	<p>Snowball sampling</p>	<p>Initially participants are requested to classify additional individuals who share similar characteristics and are willing to participate in the study. This sampling technique is used when it is challenging to find the population in a specific location, making it more difficult to access that population. In the snowball sampling process, participants are asked to suggest other participants for the study after being chosen to participate using probability or non-probability methods. (Gelo et al., 2018, p. 275)</p>
	<p>Purposive sampling</p>	<p>A survey is obtained solely based on a researcher's evaluation of which elements best represent the features of the sample. According to judgement sampling, participants who are knowledgeable about the primary concept under investigation are deliberately chosen by the researcher (Creswell & Plano Clark, 2018, p. 176). In other words, the researcher chooses what information is necessary and chooses</p>

		<p>knowledgeable individuals who are ready and able to provide the required information (Acharya et al., 2010, p. 335). In qualitative research, deliberate sampling is typically used to choose and identify cases that are full of information (Creswell & Plano Clark, 2018, p.177)</p>
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4.5.3 Sampling size

A large sample size for a quantitative approach increases high accuracy, which enhances the possibility of identifying significant differences between groups (Rubin & Babbie, 2009). As a result, in this study, the researcher used a large, fair representation group to draw a conclusion from the general population as substantiated by Strydom (2005). The characteristics of the target population, namely time, associated costs, and the type of information required from the questionnaire should all be considered when selecting the size of the sample (Chawla & Sondhi, 2016, p. 231). An additional consideration is the homogeneity of the group of people in which the sample of participants will be selected (Bryman & Bell, 2018, p. 177).

When a sample is different, such as a sample taken from an entire nation or city, the population is more likely to be highly diverse. There is less diversity when the population is homogenous, such as among employees in a company. Consequently, a larger sample will be required as population heterogeneity increases (Bryman & Bell, 2018, p. 177). Sampling size estimate is the process of determining specifically the amount of data to include in an analysis (Singh & Masuku, 2018). Therefore, there are numerous statistically based methods for determining the size of the sample.

From a total population of 1200, a sample size of 300 participants from a market conduct authority was determined. Taro Yamane's method for determining sample size was used: Formula: $n = N / (1 + N (e)^2)$

Where:

n = is the sample size,

N = is the population size,

1 = is a constant

e = is the level of precision.

$$n = 1200 / (1 + 1200 (0.05)^2)$$

$$= 1200 / 4.00$$

$$= 300$$

The previous statistical computation mentioned was tested using Bartlett's sphericity test or KMO to determine its suitability and confirmation. The appropriateness and reliability of the determination were determined by the sample size's consistency between the two techniques. The choice of sample size was crucial since an inadequate sample size would not have revealed significant differences or similarities in the population being examined, while an excessive sample size might have been too costly to manage (Omair, 2018). According to Shkoler (2019), the degree of variation in the population influences sample adequacy, so a homogenous population requires a smaller number of respondents than a heterogeneous population. Therefore, the target population of 1200 required a sample of 300. The researcher distributed the questionnaire to market conduct authority analysts. Finally, the primary data final sample size consisted of 300 market conduct analysts, 181 of whom were male and 119 of whom were female; therefore, this sample size was deemed adequate (Rubin & Babbie, 2009).

4.6 Data Collection Methods

Data are the sources for data analysis that are collected by the researcher to further comprehend his study (Walliman, 2018, p. 120). A measurement tool and data collection methods goals are vital to gather enough information to address study-related questionnaires (Creswell & Plano Clark, 2018, p. 173). When conducting explanatory or descriptive research, questionnaires are an effective way to gather data (Sekaran & Bougie, 2016, p. 147). In descriptive research, a phenomenon is attempted to be described or quantified, frequently by assessing the degree of correlation between the two

variables under research (Danes, 2017, p. 85). Zikmund et al. (2009) concurred that the quantitative data collection methods employed in this study used numerical measurements to address the specific goals of the study. Creswell and Creswell (2018, p. 301) viewed the process of gathering information as outlining the research parameters for the investigation through sample selection and then collecting data through organised, designing the recording of data techniques, and conducting unstructured or semi-structured interviews. Data and data-gathering processes are typically collected using some research technique that can be managed to score numerically and consistently (Gliner et al., 2016). This is often achieved using the most popular method of gathering data, which is a questionnaire or survey, as observed by Neuman (2014).

A set of statements and other items intended to extract data for analysis is called a questionnaire (Leedy & Ormrod, 2010). Survey questionnaires are used to discover patterns, actions, or beliefs of the target group; and to determine the interdependence and provision of social science, behavioural, or psychological and social characteristics, in particular (Edmonds & Kennedy, 2017, p. 133). Questionnaires are an example of numerical measurements (Zikmund et al., 2009). Furthermore, in quantitative research, questionnaires are among the most utilised instruments. According to Nardi (2018), questionnaires are the most effective tool for quantitative research or probability sampling because they are effective in gathering data quickly and with few resources.

Questionnaires also enable broad conclusions to be drawn from a specific observation. Nardi (2018) added that questionnaires, physical measuring devices, standardised tests, simulations, and other research methods are more frequently used in quantitative studies. Various methods were suggested by Sekaran and Bougie (2016, p. 147) to disseminate questionnaires, including by electronic mail, online, or administration. Surveys are generally less expensive than observations and interviews. A questionnaire's structure and design must adhere to certain fundamentals to fulfil the requirements of validity and reliability.

4.6.1 Data collection instruments

Data are the combination of connected discoveries, evidence, or measurements. The data collection process involves establishing the investigative variables through the sampling and gathering of information through a combination of interviews that be unstructured, semi-structured, or structured (Creswell & Creswell, 2018, p. 301). In general, instruments that can be reliably evaluated using numerical approaches are used to gather data collection procedures (Gliner et al., 2016, p. 9). According to Neuman (2014), the most prevalent technique of gathering data is through a questionnaire, which is the most effective way to achieve this.

4.6.2 Questionnaire design

Formalised questionnaires are suitable for a quantitative approach for evaluating variable interconnections when the audience is sizable (Gray, 2016, p. 471). A thorough analysis of the literature review in Chapter 3 provided a better understanding of the factors that influence the performance of financial intermediaries in the South African insurance sector. As a result, intrusive questions about the research problem could be formulated to include in the questionnaire. To acquire the most acceptable research results, a straightforward, principled, systemic approach was used, as guided by Mohajan (2018, p. 23).

Dillman et al. (2016), stated that a well-designed questionnaire is critical to the success of a research study. The questionnaire must appear professional in all circumstances because these influences the participants' commitment to complete the questionnaire. Furthermore, it is critical that each question be phrased correctly for participants to understand them explicitly. Additionally, Roopa and Rani (2012, p. 27) recommended a questionnaire that is presented in a desirable layout and is understandable to inspire respondents to participate. First, this was achieved by designing this study's questionnaire to assess the goals and research aim of the research study. Second, the format of the questionnaire (see Appendix B) used to collect primary data was concise to keep the questionnaire transparent, precise, as well as easy to understand by the participants (Quinlan, 2011). Third, the required measures were taken in this study to ensure the

questions were formulated correctly and the language used was kept simple. Finally, the questionnaire was designed so that participants could complete it in under 30 minutes.

4.6.3 Questionnaire set-up

Quinlan (2011) asserted that structured questions in self-administered questionnaires are more effective than unstructured questions. Comparatively, closed-ended questions from semi-structured scales are used for quantitative data. Therefore, closed-ended questions were utilised by the researcher to collect data for the quantitative method (Chawla & Sondhi, 2016, p. 179). Furthermore, the options for participants to respond when giving information were undoubtedly not constrained by the questions. Participants may rate questions on a strongly disagree to strongly agree scale in a quantitative questionnaire (Plano Clark & Creswell 2017, p. 169). As part of this study’s questionnaire, participants rated their responses to the researcher’s questions in a closed-ended format (see Appendix B).

4.6.4 Questionnaire layout

Dillman and Christian (2004) held forth that layout has a greater impact on respondents who have a high need for cognition and a high need to evaluate. The questionnaire’s layout was well-spaced and simple to be able to respond more easily, as per Rubin & Babbie (2009, p. 254). The layout of the questionnaire that was distributed to employees at the financial sector conduct authority is shown in Table 4.3. All participants received the same questionnaire, which had the same format and number of questions.

Table 4.3 Questionnaire Layout

Section	Measuring instruments	Reason for inclusion
1	Demographics	To collect general background information about the participants, gender, the highest level of education, and level of experience.

<p>Section A</p>	<p>Factors that enhance financial intermediaries' performance</p>	<p>The questionnaire is designed to explore the factors that enhance the performance of financial intermediaries in the South African insurance sector. Its structure is based on a comprehensive review of literature and relevant theories, aiming to validate a conceptual framework that identifies key determinants of performance in this industry. The survey seeks to gather insights from respondents on various dimensions of intermediary performance, including market conduct, product offerings, pricing strategies, and customer interactions.</p>
<p>Section B</p>	<p>Explores the Perceptions of Safeguards and their Effectiveness in Financial Intermediaries</p>	<p>The questionnaire layout includes a section dedicated to exploring the perceptions of safeguards and their effectiveness in financial intermediaries. This section is designed to assess how well intermediaries implement safeguards such as regulatory compliance, risk assessment processes, and client protection measures. The questions focus on the respondents' views on the adequacy of these safeguards,</p>

		<p>their impact on customer trust, and their role in mitigating risks within the sector. By examining perceptions of these safeguards, the questionnaire aims to evaluate their effectiveness in ensuring that financial intermediaries not only comply with regulatory requirements but also uphold the highest standards of ethical conduct and customer service. The insights gathered from this section will help identify areas where safeguards are functioning well and where improvements are necessary, ultimately contributing to enhanced performance and trust in the financial intermediaries operating in the South African insurance sector.</p>
<p>Section C</p>	<p>Assessment of financial intermediaries' risk tolerance</p>	<p>The questionnaire layout includes a section specifically focused on the assessment of financial intermediaries' risk tolerance. This section aims to evaluate how effectively intermediaries assess and manage the risk profiles of their clients, which is critical for aligning financial products with individual risk appetites. The questions are designed to capture</p>

		<p>the intermediaries' methods for determining risk tolerance, including the tools and criteria used, and how these assessments influence product recommendations. Respondents are asked to provide their perceptions of the adequacy and accuracy of these risk assessments, as well as the degree to which they believe these processes protect clients from unsuitable financial products. The section seeks to uncover gaps in current practices and identify opportunities for improvement, ensuring that intermediaries are not only meeting regulatory standards but also genuinely safeguarding clients' financial well-being through robust and precise risk profiling. The insights derived will inform recommendations for enhancing the effectiveness of risk assessment strategies in the financial intermediary sector.</p>
<p>Section D</p>	<p>Improved or additional safeguards would you recommend</p>	<p>The questionnaire includes a section inviting respondents to provide input on improved or additional safeguards they would</p>

		<p>recommend for financial intermediaries. This section is designed to gather insights on potential enhancements to existing risk management, compliance, and client protection mechanisms within the sector. Questions in this section encourage respondents to suggest specific safeguards, such as advanced risk assessment tools, enhanced client education initiatives, or stricter regulatory oversight, that could address identified gaps and weaknesses. The aim is to explore innovative approaches that could strengthen the integrity and performance of financial intermediaries, ensuring that they not only comply with industry standards but also proactively protect clients from financial misalignments and undue risks. By capturing these recommendations, the questionnaire seeks to build a comprehensive understanding of the necessary steps to fortify the financial ecosystem, ultimately contributing to a more resilient and</p>
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		customer-centric approach within the South African insurance sector
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4.6.5 Questionnaire administration

Using a self-administered questionnaire, the researcher sent the questionnaire to South Africa’s reputable market conduct authority (see Appendix B). Prior to beginning the primary questionnaire, the researcher contacted the market conduct authority to obtain permission to conduct the study. After reaching an agreement, the researcher sent a set of questionnaires to the market conduct authority participants (see Appendix B). The participants’ anonymity was further protected by making sure there were no identifications on the self-administered questionnaires. Information collected from participant feedback was kept completely private. The questionnaire complied with the ethical requirements of a scholarly research project at the University of KwaZulu-Natal. The questionnaires were distributed to 346 participants and the researcher received 300 completed questionnaires, at a response rate of 87.7%.

4.6.6 Pilot investigation

Confirming the validity and reliability of the study's findings is crucial. This is accomplished using a formal procedure known as a pilot inquiry, which employs multiple samples derived from ongoing research prior to gathering study-related data (Gliner et al., 2016, p. 184). The process of pretesting the questionnaires reduces needless work, which is why the pilot investigation is necessary to support the overall development of the primary investigation's correctness and standard. Furthermore, testing a questionnaire beforehand often speeds up gathering data by removing or lowering items that are likely to be misleading or overly intrusive, which helps to reduce the likelihood of missing data (Gray, 2016, p. 474). The market conduct authority’s compliance company departments were used to sample 20 randomly selected analysts with traits comparable to the target population for pilot research. To enhance respondent comprehension and the overall

questionnaire flow, several elements were modified during the pilot study process, including questions, scales, and structure as suggested (Creswell, 2014, p. 207).

4.7 Data Analysis

Statistics can be descriptive or inferential in nature. When statistically significant distinctions between groups are observed and assumptions about the dataset are derived (Jansson-Boyd, 2018, p. 7). Mishra et al. (2019, p. 67) defined a dataset as a collection of individual case data. Inferential statistics employ probability theory to openly examine hypotheses and make inferences from a selected sample to an individual or population, while descriptive statistics only offer information on numerical values (Neuman, 2014 p. 396). The frequency of tables of data evaluates the general tendency embodied in the average, median, and mode, and assessment of dispersion expressed by variation in the range, average, and standard deviation, are among the most basic methods to describe numerical data. The principal tendency is a particularly strong value towards most values in the overall distribution to converge. However, there are still extreme values in any dispersion. According to Dubey et al. (2016), convergence is measured by central tendency. However, extreme values are still present in each distribution. These are measured by dispersion which shows how many variables significantly vary from standard deviation, average, and mean.

There are two categories of inferential tests: parametric and non-parametric. Bettany-Saltikov and Whittaker (2013, p. 6) stated that parametric tests are based on assumptions about the primary population from which the sample was collected. The most common parametric assumption is that data is generally normally distributed. Hopkins et al. (2014) asserted that non-parametric tests do not draw conclusions about the shape or properties of the actual population distribution. Nonparametric tests must be employed when categorical or continuous data is not distributed normally.

The choice of which statistical analysis test to use to achieve the results depends on whether a dataset exhibits an essentially normal distribution or not (Hopkins et al., 2014). For normally distributed data, nonparametric tests (which use the median as a measure of central tendency) should be used; however, parametric tests (which make the central

frequency metric represented by the mean) should be used. After deciding whether to use a parametric or nonparametric test, the individual test selection is dependent on group and variable design parameters such as the size of groups of people and the frequency of tests.

4.7.1 Correlation analysis

The correlation measurement provides information on the proximity of two variables. Explicitly, the goal of correlation analysis is similar to quantitative analysis, making it suitable for investigating the link between independent and dependent variables (Senthilnathan, 2017, p. 5).

Table 4.4 Ideal Spectrum to Assess Correlation Coefficients (Senthilnathan (2017, p. 4)

Negative influence	Interpretation	Positive influence
0 to -0.2	Very little or no association	0 to 0.2
-0.2 to -0.35	Weak correlation but to be considered	0.2 to 0.35
-0.35 to -0.5	Correlation is fair to moderate.	0.35 to 0.5
0.5 to -0.7	Considered to have a strong association	0.5 to 0.7
-0.7 to -1	Strongly believed correlation	0.7 to 1

The strength of the connection between two components is demonstrated by a coefficient of correlation (Wetzels & Wagenmakers, 2011, p. 206). The connection among the two components is quantified by the value of the coefficient r . The insignificant negative relationship between the two variables would cause one variable to decrease if the other increased. Where $r = -1$ denotes the existence of an optimum inverse linear connection, $r = 1$ denotes a positively linear connection, and $r = 0$ denotes a lack of a linear link (Senthilnathan, 2017). The definition of the coefficient of correlation is as follows:

$$\rho = \frac{cov(X,Y)}{\sigma_x \sigma_y}$$

Where ρ , or correlation coefficient, is employed. According to the equation, the relationship of X and Y, two random variables, is determined by dividing the ratio of the correlation coefficients by standard deviation. Thus, the coefficient of correlation is called an indicator of the degree of linearity between two components or an evaluation of linear relationship among components (Wetzels & Wagenmakers, 2011, p. 207). Although there are many different correlation measures, the two types of correlation coefficients Pearson's and Spearman's rank are widely used (Erdem et al., 2014, p. 274; Zhang, 2008, p. 107). Spearman's correlation coefficient, a non-parametric variation of Pearson's correlation coefficient, is based on assessing data (Takeuchi, 2010, p. 132).

4.7.2 Structural equation model

The information was analysed in SPSS with the Structural Equation Model (SEM)-specific program AMOS. This allowed the study's latent variables, which were represented by elements of market conduct regulations, market conduct principles, market conduct challenges, and marketing mix variables, to be examined to better understand their impact on financial intermediary performance. According to Erdem et al. (2014), SEM is a fundamental model characteristic that runs contrary to the findings of the study. SEM provides reliable and effective means of monitoring instrument performance while also studying causal connections amongst the elements. Using SEM has the benefit of accounting for errors in measurements and providing an objective assessment of variable relationships. Traditional statistical procedures, such as multiple regression analysis, fail to account for model error components (Wang & Wang, 2019, p. 1). Furthermore, by allowing the estimation of links between many variables and numerous criteria variables, SEM eliminates the limits of multiple regression analysis. The development of multiple regression aimed at implementing the correlation coefficient of Pearson and allowing the integration of several elements.

SEM techniques are commonly composed of two types of approaches: measurement techniques and structured procedures. A measurement strategy defines how variables might be monitored as a tool for measuring the underlying construct. A systematic technique is used to keep track of and analyse potential latent variable correlations (Wang

& Wang, 2019, p. 3). The SEM may be utilised for both investigating the creation of different models and confirmatory testing. Usually, it is used to validate and validity of a certain model (Rahman et al., 2016, p. 131).

SEM statistical techniques include:

- *Model specification* entails the creation of a model based on preceding research theories (Wang & Wang, 2019, p. 11).
- *Model identification* includes assessing whether a distinct value can be derived from the observed data for each unidentified component in the model (Wang & Wang, 2019, p. 11).
- *Parameter estimation's* goal is to assess population characteristics by lowering the gap between observed and anticipated variance (Schumacker & Lomax, 2010, p. 59).
- *Model fit* assesses how effectively all the model's generated predictions of their connections recreate the basic correlation matrix (Schumacker & Lomax, 2010, p. 59).
- *Model re-specification* improves model-data fit. As a result, theoretical and empirical justifications for model re-specification are required (Wang & Wang, 2019, p. 28).

4.8 Reliability and Validity

The purpose of the reliability and accuracy of principles is to determine the veracity, trustworthiness, and legitimacy of the results (Neuman, 2014, p. 212). They represent the most crucial and fundamental characteristics to consider when evaluating any form of measuring tool. Ensuring that the data collected for a study is accurate and dependable is the aim of establishing validity and trustworthiness (Mohajan, 2018, p. 1). Neuman (2014, p. 212) described the consistency or accuracy of similar constructs assessed is referred to as reliability. A reliability assessment focuses on consistency, and the level of similarity is assessed through a dependable coefficient from 0 to 1 on a numerical scale, with 0 being extremely unreliable and 1 being entirely trustworthy, as per Gray (2016, p.

405). Cronbach's alpha was utilised to determine reliability in this study (Gliner et al., 2016, p. 218; Wang & Wang, 2019, p. 55).

4.9 Statistical Analysis

The procedure of using mathematical techniques to methodically analyse and organise data with the goal of achieving significance or information is known as statistical analysis (Neuman, 2014, p. 326). The data were analysed using the IBM Statistical Package for the Social Sciences (SPSS) Version 27 with AMOS 27 output. Statistical analysis methods used in this study included factor evaluation and model building using structural equations.

4.9.1 Significance tests

Researchers need statistical significance tests to help them reach the goals of their research. Only the presence of significance will be reported by an accurate test (Smucker et al., 2007, p. 623). To distinguish between the results obtained of the sample under study that are statistically significant and significance tests are essential and necessary (Ge, 2007, p. 259; Schneider, 2011, p. 51). Ambaum (2010, p. 928) argued that the level of confidence in the veracity of the results presented is not quantitatively measured by the significance statistic.

4.9.2 Logistic regression

In accordance with comprehensive research, this study used regression approaches to examine factors affecting the performance of financial intermediaries in the insurance industry in South Africa (Olum et al., 2020, p. 28). Thus, logistic regression was employed to achieve the secondary goal of the study, *To determine the factors that influence financial intermediaries' performance in the South African insurance sector.*

A type of multivariable analysis that is becoming increasingly common is logistic regression, which can represent both nonlinear as well as linear interactions involving both independent and dependent parameters (Park, 2013, p. 162). In logistic regression, the estimation of the maximum likelihood approach is applied to first transform the dependent components into logit values and then forecast possible dependent outcomes

as an estimate of the independent variables. Furthermore, no distributional attribute of the predictor variables, such as data consistency, is assumed by logistic regression (Park, 2013, p. 163). The logistic model originated from Bernoulli's probability function, and is explained as follows:

$$\pi_i = Pr(Y_i = 1|X_i = x_i) = \frac{\exp(\beta_0 + \beta_1 x_i)}{1 + \exp(\beta_0 + \beta_1 x_i)}$$

In the Bernoulli model, i and Pr represent the likelihood of an outcome, with Y serving as the binary solution factor and Y_i denoting the performance of financial intermediaries. A response from the participant is interpreted as 1 , indicating yes, and 0 indicating no. X is a set of variables that are independent and can be either persistent or an amalgamation of both. Lastly, where x_i is the determined value of the variable of explanation and i stands for observation. A comparable logistic model was employed in a different study to examine the variables influencing the non-life insurance businesses in Ghana's financial performance (Kwaning et al., 2015).

4.9.3 Linear regression

Finding the linear relationship between a set of independent factors and a dependent variable is the aim of a linear regression study (Crisci, 2012, p. 3-17). The linear regression formula, according to (Kwaning et al., 2015) is as follows:

$$Y_{ij} = A + BX_{ij} + \epsilon_{ij}$$

Where Y_{ij} is the sample's dependent variable, A is the dependent sample's intercept, and B denotes the sample's coefficient of slope. X_{ij} stands for the different factor, while ϵ_{ij} the variance of the error term.

4.9.4 Linear relationship between two variables

Either the dependent and independent variables or the two independent variables might have a significant level of relationship. If the measure of correlation between the dependent and independent variables is identified, their substantial connection may be used to give the linear regression model utility to foresee the dependent variable with the independent variable. Correlation becomes important here since a greater correlation

coefficient signifies better prediction of the dependent variable with the fewest probable errors. Senthilnathan (2017, p. 6) stated that a range that is ideal for comprehending correlation values for coefficients falls within an acceptable limit.

4.9.5 Multiple regression

In line with linear regression, multiple regression is based on the same fundamental ideas. When using multiple regression, more than one explanatory variable is used to identify the elements influencing the variable that is dependent (Park & MacLachlan, 2008). The dependent factor, Y, typically depends on a larger set of independent variables, also known as regression analysis. The multiple regression model's general form is outlined as follows (Asteriou & Stephen, 2016, p. 64):

$$Y_t = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \dots + \beta_k X_{kt} + u_t$$

The dependent variable is denoted by Y_t . β_0 , which represents the intercept of the dependent variable, and β_k , which denotes the specimen scope coefficient for the k th analysis. For the k th analysis, X_{kt} represents the factor, u_t denotes an error (Asteriou and Stephen, 2016, p. 46). The multiple parameters of determination, or R-square, are used to evaluate the fitted regression line of the sample to determine its goodness of fit. There is a predetermined percentage of the total variance between the independent parts and the dependent component (Asteriou & Stephen, 2016).

4.10 Limitations of the Study

To reduce the occurrence of potential weaknesses (Leedy & Ormrod, 2010, p. 223), several measures were put in place. First, participants were given clear and consistent instructions for completing questionnaires. Second, follow-up actions to non-participants of questionnaires. According to (Welman, 2005), non-responses occur because participants hesitate to take part in the study for a wide range of reasons. Non-responses may occur because of interconnected issues such as unwillingness to respond; involuntary contribution to the study; and an inability to locate participants.

4.11 Significant Bias Reduction

Every questionnaire contains bias due to the layout (Frey & Pirsche, 2019, p. 17). Longbottom and Lawson (2018, p. 132) asserted that when something is biased, it means that participants may intend or accidentally attempt to influence the technique of acquiring information, interpreting it, and reporting the conclusions. Stratified random sampling was the basis for the probability sampling techniques employed in this study. As the researcher has no influence over which members of the target population will be included in the study, sampling at random is known to eliminate selection bias. The use of stratified random sampling meant that every member of the target group had an equal chance of being selected. Considering participants who are not participating in the questionnaire are likely to have distinct perspectives from those who do, non-response bias is also a cause for concern (Zikmund et al., 2009, p. 222). A pilot study was conducted to pre-test a questionnaire instrument used in the research. Pre-testing items and pilot-testing questionnaires are advocated by Nardi (2018, p. 106) to reduce unintentional biases.

4.12 Ethical Considerations

Standards for academic research ethics set out by the University of KZN were adhered to in this study. Even if study participants are disinterested in participating, ethical behaviour is required of researchers both legally and professionally (Neuman, 2014, p. 154). Each of the participants obtained information about the study, including its goals, the procedure for gathering data, and the importance of their participation. Participation was entirely voluntary and respondents were informed that they could opt out at any time during the delivery of the questionnaire. The right of participants to confidentiality, protection from disclosure, and discretion was protected and always upheld (Nardi, 2018, p. 73). After the data was gathered, the researchers preserved the study participants' privacy by not revealing their identities. Anonymity was maintained as no personally identifiable details were linked to the actual questionnaire respondents (Nardi, 2018, p. 38). This was also strictly followed when conducting this research; no personal information about the respondents was sought. Authorisation was obtained from the University of KwaZulu-Natal's Humanities and Social Sciences Research Ethics Committee before the pilot

research was conducted and primary data were gathered. The researcher obtained ethical clearance number: 00004309/2022.00004309/2022.

4.13 Synopsis

This chapter provided a full discussion of the study technique used to fulfil the goals and research questions. The target demographic was important for this study as it sought to identify factors that influence financial intermediaries' performance in the South African insurance sector. Therefore, it was defined and specified, as were the appropriate sample, sampling process, and inclusion and exclusion criteria. A quantitative study approach was selected based on its ability to translate findings to a wider population, in this case, the market conduct regulator in South Africa. A questionnaire instrument was employed to obtain the necessary data for this study. Based on the results of a pilot research, the questionnaire was pre-tested and modified. Addressing the reliability and validity of research data were given careful consideration. The research was established on ethical principles and ethical considerations throughout the data collection process.

The following chapter presents the analysis and interpretation of the collected data using graphs, charts, and tables, as well as referring to literature to provide context to discussions and findings. Various statistical tests and techniques are also used to draw inferences from the data to respond to the research questions posed in this study.

CHAPTER 5: DATA ANALYSIS

5.1 Introduction

The previous provided a full discussion of the study technique used to fulfil the goals and research questions. This chapter presents a report of the research findings that were drawn from an analysis of the data generated. The data analysis chapter serves as a critical component of the research, providing a detailed examination of the data collected to address the study's objectives.

This study sought to investigate the key performance factors of financial intermediaries as well as their drivers to uplift performance and sustainability. The data analysis in this chapter is structured around the four specific objectives as demarcated in Section 2.6. The first objective, Factors Affecting Performance (A), examined the internal and external influences on the performance of financial intermediaries, including market conditions, regulatory compliance, operational efficiencies, and customer satisfaction. Understanding these factors offered insights into the challenges and opportunities faced by intermediaries in the sector. Effectiveness of Safeguards (B), the second objective, focused on evaluating the current safeguards in place within the industry to protect both consumers and intermediaries. The analysis highlights how well these safeguards are functioning and identifies any areas needing enhancement.

Third, Assessment of Risk- Tolerance Levels (C) explored the risk tolerance of financial intermediaries, assessing how their risk appetite influences their decision-making and overall performance. By understanding their approach to risk, the study aimed to shed light on the balance intermediaries strike between risk-taking and maintaining regulatory compliance. Finally, Strategies to Enhance Safeguards and Performance (D) explored potential strategies to improve the effectiveness of safeguards and overall performance. This included recommendations for strengthening risk management practices, enhancing regulatory compliance, and improving customer engagement.

This analysis focuses on exploring patterns, relationships, and insights derived from the data collected, offering a comprehensive understanding of the factors influencing the performance of financial intermediaries in the South African Insurance Sector. By employing appropriate analytical techniques, this chapter not only presents the raw data but also contextualises the results within the broader theoretical framework, thus bridging the gap between theory and practical implications. The insights gained from this analysis will inform the conclusions and recommendations, ultimately contributing to the development of strategies aimed at enhancing the performance and resilience of financial intermediaries.

5.2 Data Collection

Prior to data collection, a review of the literature was conducted by perusing several publications, books, industry papers, and insurance firms' web pages. Primary sources were used for this empirical study. For this purpose, a questionnaire with a five-point Likert scale was created and distributed to the participants in line with compliance with the regulations set forth by the market conduct authority. A total of 300 completed questionnaires were used (each questionnaire contains 56 questions). Accuracy, reliability, and factor analysis statistical techniques were used for assessing instrument validation.

The mean values were between 4 and 5, which suggested that, on average (overall mean = 4,36), the participants agreed with all the items mentioned in Sections A, B, C and D of the questionnaire. Factor analysis was appropriate since $KMO = 0,794 (> 0,6)$ and the significance of Bartlett's test of sphericity ($p\text{-value} = 0,000 < 0,01$). It meant that the correlations among several variables were significant. Validity, reliability, and factor analysis are statistical techniques that were used to validate the measuring equipment. High levels of trustworthiness on Cronbach's alpha coefficient for most variables and validity were reached in the analysis. Financial intermediaries are a type of financial business solution that focuses on low-income earners who operate in a particularly difficult commercial climate. Therefore, this study's primary goal was to develop a conceptual

framework for the factors influencing financial intermediaries' performance in the insurance industry in South Africa (Leedy & Ormrod, 2010).

To determine the theoretical components that supported the development of the proposed conceptual framework, this research began with an analysis of the literature review. To create a conceptual framework that supports the success of financial intermediaries in the insurance industry, a questionnaire was developed and assessed through various statistical methods to analyse all the factors affecting the performance of financial intermediaries within this sector. The following section describes the research methodology that was employed to verify these theoretical components in an empirical context.

5.3 Participant Profiles

This section presents the profiles of the participants.

5.3.1 Professional profiles

In Figure 5.1, the positions of the participants in the market authority are represented.

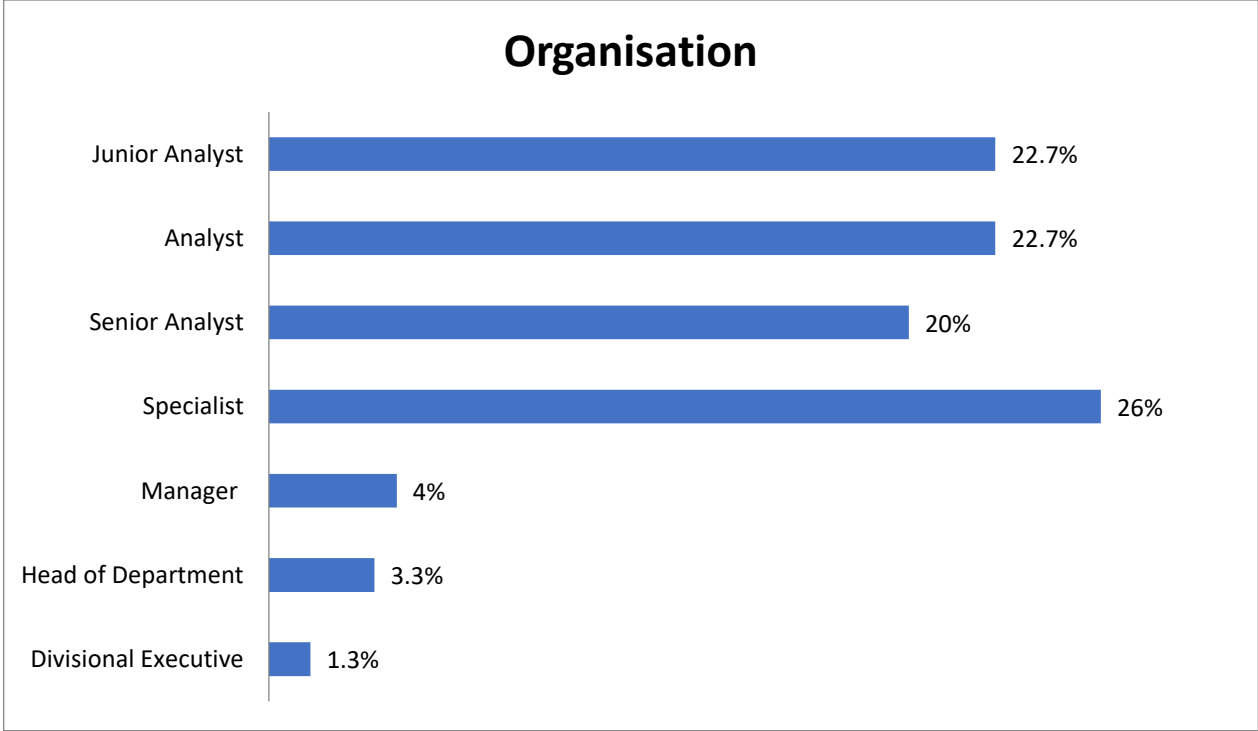


Figure 5.1 Position in the Market Conduct Authority

Specialists comprised the largest group among the participants, accounting for 26%. This suggests that the study draws heavily on the expertise of individuals who are likely involved in specific, technical, or highly skilled roles within the organisation. This group's prominence may indicate that detailed, technical knowledge and skills are highly valued within the company, and their perspectives could significantly influence the findings related to the performance of financial intermediaries.

Both Junior Analysts and Analysts represented 22.7% of the total participants, positioning them as the second-largest group. This distribution highlights a strong representation of individuals who are directly involved in the analytical processes of the organisation. These roles are crucial in operational tasks, data analysis, and support functions. The equal representation of these roles suggests a balanced input from individuals who are at different stages of their analytical careers, providing insights from both entry-level and more experienced analytical viewpoints.

Senior Analysts constituted 20% of the participants, indicating a substantial presence of experienced professionals who likely have advanced analytical skills and play a more strategic role in data interpretation and decision-making. Their input is essential for understanding how deeper analysis and interpretation impact the performance of financial intermediaries. This group's perspective bridges the gap between junior roles and specialist positions, offering a middle-ground view of organisational strategies.

Managers make up 4% of the participants, representing a relatively small proportion of the overall group. This suggests that while managerial oversight is included, the study predominantly focuses on more specialised and analytical roles. The input from managers is valuable for understanding how day-to-day operations align with broader organisational objectives, but their limited representation might mean that their strategic insights are less pronounced in the overall analysis.

The Heads of Department account for 3.3% of the participants, indicating that leadership at the departmental level is minimally represented. This group likely contributes insights into how departmental goals and strategies align with the overall objectives of financial intermediaries. However, their limited presence could imply that departmental leadership perspectives are not as heavily weighted in the study.

Divisional Executives are the least represented group, comprising only 1.3% of the participants. This suggests that the study captures very few perspectives from the top leadership or those who are responsible for divisional strategies and overall organisational performance. The minimal input from this group indicates that the study's focus is not on the executive level but rather on the operational and technical levels within the organisation.

Overall, the analysis revealed that the study heavily represented the specialist and analytical roles within the organisation, with a significant skew towards mid-level and technical expertise rather than strategic leadership. This focus is likely beneficial for examining the specific factors affecting performance at the operational level but may limit the insights into higher-level strategic impacts. The underrepresentation of managerial

and executive perspectives could mean that the findings are more reflective of on-the-ground challenges and less of overarching strategic directions. Understanding this distribution is crucial for interpreting the study's outcomes, as it highlights which voices and experiences are most prominent in shaping the conclusions regarding the performance of financial intermediaries in the South African insurance sector.

5.3.2 Demographic profiles

The demographic profile included information such as gender, qualifications, and number of years working at the market conduct authority. The sample size was 300 and the software package used was IBM SPSS Statistics 27. The demographic profile of the participants is presented in Table 5.1.

Table 5.1 Demographic Profiles

Organisation	Frequency	%	Level of experience	Frequency	%
Divisional executive	4	1.3	Less than 3 years	83	22.7
Head of department	10	3.3	Between 3 and 5 years	85	28.3
Manager	12	4	Between 6 and 10 years	67	22.3
Specialist	78	26	More than 10 years	65	21.7
Senior analyst	60	20	Total	N = 300	100
Analyst	68	22.7			
Junior analyst	68	22.7			
Total	N = 300	100			
Level of education	Frequency	%	Gender	Frequency	%
Postgraduate Diploma	107	35.7	Male	181	60.3
Bachelor's degree	89	29	Female	119	39.7

Honours degree	83	27.7	Total	N = 300	100
Master's degree	21	7			
Total	N = 300	100			

5.3.3 Education profiles

The bar chart in Figure 5.2 illustrates the distribution of participants based on their highest level of education. Here's a detailed analysis of the data.

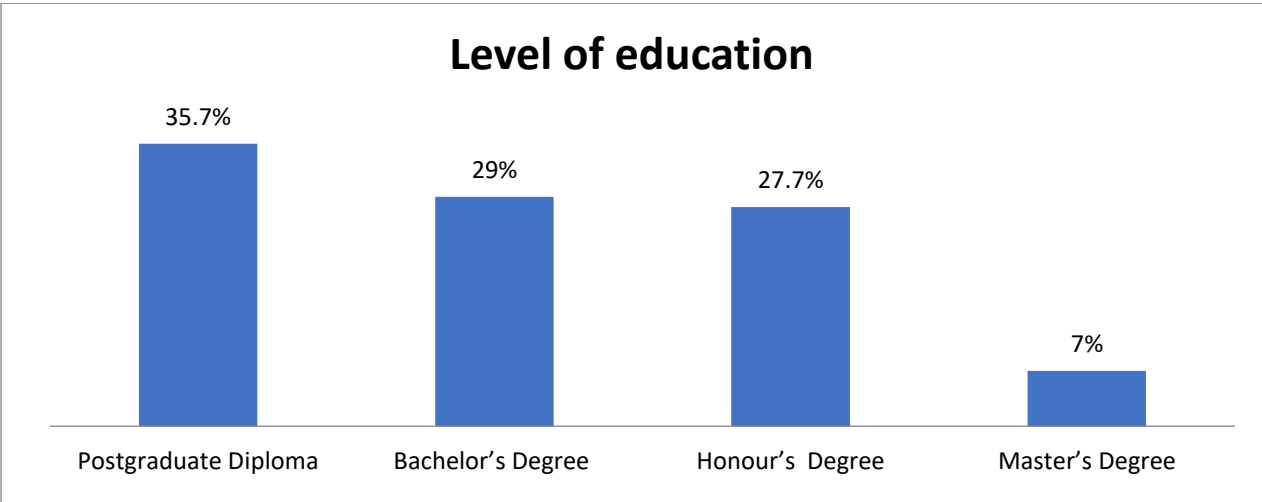


Figure 5.2 Level of Education

5.3.3.1 Bachelor's degree (29%)

Participants with a bachelor's degree make up 29% of the sample. This group represents individuals who have completed a standard undergraduate education, which is often the minimum requirement for entry into professional roles within the financial industry. The significant presence of bachelor's degree holders suggests that the organisation attracts a substantial number of employees at the foundational level of professional education. This educational level provides a broad base of knowledge and skills, which is critical for understanding and navigating the general landscape of the financial industry. Employees with bachelor's degrees are likely positioned in various roles, from entry-level to

intermediate positions, where they can apply their academic knowledge to practical scenarios.

5.3.3.2 Postgraduate diploma (35.7%)

The largest group of participants holds a postgraduate diploma, accounting for 35.7% of the total sample. This indicates a significant portion of the workforce has pursued education beyond a bachelor's degree, suggesting a strong emphasis on advanced professional training and specialisation within the organisation. Postgraduate diplomas are often pursued by individuals looking to gain specific skills or knowledge that directly apply to their job roles, which may reflect the organisation's commitment to specialised expertise in the financial sector. This level of education typically equips employees with practical, applied knowledge that is valuable for roles requiring specific technical or managerial skills.

5.3.3.3 Honour's degree (27.7%)

Individuals with an Honour's degree represent 27.7% of the participants. Honour's degrees typically involve a more in-depth study and research component compared to standard bachelor's degrees, indicating that these participants have a stronger academic background and possibly a higher level of critical thinking and research skills. This education level is often associated with a deeper theoretical understanding and analytical capability, making these employees valuable in roles that require advanced problem-solving skills and the ability to engage in strategic planning or complex project management. The substantial representation of Honour's degree holders suggests that the organisation values and employs individuals with an elevated level of academic training.

5.3.3.4 Master's degree (7%)

A smaller proportion of the participants, 7%, hold a master's degree. This group represents individuals who have pursued extensive education and training, often involving research, advanced theoretical knowledge, and specialisation in specific areas of finance or business. Although they form the smallest group, their advanced qualifications suggest they are likely in senior roles or positions that require a high level of expertise and leadership capability. Master's degree holders often bring in-depth knowledge, innovative

thinking, and leadership skills to the organisation, which are critical for driving strategic initiatives and complex decision-making processes. Their relatively lower representation compared to other education levels may indicate that while advanced degrees are valued, the organisation also heavily relies on other levels of education for its core operations.

Overall Summary:

The distribution of education levels among participants indicates a well-educated workforce with a strong emphasis on professional and postgraduate training. The predominance of postgraduate diplomas suggests that the organisation values practical, job-specific skills that can be directly applied to the industry's needs. The significant presence of bachelor's and Honour's degree holders further highlights the importance of foundational and intermediate academic qualifications in contributing to the organisation's performance. The smaller proportion of master's degree holders reflects a targeted use of highly specialised and advanced skills within the workforce.

This diverse educational background among employees suggests that the organisation benefits from a wide range of skills and expertise, from practical, applied knowledge to advanced theoretical insights. Such diversity is likely advantageous in fostering a comprehensive approach to tackling the complex challenges faced by financial intermediaries in the South African insurance sector. It ensures that the organisation is equipped with a variety of perspectives and competencies, which can enhance problem-solving, innovation, and overall performance.

5.3.4 Gender distribution

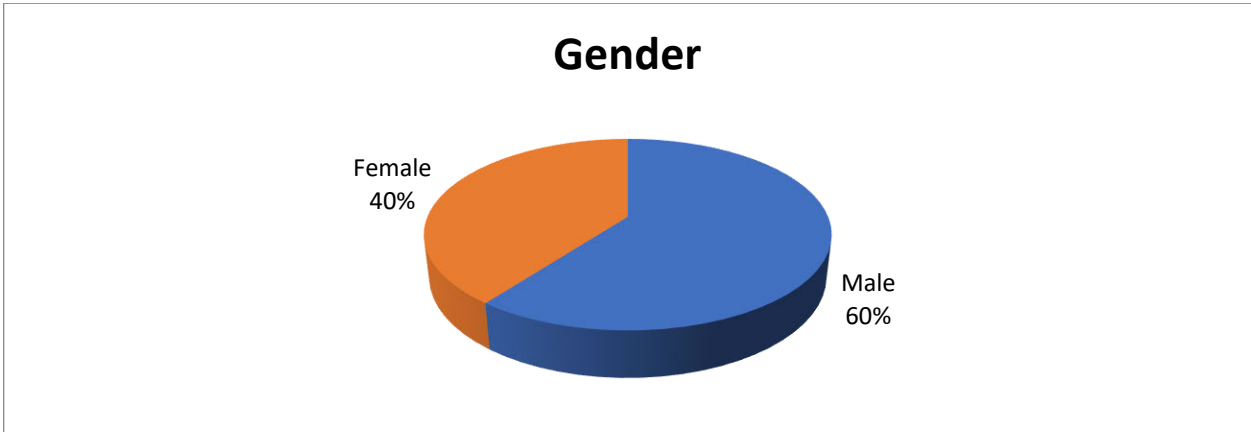


Figure 5.3 Gender Statistics

The gender composition in Figure 5.3 indicates that males are the majority in this sample, comprising 60% of the participants. This suggests a gender imbalance, with males outnumbering females by 20%. This gender parity indicates that that may warrant further investigation.

5.3.5 Level of Experience

The analysis of participant experience levels within this study provides valuable insights into the composition of the sample concerning their tenure with the market conduct authority. The categorisation into four distinct experience levels—less than 3 years, 3 to 5 years, 6 to 10 years, and more than 10 years—allows for a nuanced understanding of the participants’ backgrounds.

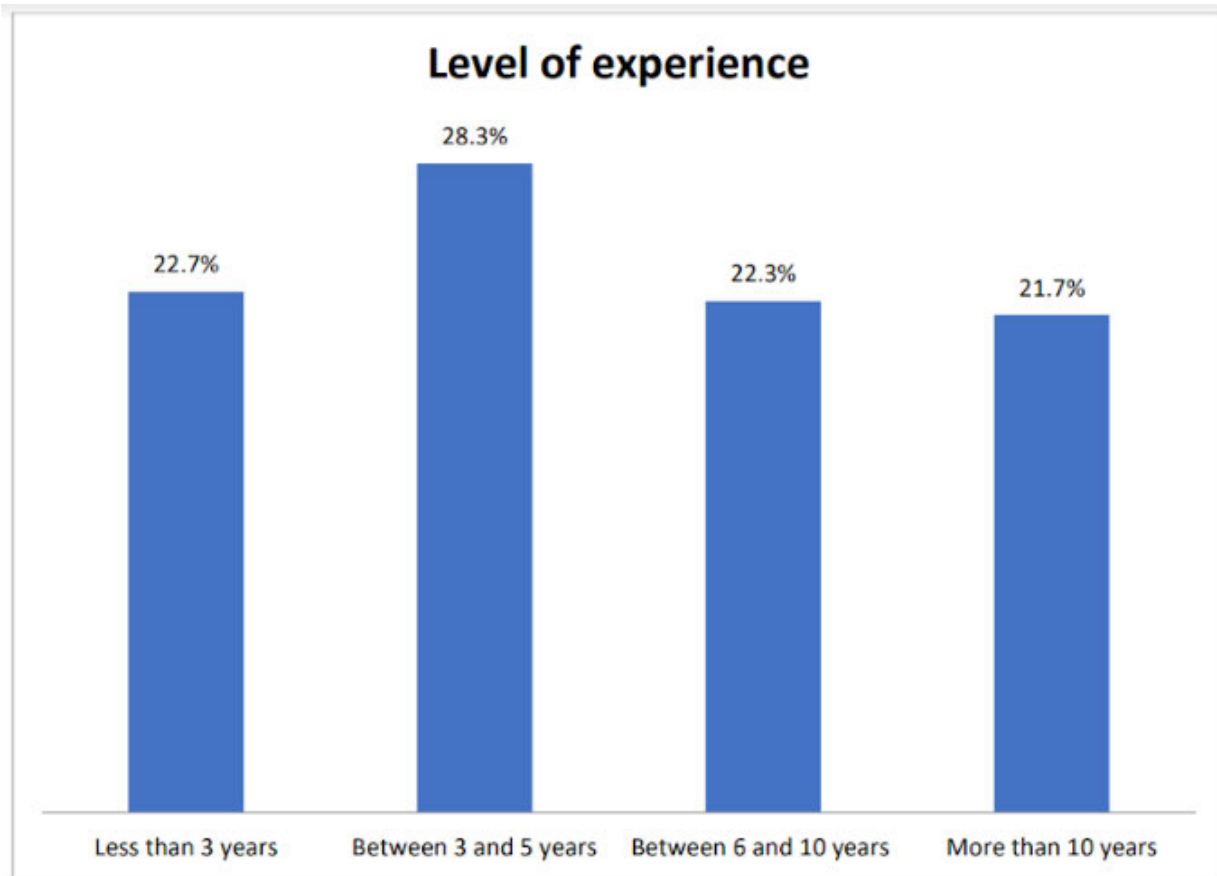


Figure 5.4 Level of Experience

The data indicates that over 28.3% of participants had experience ranging from 3 to 5 years, making this group the most prominent. This finding suggests that these individuals possess a solid foundation of knowledge and familiarity with the regulatory landscape, which is essential for informed decision-making and effective performance within the authority. Their experience likely equips them with practical insights into the challenges and dynamics of the market conduct environment, enhancing their ability to contribute meaningfully to discussions and initiatives.

Conversely, 22.7% of participants had less than three years of experience, which could imply a mix of fresh perspectives, but potentially less comprehensive understanding of the complexities involved in market conduct. This demographic may bring innovative ideas but might also lack the depth of experience that longer-tenured colleagues possess.

The distribution continues with 22.3% of participants having 6 to 10 years of experience and 21.7% having more than 10 years. These groups are relatively balanced and suggest a breadth of experience within the sample. Participants in the 6 to 10-year range likely have a well-rounded understanding of regulatory practices, while those with over 10 years could be considered veterans, possibly influencing the authority's strategic direction and policy formulation based on their extensive experience.

Overall, the findings reflect a diverse range of experience levels among participants, which is crucial for fostering a robust and informed environment within the market conduct authority. This diversity can facilitate richer discussions, blending innovative viewpoints with seasoned insights, ultimately enhancing the effectiveness of the authority's operations and its ability to adapt to evolving market dynamics.

5. Response Rate

The close-ended questionnaire was completed by 300 participants from a sample group of 346. According to Gliner et al. (2016, p. 150), the quality of the data gathered is often reduced when the response rate is less than 50%, particularly when participants' opinions differ significantly from those who did not in terms of attitudes, social position, and demographics. This aspect is crucial to this research to prevent inaccuracies and obtain a wide range of participation, sufficient illustration is needed when evaluating statistical differences, particularly in terms of participants' experience, education, and their role at the market conduct regulator. The reliability of study results is directly impacted by the level of quality of the responses received (Edmonds & Kennedy 2017, p. 124). A response rate of 60% or more is regarded as reasonable and trustworthy (Fincham, 2018). Westland (2015) asserted that a sample of at least 300 participants is adequate and suitable for SEM analysis. Therefore, an 87% response rate was deemed satisfactory for the goals of this study, as well as for the analysis of data.

5.6 Preliminary Data Analysis

A close-ended questionnaire with a five-point Likert scale was created and distributed to the participants in line with compliance with the regulations set forth by the market conduct

authority. Items on the questionnaire were designed to assess each independent variable potentially influencing the success of financial intermediaries (Gliner, 2016, p. 41). Primary data was collected using this systematically pre-planned questionnaire, following the methodology outlined by Leeyshon and Thrift (1995). A cross-sectional approach was employed to enable simultaneous data collection from multiple units and capture respondent variance, as recommended by (Archer et al.,1997, p. 37). Moreover, this systematic approach allowed for a more organised examination of responses, enhancing the clarity and effectiveness of the subsequent statistical analysis (Edmonds & Kennedy, 2017, p. 205).

5.7 Data Analysis Methods

The data analysis methods play a crucial role in achieving the specified objectives of this study, namely regarding factors affecting performance, the effectiveness of safeguards, assessment of risk tolerance levels, and strategies to enhance safeguards and performance (Burns & Grove, 2018).

5.7.1 Factors affecting performance.

According to Burns and Grove (2018), understanding the factors that influence their performance is essential for effectively evaluating the safeguards in financial intermediaries. Descriptive and inferential statistics were used to identify and quantify the various factors that impact performance. Gallo (2018) argues that techniques such as regression analysis can help determine the strength and nature of relationships between independent variables (e.g., market conditions, organisational practices) and performance metrics. Data collected highlighted key variables, such as safeguard effectiveness, risk tolerance levels, and enhancement strategies, which impact overall performance and customer satisfaction. Moreover, the statistical analysis allowed for exploring relationships among these variables. For example, examining the correlation between perceptions of safeguards and risk tolerance can reveal insights into organisational decision-making. Metrics like mean, standard deviation, skewness, and kurtosis provide a quantitative basis for evaluating these factors. Insights from the data can inform strategy development, helping stakeholders prioritise improvements based on identified performance gaps. Additionally, evidence-

based decision-making is supported by these metrics, guiding managers and policymakers in implementing effective measures. This method provided insights into which factors are most significant, allowing for targeted interventions.

5.7.2 Effectiveness of safeguards

Comparative analysis was employed to evaluate the performance of financial intermediaries, or financial services providers with different safeguard measures. This method was crucial for assessing the effectiveness of safeguards within financial intermediaries, as it enabled the researcher to systematically evaluate how these measures impact performance outcomes (Gallo, 2018). By analysing performance data in relation to safeguard implementation, the researcher could determine their effectiveness and identify best practices. In addition, by employing quantitative analyses, the researchers could gather data on key performance indicators and combine it with insights from stakeholder interviews or focus groups. This dual approach allowed for a comprehensive understanding of how well the safeguards are functioning, thereby identifying strengths and weaknesses in the existing frameworks. Ultimately, the analysis provided empirical evidence that informed decision-making and policy development, ensuring that safeguards are not only effective but also aligned with the broader goals of enhancing financial stability and consumer protection.

5.7.3 Assessment of risk tolerance levels

Quantitative analysis (questionnaires) was used to evaluate individual or organisational risk tolerance. The data analysis method is integral to assessing risk tolerance levels, as it allows for the systematic examination of individuals' attitudes and behaviours regarding risk in financial decision-making. Quantitative analysis can identify trends and correlations between risk tolerance and various factors, such as age, income, or investment experience, while qualitative insights can provide a deeper context into the motivations and reasoning behind these preferences. This method is supported by Gallo (2018) who argues that statistical techniques like factor analysis can help identify underlying patterns in risk perception. This comprehensive approach not only enhances the understanding of risk tolerance levels but also informs the development of tailored financial products and

strategies that align with clients' risk profiles, ultimately leading to better client satisfaction and improved economic outcomes. As a result, understanding risk tolerance levels allowed for tailored strategies that align with the organisation's capacity to manage risk effectively.

5.7.4 Strategies to enhance safeguards and performance

Multivariate analysis was employed to assess how different strategies affect both safety measures and performance metrics. Gallo (2018) confirmed that methods like path analysis can uncover causal relationships and evaluate the success of implemented strategies. This approach was crucial in developing strategies aimed at improving safeguards and performance among financial intermediaries. Additionally, it enabled the identification of the most effective strategies, thereby supporting informed decision-making to enhance overall performance and protective practices.

By employing a mixed methods approach, researchers can analyse quantitative data such as performance metrics and compliance rates to identify areas where safeguards may be lacking or ineffective. Additionally, qualitative data from interviews or focus groups can reveal insights into the experiences and perceptions of stakeholders regarding existing safeguards. This combined analysis not only highlights specific weaknesses but also uncovers best practices and innovative solutions employed by successful organisations. Ultimately, the insights gained from data analysis inform the development of targeted strategies that improve the effectiveness of safeguards, enhance overall performance, and ensure compliance with regulatory standards, thereby fostering a more resilient financial environment.

5.8 Statistical Analysis

According to Burns and Grove (2018), statistical significance is a tool used in quantitative analysis to evaluate if a difference between two factors is sufficiently significant to warrant different interpretations. Statistical significance is also utilised in observational research, although a finding of significance will not help demonstrate a cause-and-effect link as there are so many practical explanations for identifying a relationship. Westland (2015)

stated that statistical significance determines whether the results have mathematical meaning.

Bartlett's sphericity test evaluates whether the correlation matrix of the data is significantly different from an identity matrix. In simpler terms, it tests whether the variables in the study's dataset are correlated enough to warrant factor analysis (Gallo, 2018). The results of Bartlett's sphericity test show significance ($p\text{-value} = 0,000 < 0,01$). A p -value less than 0.01 indicates strong evidence against the null hypothesis, which states that the correlation matrix is an identity matrix (i.e., the variables are uncorrelated). The significant result suggests that the variables are sufficiently correlated to proceed with factor analysis. This indicates that factor analysis is appropriate for the dataset, supporting the identification of underlying factors or constructs.

5.9 Reliability and Validity

5.9.1 Reliability test using Cronbach's alpha coefficient

Reliability is defined as the accuracy of a collection of tests or measuring tools that are frequently applied to explain the results of a test by Bischoff and Kadé (2015). This suggests that the scale must reliably represent the real construct that is being evaluated. In addition, the quality of assessment is related to reliability. In simple terms, reliability refers to the accuracy or consistency of the measurement techniques. Low-reliability equipment provides scores each moment it is employed in the same circumstances, such as a survey or questionnaire (Field, 2006, p. 666). The challenge is thus how to assess the dependability of scientific data. The degree to which a measure gives reliable findings when utilised frequently for measurement is referred to as reliability (Malhotra, 2010, p. 318).

In the current study, the reliability of the instrument was assessed using the Cronbach's alpha method. This measure evaluates internal consistency and ranges from 0 to 1. According to Pallant (2018), a group of objects with a Cronbach's alpha of 0.70 or above is deemed appropriate when working with people. Reliability refers to the value of

measurement. In its most basic form, reliability refers to a measurement's reliability (Field, 2006). Cronbach's alpha is used to solve difficulties that arise when using the split-half approach (Malhotra, 2010, p. 318). The total correlation of the multiple parts of the scale components is evaluated using Cronbach's alpha (Malhotra, 2010, p. 318). Therefore, Cronbach's alpha is frequently used as a measurement used to assess the internal reliability of questionnaire responses (Wuensch, 2009).

The minimal coefficient for this study was set at $\alpha \geq 0.70$, as propounded by Malhotra (2010).

- Cronbach's alpha with a value above 0.86 indicates a good scale reliability (Hair, 2010, p. 118)
- Cronbach's alpha with a value above 0.84 indicates good scale reliability (Remler & Van Ryzin, 2014, p. 138)
- Cronbach's alpha with a value above 0.80 indicates good scale reliability (Remler & Van Ryzin, 2014, p. 138).
- Cronbach's alpha with a value of 0.70 indicates acceptable scale reliability (Remler & Van Ryzin, 2014, p. 138)

Table 5.2 Reliability Statistics of Scales

Subscale	Cronbach's Alpha (α)	N of Items	Mean	Standard deviation	Internal consistency
SECTION A: Factors affecting performance	0,86	35	4,30	0,30	Good
SECTION B: Effectiveness of safeguards.	0,70	4	4,56	0,09	Acceptable

SECTION C: Assessment of risk tolerance	0,80	5	4,46	0,11	Good
SECTION D: Strategies to enhance safeguards and improve performance	0.70	7	4.45	0,12	Good

Section A, which evaluated Factors Affecting Performance, demonstrates strong internal consistency with a Cronbach's Alpha of 0.86, which indicates that the 35 items used were reliably measuring the intended factors. The mean score of 4.30 and a narrow standard deviation of 0.30 suggest that respondents generally had a consistent and similar perspective on the factors influencing performance. Overall, the high Cronbach's Alpha and low standard deviation underscore the reliability and uniformity of the responses in this section.

Section B evaluated the effectiveness of safeguards, indicating a Cronbach's Alpha of 0.70, which signifies acceptable internal consistency. This is appropriate given the small number of items (4). The high mean score of 4.56 and a very low standard deviation of 0.09 suggest that respondents hold a positive and uniform view of safeguards.

Section C the assessment of risk tolerance, exhibits good reliability with a Cronbach's Alpha of 0.80 across 5 items. The high mean score of 4.46 and low standard deviation of 0.11 reflect a consistent and positive assessment of risk tolerance.

Section D, which focused on strategies to enhance safeguards and improve performance, also indicates good internal consistency with a Cronbach's Alpha of 0.70 and 7 items. The high mean score of 4.45 and low standard deviation of 0.12 confirms a consistent positive perception of the strategies. Overall, while the scales used in this study were generally

reliable, some sections might benefit from minor adjustments to further enhance consistency.

5.9.2 Validity

Saunders and Thornhill (2016) highlight that developing content and construct validity for a study questionnaire can be a lengthy process. Respondents need to comprehend and interpret the questions in a manner that aligns with the research objectives (Bisschoff & Kade, 2015). The validity of a scale is assessed by determining the elements that need to be measured to ensure it accurately reflects the true significant factor. In modern research, the link between accuracy and reliability is both stronger and more clearly defined (Bisschoff & Kadé, 2015). Furthermore, recent studies have further clarified and emphasized the traditional relationship between validity and reliability. To evaluate the reliability of a multi-question Likert scale survey, Cronbach's alpha tests were conducted (Roets, 2013, p. 64). Since the concept of validity has greatly extended, it is no longer just dependent on or affected by dependability. Although there are other types of validity, construct validity was the primary focus of this study.

5.9.1.1 Methods to test validity

5.9.1.1.1 Construct validity

McDaniel and Gates (2010) described construct validity as a type of validity that focuses on determining which characteristic is being measured. The major goal of studying construct validity for this research was to see if the inferences made about the evaluation results are relevant and serve the assessment's objective. For construct validity to achieve its objective, these inferences must be meaningful, reliable, and fulfil the valuation's determination. Construct validity is used whenever a specific attribute needs to be assessed, as it is the most appropriate form of validity for evaluating measurements (Pallant, 2018). Construct validity cannot be achieved or demonstrated without empirical data to support the theoretical underpinnings of the study. This study sought to present empirical data that validate the theoretical foundation for the research questionnaire that was created, as well as factors influencing financial intermediaries' performance in the insurance sector. Additionally, construct validity establishes connections between the

evaluation and other assessments of construct evaluations. Construct validity is also operational in nature, which means experiments or tests are required. As a result, experimental designs that provide a specific construct's intrinsic activity contribute to the creation of evidence for the construct's validity (Bisschoff & Kade, 2015).

Burns and Grove (2015, pp. 232-234), however, cautioned that any of the following risks can hinder construct validity:

- Insufficient pre-operational construct explication
- Testing hypotheses with research variables derived from experiments
- Engagement between treatment, verification and validation
- Researcher outcome expectations

5.9.1.1.2 Content validity

Zikmund and Babin (2012) described content validity as a qualitative form of validity that assesses whether the expressions contained in the measurement convey the intended meaning. Kumar (2011) mentioned that prior to data collection, content validity is evaluated to make sure the scale consists of items that accurately represent all significant elements of the construct. As content validity depends on the researcher's perception and judgment to determine the scale's reliability, it is regarded as subjective Zikmund & Babin, 2012, p. 320).

According to Lawshe (1975), there is a formula that uses statistical analysis of content validity to determine whether the elements in the measuring instrument should be on the scale or not. The degree to which the items or tests are indicative of the behaviour under study is known as content validity (Cohen, 2013; Slaney, 2017). Content validity was further defined by Thorndike and Thorndike-Christ (2014) as the degree to which the test assesses the concept and the test's applicability to the features examined. Similarly, the association between the test's content and the concept being tested is the definition of content validity according to (AERA, APA, and NCME, 2014). Test content often consists of item language, structure, and presentation. When the test items assess the concept in a relevant way, the test is deemed content valid.

The number of items used in attribute measurement should not be excessive; hence, representative items are required to measure structures. Rubio et al. (2003) stated that researchers conducting content validation should receive some constructive feedback for developing measurement tools. Constructive feedback can be provided by panellists analysing and evaluating the quality of measurement tools and objective criteria of the items.

5.9.1.1.3 Convergent validity

Convergent validity evaluates the degree of the link between the observable components that measure the latent variable (Hair, 2010). Convergent validity is an investigation of the measure linked with other theories (Pallant, 2018).

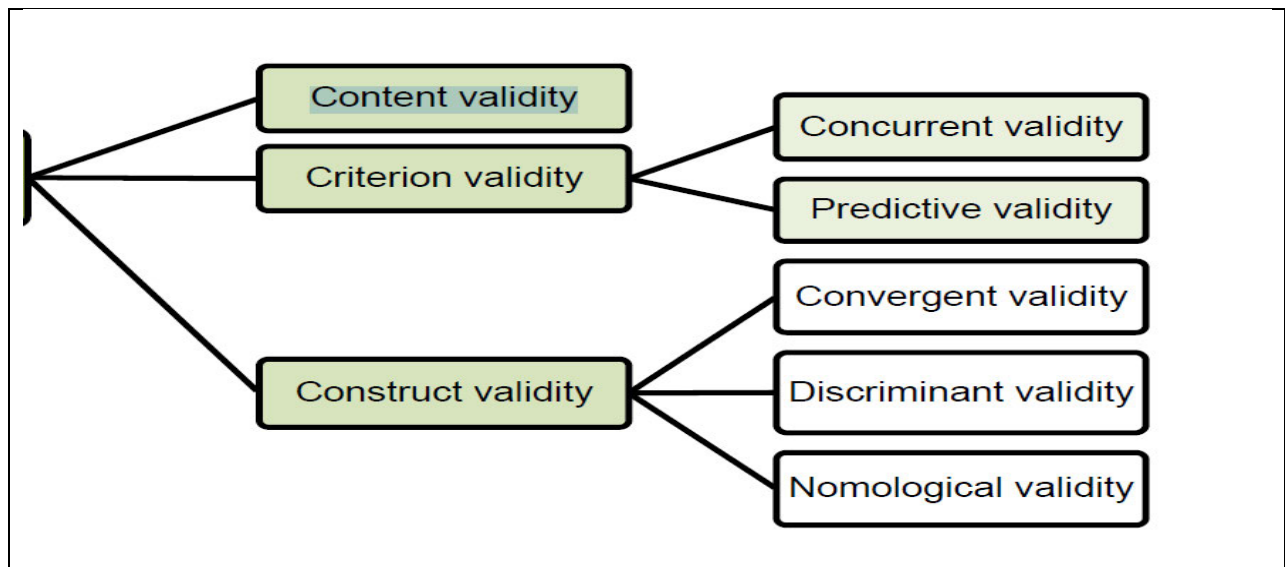


Figure 5.5 Types of Validity (Malhotra, 2010, p. 320; McDaniel & Gates, 2010, p. 256; Masenya, 2018)

5.10 Descriptive Statistics

Summary metrics of the mean, standard deviation, and internal consistency are used to reflect the central tendency, dispersion of variability, overall shape, and tails of the distribution of Likert scale responses. A lower mean suggests a higher amount of agreement on the five-point Likert scale, nevertheless, a greater standard deviation

denotes a more dispersed reaction to the construct elements. The median is the most helpful descriptive statistic for Likert scale item findings (Schrum et al., 2020, p. 6). When the size of the data decreases or increases sequences, the average value is referred to as the median (Mishra et al., 2019, p. 68). Yellapu (2018) stated that descriptive statistics are an important aspect of the initial data analysis process because they lay the groundwork for inferential statistical tests to compare variables. The basic adjustment of raw data in a concise manner is referred to as descriptive statistics. Descriptive statistics pronounce important traits like central propensity, inconsistency, and dispersion.

IBM SPSS Statistics 27 was used in this study to analyse the proportions, frequency, average, variance, and internal consistency. The mean values are between 4 and 5, which suggests that on average (overall mean = 4,56) the participants agreed with all the items mentioned in Sections A, B, C, and D of the questionnaire. The data set's components were evaluated using skewness and kurtosis measurements to see if they conformed to standards criteria.

Table 5.3 Sections A, B, C and D Items

SECTION A: Factors Affecting Performance
PRODUCT I
The Market Conduct Regulatory believes that...
5. Financial intermediaries offer enough information about their product features
6. Financial intermediaries promptly provide information to its customers
7. Financial intermediaries provide policy agreement of the insurance cover in simple language to comply with FAIS regulation
8. Financial intermediaries provide awareness and benefits of the product to customers
9. Financial intermediaries sell insurance products that are unsuitable to customers
10. Financial intermediaries provide more attractive products in the insurance sector
11. Financial intermediaries need innovative products to meet customers' needs
12. Financial intermediaries oversell products to achieve sales targets
13. In the next 12 months, I intend to purchase a non-life insurance product
14. I often read and familiarise myself with different products offered by insurance providers

15. I verify that the products offered are authorized by the market conduct regulator
PRICE ITEMS
16. Financial intermediaries provide a more affordable product price for customers
17. Financial intermediaries should educate customers on available pricing options
18. Financial intermediaries should use bundled services for customers seeking value
19. Financial intermediaries' product prices must be regulated by the market conduct regulatory
20. Financial intermediaries should adopt a predatory strategy on new products
21. Financial intermediaries should adopt low price levels on new products
22. Financial intermediaries should adopt high price levels on new products to positively impact profit margins
PROCESSES ITEMS
23. Financial intermediaries execute innovative processes for products in the market
24. There is a need to review processes for efficiency
25. Financial intermediaries have good processes in place to deliver products
26. Financial intermediaries have good systems to achieve delivery objectives
PEOPLE ITEMS
27. Employees of financial intermediaries represent the organisation well when offering products
28. Financial intermediaries provide professional marketing of product
MARKET CONDUCT REGULATION ITEMS
29. Communicate with financial intermediaries about regulatory developments
30. Financial intermediaries require a new comprehensible framework in the insurance sector
31. Financial intermediaries comply with existing market conduct regulations
32. I familiarise myself with legislative frameworks relevant to financial intermediaries
33. The regulatory framework applicable to insurers is justifiable
MARKET CONDUCT ASSESSMENT ITEMS
34. Financial intermediaries deliver fair outcomes to customers
35. Financial intermediaries comply with the law
36. Financial intermediaries ensure all products offered are risk-rated
MARKET CONDUCT PRINCIPLES ITEMS
37. Financial intermediaries conduct business with honesty and fairness

38. Financial intermediaries engage in active and fair competition
39. Financial intermediaries comply with ethical market conduct principles
40. Financial intermediaries' current legislative framework is inconsistent
41. Regulatory approach changes are needed in the insurance sector
42. Regulatory approach changes will shift regulation and supervision
43. Market conduct is about more than compliance; it's vital for sustainable business
SECTION B: Effectiveness of Safeguards items
44. Financial intermediaries' regulatory obligations are effective
45. There is a decrease in penalties imposed on financial intermediaries
46. There is an increase in penalties imposed on financial intermediaries
47. Financial intermediaries monitor their complaints register
48. Financial intermediaries monitor their market conduct culture
SECTION C: Level of risk tolerance items
49. I assess my own risk tolerance when making recommendations
50. My risk tolerance influences my decision-making
51. I use specific tools to measure my risk tolerance
52. It's important for financial intermediaries to align risk tolerance with client needs
53. I manage my risk tolerance and improve my risk management practices
SECTION D: Strategies to Enhance Safeguards items
54. To what extent do you agree that advanced technological solutions enhance safeguards?
55. Do financial services providers review and update compliance protocols?
56. Should financial intermediaries ensure capital adequacy and high customer satisfaction to retain client

Table 5.4 Descriptive Statistics Analysis

Subscale	Mean	Standard deviation	Skewness	Kurtosis
Section A	4,30	0,30	0.58	0.29
Section B	4,56	0,09	0.65	0.31

Section C	4,46	0,11	0.61	0.30
Section D	4,45	0,12	0.67	0.33
Total	4.44	0,15	0,62	0.31

Section A, which examined factors affecting performance, indicates the average response from participants. A mean of 4.30 suggests a generally positive agreement with the statements or items in this section, likely indicating that respondents felt positively about the subject matter. The low standard deviation indicates that the responses are closely clustered around the mean. This suggests consistency in responses among participants, indicating that most respondents had similar views or experiences regarding the items in Section A.

A skewness value of 0.58 indicates that the distribution of responses was slightly skewed to the right (positively skewed). This means that there were more responses clustered towards the lower end of the scale, with a tail extending toward higher values. In practical terms, this suggested that while most respondents may have agreed with the statements, some have significantly higher positive responses. Additionally, the positive kurtosis of 0.29 means that many respondents' scores were concentrated around the mean, with a more uniform spread of responses and less variability at both ends of the scale. This flatter distribution implies that responses were generally consistent and that there were no significant deviations from the central tendency.

In summary, the data analysis methods applied in Section A reveal that the respondents generally agreed with the items assessed (mean of 4.30), showing consistent responses (low standard deviation), and exhibiting a moderate correlation between the analysed variables (0.58). However, the lack of statistical significance (p-value of 0.29) indicates that these findings should be interpreted with caution, suggesting that further analysis or additional data was needed to substantiate these observations.

Section B, the average score of 4.56 indicates a strong positive perception regarding the effectiveness of the safeguards. Respondents generally agreed that the safeguards in

place were effective, suggesting confidence in their adequacy. A standard deviation of 0.09 signifies very low variability in responses. This means that most respondents provided similar scores, indicating a consensus about the effectiveness of the safeguards. The positive skewness of 0.65 indicates that the distribution of scores is slightly skewed to the right. This means that while most respondents rated the effectiveness of safeguards positively, some rated it even higher. The presence of a few strong positive outliers suggested that some participants have an exceptionally favourable view of the safeguards. Additionally, a kurtosis value of 0.31 indicates a relatively flat distribution compared to a normal distribution. This suggests that there were fewer extreme values or outliers in the responses. Most respondents' scores clustered around the mean, reflecting a uniform agreement on the effectiveness of the safeguards without significant peaks or extremes.

In summary, Section B demonstrates a strong consensus among respondents regarding the effectiveness of safeguards, as indicated by the high mean score (4.56) and low standard deviation (0.09). The moderate positive skewness (0.65) reveals a few exceptionally high ratings, while the low kurtosis (0.31) suggests a consistent spread of responses. Overall, these findings indicate that respondents viewed the safeguards positively and consistently, reinforcing their perceived effectiveness.

Section C, the assessment of risk tolerance shows a mean score of 4.46, reflecting a generally positive view of risk tolerance from respondents. This suggests that participants tended to have a favourable view of their ability to handle risk, implying a willingness to engage with riskier options. A standard deviation of 0.11 signifies a low variability in responses. This means that most respondents' scores were closely aligned, indicating a strong consensus regarding their risk tolerance. The low variation suggests that participants shared similar views on how they perceive and handle risk. The positive skewness of 0.61 indicates that the distribution of responses was slightly skewed to the right. This suggests that while many respondents rated their risk tolerance positively, some rated it even higher.

A few individuals likely possessed a particularly high comfort level with risk, contributing to this skew. A kurtosis value of 0.30 indicates a relatively flat distribution compared to a normal distribution. This suggests that there are fewer extreme values or outliers in the dataset. Most respondents scored a cluster around the mean, showing a consistent assessment of risk tolerance without significant peaks or extremes.

In summary, Section C reveals a favourable assessment of risk tolerance, with a mean score of 4.46 and a low standard deviation of 0.11, indicating a strong agreement among respondents. The positive skewness (0.61) points to some participants having notably high levels of risk tolerance, while the low kurtosis (0.30) suggests a uniform distribution of responses. Overall, these findings reflect that respondents felt positively and consistently about their capacity to manage risk.

Section D, the average score of 4.45 suggests a positive perception regarding the effectiveness of strategies aimed at enhancing safeguards. Respondents generally agreed that the strategies proposed were beneficial, indicating confidence in their potential to improve protective measures. A standard deviation of 0.12 indicates low variability in responses. This means that most respondents provided similar ratings, reflecting a consensus about the perceived effectiveness of the strategies to enhance safeguards. Such low variation suggests that participants shared similar views on the importance and effectiveness of these strategies.

The positive skewness of 0.67 indicates that the distribution of responses was moderately skewed to the right. This suggests that while many respondents rated the strategies positively, some rated them even higher. A few individuals likely viewed the strategies as particularly effective, contributing to the skew. A kurtosis value of 0.33 indicates a relatively flat distribution compared to a normal distribution. This suggests that there were fewer extreme values or outliers in the responses. Most respondents' scores clustered around the mean, indicating a consistent assessment of the strategies without significant peaks or extremes.

In summary, Section D shows a favourable assessment of strategies to enhance safeguards, with a mean score of 4.45 and a low standard deviation of 0.12, indicating strong consensus among respondents. The positive skewness (0.67) reveals that some participants had particularly high ratings of these strategies, while the low kurtosis (0.33) suggested a uniform distribution of responses. Overall, these findings indicate that respondents felt positively and consistently about the effectiveness of the strategies proposed to improve safeguards.

5.10.1 Analysis of total scores

5.10.1.1 Mean

- **Value:** 4.44
- **Interpretation:** The average score of 4.44 indicates a generally positive overall perception across all sections assessed. Respondents tended to agree that the measures, effectiveness, and strategies related to safeguards and risk tolerance were satisfactory.

5.10.1.2 Standard deviation

- **Value:** 0.15
- **Interpretation:** A standard deviation of 0.15 signifies low variability in the responses. This indicates that most participants provided similar scores, reflecting a consensus in their views on the overall effectiveness of the safeguards and strategies discussed.

5.10.1.3 Skewness

- **Value:** 0.62
- **Interpretation:** A skewness value of 0.62 suggests that the distribution of responses was moderately positively skewed. This means that while most respondents rated their perceptions positively, some rated them even higher, indicating a presence of particularly strong positive opinions among a subset of participants.

5.10.1.4 Kurtosis

- **Value:** 0.31
- **Interpretation:** A kurtosis value of 0.31 indicates a relatively flat distribution compared to a normal distribution. This suggested that there are fewer extreme values or outliers in the dataset, meaning that most responses were clustered around the mean, with less variability in the extremes.

In summary, the total scores reflect a strong overall positive perception (mean of 4.44) with low variability (standard deviation of 0.15) across all sections. The moderate positive skewness (0.62) indicates that some respondents had particularly high ratings, while the low kurtosis (0.31) suggests a consistent spread of responses without significant outliers. Overall, these findings reinforce the hypothesis that respondents felt positively and consistently about the effectiveness of the safeguards and strategies discussed in the study.

Table 5.5 Various Descriptive Statistics

PROCEDURES	MEASUREMENTS TECHNIQUES
Measures of location	<p>Statistical Indicator: Mean: Page and Spreng (2019, pp.184-192) stated that the mean is the average score obtained after all the scores have been added together and divided by the sample size.</p>
	<p>Statistical indicator: Median: Parasuraman et al. (1988, p. 12-40) affirmed that the median is the figure that indicates the midway of the highest and lowest scores after the data has been sorted from high to low.</p>
	<p>Statistical Indicator: Mode: Malhotra (2010) described mode as a measure of dominant tendency that detects the most frequently occurring value.</p>

Main measures of variability	<p>Statistical indicator: Range: Remler and Van Ryzin (2014) defined range as a disparity between the highest and lowest values.</p> <p>Statistical indicator: Interquartile range: Hayes (2021) defined the interquartile range as a measure of variability based on the quartile division of a data collection.</p> <p>Statistical indicator: Standard deviation: Hayes (2021) stated that standard deviation is the degree of variability in your dataset on average. It informs the research about how far each value deviates from the mean on average.</p>
Main measures of shapes	<p>Statistical indicator: Variance: Zikmund and Babin (2012) contended that variance is a metric for determining how variable something is. The average of squared deviations from the mean is used to calculate it.</p> <p>Statistical indicator: Skewness: Struwig and Stead (2018) described skewness as the data design within a dataset.</p> <p>Statistical indicator: Kurtosis: McDaniel and Gates (2010) stated that the value of a curve distribution represents its flatness. For a distribution, zero represents normal kurtosis.</p>

5.11 Factor Analysis

Factor analysis is a technique for determining which conceptual structures support a set of data and how well these constructs represent the original variables (Du Plessis, 2019). According to Garson (2012), the skewness and kurtosis coefficients must be investigated. Kim and Mueller (1978) further described factor analysis as a set of techniques for

determining how underlying components influence responses to a variety of circumstances. As per Du Plessis (2019), factor analysis is used to analyse a questionnaire to see if it still assesses the business success attributes that it was designed to test. Thompson (2004, pp. 197–208) explained that to assess the validity of the questionnaire, it is essential to confirm that it measures the variables that have been developed.

A factor loading of 0.40 is deemed acceptable, and a growing variance of 60% or more is considered an excellent fit for the data (Thompson & Daniel, 2004). Consistent varimax rotation was chosen as the rotation method, which was created by Kaiser in 1958. Mulaik (2018) stated that a simple solution for varimax is one in which each factor has a high number of large loadings and a small number of zero loadings because each original variable tends to relate to one of the factors after a varimax rotation. Therefore, each factor reflects only a small number of variables, which simplifies the interpretation. The purpose of factor analysis has always been to build conceptual frameworks and hypotheses and to measure construct validity (Gorsuch, 2013). Parasuraman et al. (1988) defined analysis as a type of validity and reliability assessment that uses statistics to quantify the relationship between distinct sub-factors and variables. Yin (2014) added that factor analysis identifies the components that several factors and sub-factors will load on them and assess their dependability.

In this study, IBM SPSS Statistics 27 was used for factor analysis. To determine factors that influence financial intermediaries' performance in the South African insurance sector, all construct-related elements were subjected to factor analysis, namely:

Section A: Factors affecting performance

Section B: Effectiveness of safeguards

Section C: Level of risk tolerance

Section D: Strategies to enhance safeguards

It is crucial to establish if the dataset is suitable for factor analysis before starting the factor analysis using the size of the sample estimation, Kaiser-Myer-Olkin (KMO) parameters,

and Bartlett's test for probability. Pallant (2018, p. 190) recommended a sample magnitude of at least 150, with at least five cases per variable. The KMO index has a value between 0 and 1. KMO values have five ranges (Ferreira, 2019, p. 146):

- less than 0.5 is deemed inadequate;
- greater than 0.5 to 0.7 is deemed average;
- 0.8 is deemed good;
- greater than 0.8 to 0.9 is deemed great; and
- greater than 0.9 is deemed superb.

The KMO index and Bartlett's test of sphericity are crucial for evaluating the factor ability of the dataset. Malhotra (2010, p. 368) contended that for a sample to be considered suitable for factor analysis, the value of the KMO must be 0.5 or over as an indicator of adequate sampling. According to Pallant (2018, p. 190), a significant result ($p < 0.05$) from Bartlett's test of sphericity is necessary for the component analysis to be acceptable. Factors were extracted using principal component analysis (PCA), which combined principal component analysis and Oblimin Kaiser normalisation. Factor load values larger than 0.30 were used as the threshold requirements for factor extraction.

5.11.1 Factor Analysis Summary: Total Variance Explained

Factor analysis is a statistical method used to identify the underlying relationships between variables. In this case, Principal Component Analysis (PCA) was performed to identify the components (or factors) that explain the variance in the dataset. The analysis breaks down the total variance explained by these components, providing insights into the most important factors affecting the performance of financial intermediaries (Field, 2013).

Table 5.6 Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative	Total	% of Variance	Cumulative	Total	% of Variance	Cumulative
1	8.567	16.798	16.798	8.567	16.798	16.798	4.371	8.571	8.571
2	4.190	8.216	25.015	4.190	8.216	25.015	3.980	7.805	16.375
3	3.762	7.377	32.392	3.762	7.377	32.392	3.794	7.438	23.814
4	2.917	5.720	38.112	2.917	5.720	38.112	3.548	6.958	30.771
5	2.391	4.688	42.800	2.391	4.688	42.800	3.072	6.024	36.796
6	2.015	3.951	46.751	2.015	3.951	46.751	2.544	4.989	41.784
7	1.879	3.685	50.436	1.879	3.685	50.436	2.483	4.869	46.653
8	1.677	3.288	53.724	1.677	3.288	53.724	2.144	4.204	50.857
9	1.635	3.207	56.930	1.635	3.207	56.930	2.018	3.957	54.814
10	1.467	2.876	59.806	1.467	2.876	59.806	1.724	3.381	58.196
11	1.276	2.502	62.307	1.276	2.502	62.307	1.613	3.163	61.359
12	1.231	2.413	64.721	1.231	2.413	64.721	1.574	3.087	64.446
13	1.126	2.208	66.928	1.126	2.208	66.928	1.266	2.482	66.928
14	.967	1.896	68.824						
15	.935	1.832	70.657						
16	.898	1.761	72.417						
17	.841	1.649	74.066						
18	.779	1.528	75.594						
19	.762	1.494	77.088						
20	.750	1.470	78.557						
21	.702	1.375	79.933						
22	.653	1.280	81.213						
23	.605	1.186	82.399						
24	.567	1.112	83.511						
25	.524	1.028	84.540						
26	.497	.975	85.514						
27	.486	.952	86.466						
28	.472	.926	87.393						
29	.462	.906	88.299						
30	.439	.860	89.159						
31	.424	.832	89.991						
32	.405	.794	90.784						
33	.391	.766	91.550						
34	.375	.734	92.284						
35	.339	.664	92.948						
36	.336	.659	93.608						
37	.306	.599	94.207						
38	.289	.567	94.774						
39	.274	.538	95.312						
40	.260	.510	95.821						
41	.256	.502	96.323						
42	.246	.483	96.806						
43	.228	.447	97.253						
44	.219	.430	97.683						
45	.209	.411	98.094						
46	.192	.377	98.471						
47	.188	.368	98.839						
48	.174	.341	99.180						
49	.162	.317	99.496						
50	.142	.279	99.776						
51	.114	.224	100.000						

Extraction Method: Principal Component Analysis.

Table 5.6 summarises the three key outputs for factor analysis: Initial eigenvalues, extraction sums of squared loadings, and rotation sums of squared loadings (Kaiser, 1960; Harman, 1976). Initial eigenvalues reflect the variance each factor accounts for before extraction, while extraction sums of squared loadings indicate the variance explained by each factor after extraction, with factors having eigenvalues greater than 1

being retained (Kaiser, 1960). Rotation sums of squared loadings indicate the variance explained after rotation, redistributing the variance more evenly across factors for better interpretation (Varimax, 1958). Key findings include the extraction of 13 factors based on eigenvalue criteria, where the first component explains 16.798% of the variance, and the first five components account for 42.8% of the variance before rotation and 46.653% after rotation. Overall, the cumulative variance explained by all extracted components after rotation was 64.446% (Tabachnick & Fidell, 2013). This suggests that the 13 components collectively account for about 64% of the total variance, with the remaining variance attributed to unique factors or measurement errors. The first factor, explaining the largest variance, likely represents a major construct affecting performance, such as market conditions or organisational efficiency. Factors two through five each explain 7% to 8% of the variance, indicating other significant dimensions like market conduct and internal practices. Rotation results facilitate clearer interpretation by distributing variance more evenly, helping to identify the most salient factors related to the performance of financial intermediaries (Field, 2013).

Factor analysis reveals that the performance of financial intermediaries in the South African insurance sector is influenced by multiple underlying dimensions. The 13 extracted components explain 64.4% of the total variance, with the first few factors explaining the majority of this. This suggests that a multi-faceted approach, encompassing factors like product, market conduct, risk tolerance, and regulatory adherence, is required to fully understand what drives intermediary performance. The rotation of factors provides a clearer picture of these dimensions, enabling better insights into their relative importance.

5.11.2 Total Variance Explained

According to the factor analysis, the extraction of sums of squared loadings provided valuable insights into the extent of variance attributed to each identified component. Component 1, which accounted for 16.798% of the total variance, is the most significant and indicates a major underlying relationship between the variables influencing financial intermediaries' performance. Component 2 captures 8.216% and, along with Component 1, explains 25.015% of the total variance, reflecting two critical factors shaping the

dataset. Components 3, 4, and 5 explained that 7.377%, 5.720%, and 4.688%, respectively, gradually contribute to the overall variance (reaching 42.800%). The trend of diminishing returns continues with subsequent components, as Component 6 explained 3.951%, Component 7 accounts for 3.685%, and Component 8 for 3.288%, with the cumulative variance reaching 50.436% at Component 7, crossing the halfway mark. The variance explained by Components 9 to 13 continues to decrease, culminating in Component 13 explaining 2.208%, with a cumulative variance of 66.928%. The interpretation suggests that the first few components are the most significant, explaining most of the variance, while later components provide diminishing explanatory power. This analysis aided in identifying the key factors affecting financial intermediaries' performance, particularly in the South African insurance sector (IBM SPSS, 2023).

5.12 Rotated Component Matrix

The rotated component matrix reveals the relationships between individual variables and their corresponding components (or factors) in the dataset. This rotation helps clarify which variables are most strongly correlated with each component, allowing for easier interpretation of the underlying factors.

Component 1 is highly correlated with variables 25, 26, 27, 24, 28, 23, 29, 22, 16, and 30, with loadings ranging from 0.854 to 0.406. The strong correlations in this group suggest that these variables are closely related, and together they represent an extracted factor. Since loadings closer to 1 indicate a stronger correlation, variables such as 25, 26, and 27, with high loadings, are key contributors to this factor (Tabachnick & Fidell, 2013).

Component 2 shows a strong correlation with variables 28, 35, 34, 36, 38, 37, 39, 43, and 33, with loadings ranging from 0.848 to 0.314. This component represents another distinct factor, where variables like 35, 34, and 36 played a central role, as indicated by their higher loadings. Variables such as 28, which appear in both Component 1 and Component 2, suggested some overlap or shared influence between these factors (Tabachnick & Fidell, 2013).

Component 3 is strongly correlated with variables 6, 7, 8, 9, 10, and 11, with loadings between 0.567 and 0.842. These variables are linked to a specific underlying factor, and their relatively high loadings suggest they are closely related in explaining a particular dimension of financial intermediaries' performance (Tabachnick & Fidell, 2013).

Component 4 is correlated with variables 14, 15, 16, 17, 18, 19, 20, and 21, with loadings ranging from 0.842 to 0.357. Variables 17, 18, and 19 stand out due to their high loadings, indicating a strong association with this factor. Component 4 represents a distinct factor, but some variables (such as 16) appeared in multiple components, suggesting shared relevance (Tabachnick & Fidell, 2013).

Component 5 is correlated with variables 43, 44, 45, 46, 47, and 48, with loadings from 0.813 to 0.369. Variables 45 and 47, with higher loadings, are key contributors to this factor, while the lower loadings suggested weaker but still meaningful relationships with the other variables in this component (Tabachnick & Fidell, 2013).

Component 6 is defined by its correlation with variables 53, 54, 55, and 56, with loadings from 0.852 to 0.455. The strong correlations (e.g., 0.875 for variable 55) indicate a clear underlying factor that these variables represented (Tabachnick & Fidell, 2013).

Component 7 involves variables 48, 49, 50, and 51, with loadings between 0.826 and 0.480. Variable 50, with the highest loading, is a key contributor to this factor. This component identifies another unique factor within the dataset (Tabachnick & Fidell, 2013).

Component 8 includes variables 30, 31, 32, and 33, with loadings ranging from 0.794 to 0.416. Component 8 represents a distinct factor, with variables like 31 and 32 having the highest loadings and thus, the strongest relationship with this component (Tabachnick & Fidell, 2013).

Component 9 correlates strongly with variables 40, 41, and 42, with loadings between 0.867 and 0.516. The high loading of variable 40 suggests that it is the most critical variable for this factor (Tabachnick & Fidell, 2013).

Component 10 involved variables 13, 16, 22, 28, 29, 30, 41, and 43, with mixed positive and negative loadings ranging from -0.670 to 0.470. This component may represent more complex relationships, as the presence of negative loadings indicates that some variables are inversely related to the factor (Tabachnick & Fidell, 2013).

Component 11 is primarily correlated with variables 5 and 6, with moderate loadings of 0.567 and 0.671, respectively, forming a distinct factor (Tabachnick & Fidell, 2013).

Component 12 correlates with variables 12, 14, and 16, with loadings of 0.699, 0.613, and -0.428, respectively. The negative loading for variable 16 suggests an inverse relationship with this component, indicating that it behaves differently from other variables in this group (Tabachnick & Fidell, 2013).

Component 13 includes variables 9 and 46, with loadings of -0.473 and 0.700, respectively. Like Component 12, the negative loading for variable 9 indicates an inverse relationship with this component (Tabachnick & Fidell, 2013).

In summary, the rotated component matrix reveals several distinct factors driving the performance of financial intermediaries. Most variables are strongly correlated with one component, while some appear in multiple components, suggesting shared influences across factors. The components represent different underlying dimensions in the data, with the first few components typically explaining the most variance (Field, 2013; Tabachnick & Fidell, 2013)

Table 5.7 Rotated Component Matrix

Rotated Component Matrix	Component												
	1	2	3	4	5	6	7	8	9	10	11	12	13
Q25	.854												
Q26	.787												
Q27	.713												
Q24	.664								.309				
Q28	.655	.314											
Q23	.638												
Q29	.487								.321				
Q22	.411								-.311				
Q35		.848											
Q34		.789											
Q36		.771											
Q38		.644											
Q37		.607											
Q39		.477											-.473
Q9			.842										
Q8			.837										
Q10			.825										
Q11			.713										
Q7			.669										
Q18				.774									
Q17				.725									
Q20				.723									
Q21				.700									
Q19				.699									
Q15				.536							.428		
Q16	.389			.447					-.408				
Q45					.813								
Q47					.789								
Q44					.665								
Q48					.657		.480						
Q43		.377			.425					.374			
Q55						.875							
Q54						.852							
Q56						.843							
Q53						.455							
Q51							.826						
Q49							.793						
Q50							.756						
Q31								.794					
Q32								.792					
Q33		.510						.531					
Q30	.406							.416		.373			
Q40									.867				
Q42									.794				
Q41									.516	.470			
Q13										-.620			
Q5											.782		
Q6			.567								.671		
Q12												.699	
Q14				.357								.613	
Q46					.369								.700
Extraction Method: Principal Component Analysis.													
Rotation Method: Varimax with Kaiser Normalization.													
a Rotation converged in 8 iterations.													

5.13 Kaiser-Meyer-Olkin and Bartlett Test

Heale and Twycross (2015, pp. 66-67) believed that negative correlation matrices are unsuitable for calculating the Kaiser-Meyer-Olkin (KMO) because they produce incorrect values. Bartlett's sphericity test is applied to determine the adequate size of the sample to see if factor analysis could be performed on the data set to measure the partial correlations between variables that may be modest (Heale & Twycross, 2015). However,

factor analysis suitability is assessed using Bartlett's and Kaiser-Meyer-Olkin tests. In other words, the Kaiser-Meyer-Olkin (KMO) test and Bartlett's test of sphericity (BTS) assess whether the sampling was adequate for factor analysis to proceed (Maat et al., 2011). In the analysis, the KMO and Bartlett's test of sphericity were calculated using IBM SPSS Statistics 27. If Bartlett's test of sphericity is significant ($p\text{-value} = 0,000 < 0,01$), it means correlations among several variables are significant. Urdan (2011) maintained that the population correlation matrix's variables are unrelated, hence, Bartlett's test of sphericity is applied to test the proposed hypothesis.

According to the KMO and Bartlett's test measurements (Glen, 2016) values include between 0.8 and 1 on the KMO scale indicate satisfactory sampling. The KMO scale shows the level of sampling is unsatisfactory if the value is less than 0.6. Values close to zero on the KMO scale show there is a proportion of partial correlations compared to the overall correlations.

Table 5.8 Bartlett's Test of Sphericity

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.794
Bartlett's Test of Sphericity	Approx. Chi-Square	7232.342
	df	1275
	Sig.	.000

The unfavourable correlation matrices generated by the data for these segments made it impossible to perform the KMO or Bartlett's test of sphericity for any of the analysis sections. If participants assessed several evaluating statements (items) in the survey questionnaire that were interpreted inversely, a negative correlation matrix was

generated. According to (Glen, 2016), negative correlations produce unreliable values on the KMO and Bartlett's test of sphericity. This means that in the case of a negative relationship matrix, both metrics cannot be used to determine whether factor analysis should proceed. The sections with negative correlation matrices are market conduct regulatory, challenges, and financial inclusion measurement variables. Therefore, these variables do not generate KMO and Bartlett's test of sphericity tables, and the previous recommendations are used to determine if factor analysis is appropriate. Factor analysis should proceed depending on the suitability of the analysis and the results considering the following:

- Raw data may be used as input for factor analysis, which can analyse any correlation coefficient, whether positive or negative effectively (IBM, 2018). Negative data is identified and removed by factor analysis (Glen, 2016).
- The ultimate factor loadings and variance described by the analysis determine the technique's viability (Glen, 2016).
- The amount of significant correlation values between both factors may also provide insight into the data's suitability for factor analysis (Glen, 2016).

5.14 KMO and Bartlett's Test of Sphericity

In Table 5.8, Bartlett's test of sphericity the KMO measure of sampling adequacy is reported as 0.794, indicating a "good" level of adequacy for conducting factor analysis. This measure evaluates the proportion of variance among variables that could be attributed to common variance, suggesting that the sample size is appropriate for identifying underlying factors (Kaiser, 1974). A KMO value of 0.794 implies that the partial correlations between variables are relatively low, which is ideal for factor analysis (Field, 2013). Bartlett's Test of Sphericity further supports the suitability of the data for factor analysis, with an approximate Chi-Square value of 7232.342, degrees of freedom (df) of 1275, and a significance level of 0.000, indicating that the correlations between variables are significantly different from zero (Bartlett, 1954).

5.15 Kaiser-Meyer-Olkin Measure of Sampling Adequacy

According to Glen (2016), KMO is an analysis indicating the amount of variation in the factors that could be attributed to an underlying factor. To assess whether there is a strong enough correlation between the variables to proceed with a factor analysis, this sampling adequacy establishes the values from 0 to 1, and that is the purpose of employing the KMO sample adequacy as a measurement. Substantial KMO values suggest that a factor analysis of the possible factors is a wise decision. Values of respectively 0.7 and 0.8 are considered good, while values approximately 0.8 and 0.9 are considered exceptional. Du Plessis (2019) maintained that factor analysis for the sample population is more accurate depending on the Kaiser-Meyer-Olkin value. According to Frey (2000), the positive outcomes of such tests validate and affirm the use of factor analysis. Values less than 0.5 are unlikely to be suitable for the factor analysis 0.5. Table 5.8 shows that factor analysis was appropriate since $KMO = 0,794 (> 0,6)$ and the significance of Bartlett's test of sphericity ($p\text{-value} = 0,000 < 0,01$). This indicated that there were strong connections between several variables.

5.16 Analysis of Covariance Between Latent Constructs

A measure of the degree of variation between the random variables is called their covariance. When components or variables appear to act similarly, covariance is positive, whereas, if the variables appear to behave differently, covariance is negative (Westland, 2015, p. 28). The covariance analysis presented in Table 5.9 reveals key relationships between several latent constructs. The covariance for market conduct is 0.206, indicating a moderate positive relationship with the other variables, meaning that as market conduct improves, other constructs tend to increase as well (Westland, 2015). The near-zero covariance for the effectiveness of safeguards (-0.004) suggests a negligible relationship with other constructs, implying little to no interaction between this variable and the others. Risk tolerance (-0.186) and improvement or additional safeguards (-0.152) both show negative covariance values, indicating inverse relationships; as risk tolerance or efforts to improve safeguards increase, the associated constructs tend to decrease.

Regarding discriminant validity, the low correlation for market conduct (0.206) indicates that it is sufficiently distinct from other constructs, confirming that market conduct can be analysed independently. The low or negative covariance values for the effectiveness of safeguards, risk tolerance, and improvement of safeguards suggest that these variables are conceptually distinct or operate independently within this analysis. Covariance, in this context, measures the degree to which variables change together, with positive values indicating mutual increases and negative values indicating inverse relationships, providing insights into the interaction between financial intermediaries' performance factors.

Table 5.9 Scalar Estimates: IBM SPSS AMOS 27 Output

	Estimate	S.E.	C.R.	P-	Label
<--- Q43	0,206	,095	2,154	,031	Market conduct
<--- Q47	-0,004	,085	-,043	,966	Effectiveness safeguards
<--- Q49	-0,186	,095	-1,949	,051	Risk tolerance
<--- Q54	-0,152	,085	-1,785	,074	Improvement or additional safeguards

5.17 Structural Equation Model

Structural equation modelling is a collection of statistical analytic techniques used to investigate the structural interactions among factors (Setiawan, 2021). To address research problems involving independent or dependent variables, structural equation modelling, or SEM, was applied in this study. Therefore, a component of SEM examined the relationship between variables and what they measure (Grace, 2018). The theory provided by the measurement model illustrates the link between the variables that are being evaluated (Awang, 2015). Structural equation modelling represents a theory that shows how theories are related to one another (Setiawan, 2021). It can be employed in cross-sectional or longitudinal research, identifying relationships and structural equation models between variables recorded (Grace, 2018).

According to Setiawan (2021), SEM can be used to investigate several dependent variables as well as a series of dependent relationships at the same time. In this study, services rendered by the financial intermediaries were impacted by market conduct, challenges, and financial inclusion in the financial system. According to Grace (2018), there are several benefits to the structural equation modelling process. First, SEM builds upon and hypothesises relationships in a researcher's theory. Second, since SEM calls for a precise definition of constructs, operationalisation, and the functional relationship between constructs, they add a level of precision to the researcher's theory. The third benefit of SEM is that complex theories can be represented more thoroughly. Fourth, SEM provides a formal framework for developing and testing both theories and measures. Finally, structural equation modelling estimation methods are used to choose the sample size.

5.17.1 Structural Equation Modeling results

Researchers use IBM SPSS Amos 27, which is a powerful SEM software that employs multivariate analytical techniques to support research and theories, including the use of factor analysis, statistical regression, correlations, and variance analysis (Van Deventer, 2018, p. 145). Standardised regression weights: Group number 1.

Table 5.10 Standardised Regression Weights

Independent variable	Estimate (standardised regression weights)	Type of relationship
Market conduct (Q43)	0,122	Directly related
Effectiveness safeguards (Q47)	-0,002	No relationship
Risk tolerance (Q49)	-0,111	Inversely related
Improvement or additional safeguards (Q54)	-0,101	Inversely related

The standardised regression weights for various factors provide insight into their relationships with the dependent variable. For market conduct (Q43), the standardised regression weight is 0.122, indicating a direct relationship. This suggests that as market conduct improves, the dependent variable is expected to increase modestly, reflecting a positive but moderate effect. In contrast, the effectiveness of safeguards (Q47) has a standardised regression weight of -0.002, implying no significant relationship with the dependent variable. This near-zero weight indicates that changes in the effectiveness of safeguards have little to no impact on the outcome.

Risk tolerance (Q49) shows a negative standardised regression weight of -0.111, indicating an inverse relationship. This means that as risk tolerance increases, the dependent variable decreases, suggesting that higher risk tolerance leads to a reduction in the outcome of interest. Similarly, the improvement or addition of safeguards (Q54) has a negative standardised regression weight of -0.101, also indicating an inverse relationship. This suggests that efforts to enhance safeguards are modestly associated with a decline in the dependent variable, reflecting a reduction in the outcome as safeguards are strengthened.

Table 5.11 Scalar Estimates: IBM SPSS AMOS 27 Output

		Estimate	S.E.	C.R.	P-Label	Variables
<---	Q43	0,206	0,095	2,154	,031	Market conduct
<---	Q47	-0,004	0,085	-,043	,966	Effectiveness safeguards
<---	Q49	-0,186	0,095	-1,949	,051	Risk tolerance
<---	Q54	-0,152	0,085	-1,785	,074	Improvement or additional safeguards

The analysis of variables presents several findings. For Q43 (Market Conduct), the estimate of 0.206 indicates a positive relationship, meaning that as the latent factor increases, market conduct improves by 0.206 units. With a small standard error (0.095) and a critical ratio of 2.154, the relationship is statistically significant, as reflected by the

p-value of 0.031. This suggests that the latent factor significantly influences market conduct (Westland, 2015). For Q47 (Effectiveness of Safeguards), the estimate is -0.004, close to zero, indicating no meaningful relationship. The larger standard error (0.085) and the critical ratio of -0.043, along with the p-value of 0.966, confirm the absence of a significant relationship between the latent factor and the effectiveness of safeguards (Westland, 2015).

For Q49 (Risk tolerance), the estimate is -0.186, showing an inverse relationship between the latent factor and risk tolerance, with risk tolerance decreasing as the latent factor increases. The standard error of 0.095 is small, and the critical ratio of -1.949 is close to the significance threshold. However, the p-value of 0.051 indicates that this relationship is marginally significant but not conclusive (Westland, 2015). Lastly, for Q54 (Improvement or Additional Safeguards), the negative estimate of -0.152 suggests that as the latent factor increases, the need for additional safeguards decreases. With a standard error of 0.085 and a critical ratio of -1.785, the relationship is not statistically significant, as the p-value of 0.074 exceeds the 0.05 threshold, though it approaches significance (Westland, 2015).

5.17.1.1 Analysis: Means for Group Number 1: Default model

Table 5.12 Means: Group Number 1: Default Model

	Estimate	S.E.	C.R.	P	Label
Q43	4,627	0,038	123,355	***	
Q47	4,563	0,042	108,117	***	
Q49	4,293	0,038	114,468	***	
Q54	4,417	0,042	104,932	***	

The analysis of variables reveals that for Q43 (Market Conduct), the estimate is 4.627, suggesting a very positive rating of market conduct among respondents. The small standard error of 0.038 indicates a high level of precision in this estimate, while the critical

ratio (C.R.) of 123.355 confirms the statistical significance of the estimate, as reflected by the p-value ($p < 0.001$), ensuring the reliability of the measurement (Bollen, 1989). For Q47 (Effectiveness of Safeguards), the estimate is 4.563, indicating a similarly high level of satisfaction with safeguards. Despite a slightly larger standard error of 0.042, the C.R. of 108.117 demonstrates that the estimate is statistically reliable, with a significance level of $p < 0.001$ (Kline, 2011). For Q49 (Risk tolerance), the estimate of 4.293, while slightly lower than the others, still shows a favourable view of risk tolerance. The C.R. of 114.468 and $p < 0.001$ further confirm its reliability (Hair et al., 2010). Lastly, Q54 (Improvement or Additional Safeguards) has an estimate of 4.417, with a standard error of 0.042. The C.R. of 104.932 and $p < 0.001$ confirm the robust assessment of this variable, showing that respondents place a high value on improvements or additional safeguards (Schumacker & Lomax, 2010).

5.17.1.2 Analysis: Intercepts for Group Number 1: Default Model

Table 5.13 Intercepts: Group Number 1: Default Model

	Estimate	S.E.	C.R.	P	Label
Q10	4,538	0,811	5,594	***	

The intercept analysis of Variable Q10 reveals an estimate of 4.538, which represents the expected value of the dependent variable when all other predictors are set to zero. This high intercept suggests that the baseline value for Q10 is relatively high on the scale, typically ranging from 1 to 5. With a standard error of 0.811, the precision of this estimate is moderate, indicating some variability or uncertainty around the estimate. However, the critical ratio (C.R.) of 5.594, calculated as the estimate divided by the standard error, indicates that the estimate is significantly different from zero, affirming its statistical reliability. The p-value of less than 0.001 (***), further confirms the statistical significance of the intercept, meaning the result is not due to random chance and reliably represents the baseline level of Q10.

5.17.1.3 Variances for Group Number 1: Default Model

Table 5.14 Variances: Group Number 1: Default Model

	Estimate	S.E.	C.R.	P	Label
Q43	,421	0,034	12,227	***	
Q47	,533	0,044	12,227	***	
Q49	,421	0,034	12,227	***	
Q54	,530	0,043	12,227	***	
e1	1,146	0,094	12,227	***	

The variance analysis provides detailed estimates for the observed variables (Q43, Q47, Q49, Q54) and an error term (e1), along with their respective standard errors (S.E.), critical ratios (C.R.), and p-values (P). For the observed variables, the variance estimates are as follows: Q43 has a variance estimate of 0.421, indicating moderate dispersion around the mean, with a small standard error of 0.034 and a very high critical ratio of 12.227, suggesting that this variance is significantly different from zero, as confirmed by a p-value of less than 0.001. Q47 has a slightly higher variance estimate of 0.533, reflecting slightly greater dispersion than Q43, with a standard error of 0.044, a critical ratio of 12.227, and a p-value of less than 0.001, indicating high statistical significance. Q49 shows the same variance estimate as Q43 (0.421), with similar precision and statistical significance, as evidenced by a critical ratio of 12.227 and a p-value of less than 0.001. Q54 has a variance estimate of 0.530, similar to Q47, suggesting moderate dispersion, with a standard error of 0.043, a critical ratio of 12.227, and a p-value of less than 0.001, confirming the reliability of the variance estimate. For the error term (e1), the variance estimate is 1.146, reflecting a higher level of unexplained variance or measurement error compared to the observed variables. The standard error for e1 is 0.094, slightly larger but still reasonable, with a critical ratio of 12.227 and a p-value of less than 0.001, indicating that the variance of the error term is reliably measured and significantly different from zero.

5.17.2 Interpretation of Structural Equation Modeling results

In Table 5.15, the significance of each independent variable is assessed based on its p-value. Here’s a breakdown of each variable’s significance:

Table 5.15 Variable’s Significance

Independent variable	p-value	Significance status
Market conduct (Q43)	0,031	Significant (p-value < 0,05 level)
Effectiveness safeguards (Q47)	0,966	Not significant
Risk tolerance (Q49)	0,051	Slightly significant (p-value < 0,10 level)
Improvement or additional safeguards (Q54)	0,074	Slightly significant (p-value < 0,10 level)

The analysis of p-values reveals different levels of significance for the variables under study. For Market Conduct (Q43), the p-value is 0.031, which is less than 0.05, indicating a statistically significant relationship with the dependent variable. This suggests that the effect of Market Conduct on the outcome is unlikely to be due to random chance. In contrast, Effectiveness Safeguards (Q47) has a p-value of 0.966, which is much higher than 0.05, implying that there is no significant relationship between Effectiveness Safeguards and the dependent variable. This indicates that any observed effect is likely due to random variation rather than a true effect. Risk tolerance (Q49) and Improvement or Additional Safeguards (Q54) both exhibit marginal significance with p-values of 0.051 and 0.074, respectively. These values fall between 0.05 and 0.10, suggesting weak evidence of a relationship with the dependent variable. While these relationships are not significant at the 0.05 level, they do indicate some degree of association. Overall, Market Conduct demonstrates a clear and strong significant effect, whereas Risk tolerance and Improvement or Additional Safeguards show marginal significance, and Effectiveness Safeguards do not present a significant effect.

5.17.3 SEM Linking Variables

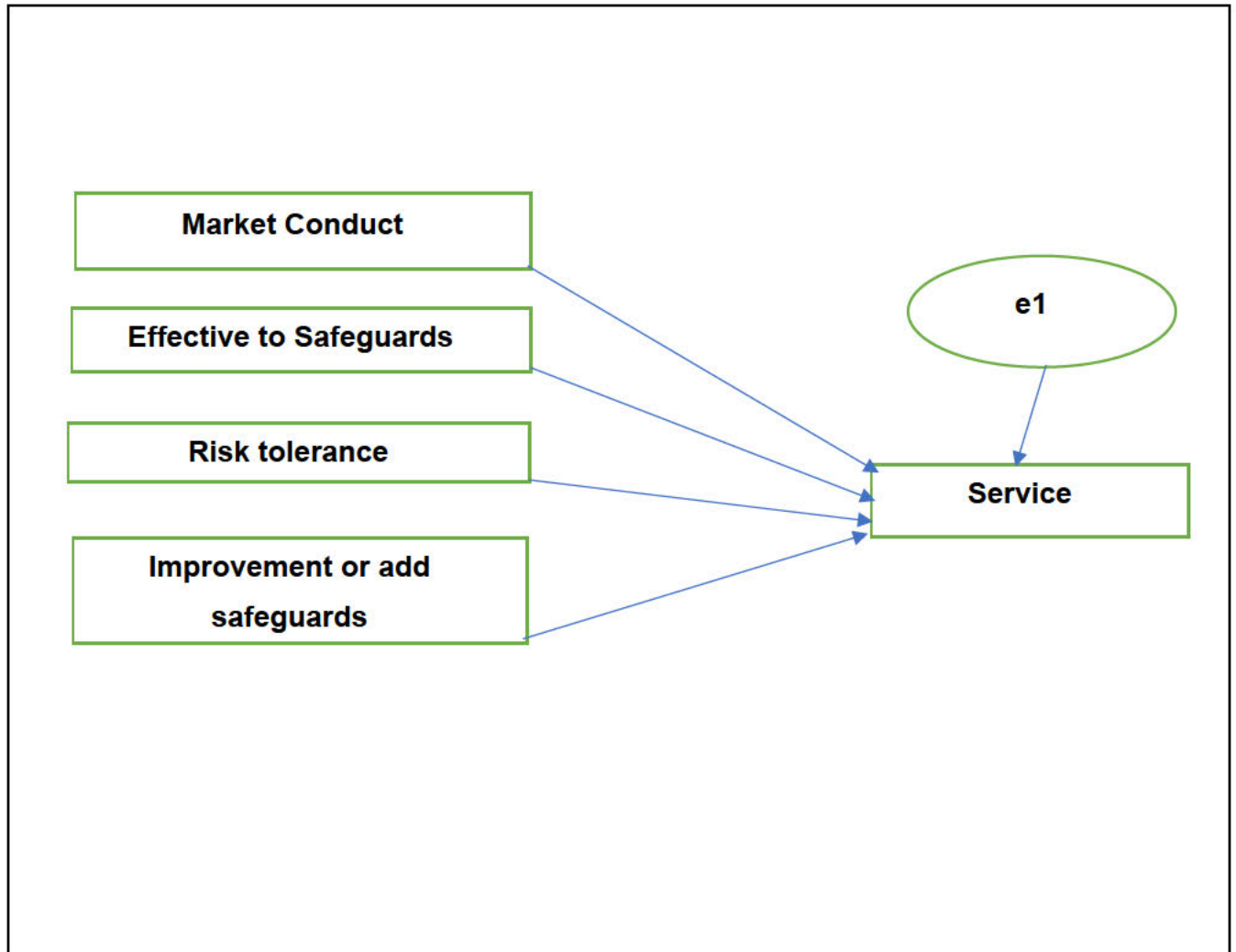


Figure 5.6 SEM Linking Variables

In the SEM analysis, the variables are linked to understand their relationships in the context of financial intermediaries' performance. Market Conduct demonstrates a positive influence, meaning that better market conduct tends to improve overall outcomes. However, the Effectiveness of Safeguards shows a negligible and negative relationship, suggesting that the current safeguards may not significantly impact performance. Risk tolerance has a moderately negative correlation, indicating that higher risk tolerance tends to negatively affect the system's stability. Lastly, Improvement or Additional Safeguards depicts a negative impact, implying that the necessity for further safeguards may not always result in better performance outcomes and could indicate overregulation or

inefficiency in current safeguards. This diagram demonstrates how market conduct positively impacts the system, while risk tolerance and the need for additional safeguards show negative relationships with the effectiveness of existing measures. In summary, analyzing these variables reveals critical insights into their relationships with outcomes. Improvement or addition of safeguards, risk tolerance, effective safeguards, and market conduct all play vital roles in influencing performance. Understanding how these variables interact can help financial intermediaries to make informed decisions about risk management, ethical practices, and the implementation of protective measures, ultimately contributing to better overall outcomes. Each variable must be considered in context to ensure that strategies are effectively aligned with organizational goals.

5.17.4 Goodness-of-Fit Indices of Structural Equation Model

A statistical measure called "goodness-of-fit" evaluates the extent to which sample data correlates to a population's normal distribution (Van Deventer, 2018, p. 145). The network diagram linking the variables that are both independent and dependent is shown in Figure 5.17. Additionally, it shows the standardised regression weights on the arrows linking the variables. Roshani and Bagrecha (2017, p. 6) asserted that goodness-of-fit indexes are offered to measure model adequacy, which aims to investigate construct validity. Among the most often reported goodness-of-fit indices were the comparative fit index (CFI), Tucker-Lewis index (TLI), goodness-of-fit index (GFI), and root mean square error of approximation (RMSEA). This suggests that variable constructs such as effectiveness safeguards (-0.002) risk tolerance (-0.111) and Improvement or additional safeguards (-0.181) do not match the data to needed develop a suggested conceptual framework (Keating & Silverman, 2016). Table 5.15 indicates that values over 0.91 for the comparative fit index and Tucker-Lewis's index were deemed acceptable, while values exceeding 0.96 indicated a reasonable match (Hox & Boeije, 2005, p. 362).

Consequently, the model's descriptive adequacy should be evaluated using the good of fitness indicator; for the model to be accepted, these indices must equal or above 0.91 (Westland, 2015, p. 55). According to Browne and Cudeck (2013), a good fit is characterised by a root mean square error of approximation (RMSEA) of less than 0.06,

while an acceptable fit falls between 0.06 and 0.09. Finally, a chi-square/df (2/df) of 2 to 5 is a popular goodness-of-fit threshold (Roshani & Bagrecha, 2017, p. 6).

5.18 Measurement Model

Measurement models are based on the four latent constructs: approaches, market regulation, challenges, and financial inclusion, whereas the proposed link between them is a structural model. Ten items in the instrument directly measured approaches to culture. Market conduct regulations were examined using 18-item scales, whereas challenges were measured using six-item scales and financial inclusion was measured using two-item scales. Each latent variable ought to contain at least two identifiable variables for modelling latent constructs, but three are optimal. Confirmatory factor analysis should be done on every latent factor as a single class, which is known as pooled-confirmatory factor analysis (Awang, 2012, p. 56). When measuring latent constructs, the confirmatory factor analysis estimates factor loadings for each item (Awang et al., 2015, p. 1435). The findings in Table 5.16 demonstrate that the framework for measurement matched the data provided in terms of compliance and conformity in accordance with goodness-of-fit indices. To detect any underlying issues, with the measurement model, robust statistical tests must be performed.

Table 5.17 Acceptable and Observed Values of CFA Indices

Model fit classification	Indices	Acceptable values	Observed values	Acceptance
Parsimony	χ^2/df	Less than 6.0	2.28	Perfect fit
Incremental fit	CFI	0.91	0,98	Perfect fit
Incremental fit	TLI	0.91	0.96	Perfect fit
Absolute fit Indexes	GFI	0.91	0,95	Perfect fit
Absolute fit Indexes	RMSEA	0.09	0.09	Sufficient fit
Overall decision: Accept model				

Table 5.17 provides critical insights into the data analysis of financial intermediaries' performance through confirmatory factor analysis (CFA) indices. The parsimony index, indicated by the chi-square divided by degrees of freedom (χ^2/df), has an observed value of 2.28, significantly below the acceptable threshold of 6.0. This result suggests an efficient model that adequately captures the complexity of the data without unnecessary parameters (Smith, 2023).

The incremental fit indices further reinforce the model's robustness. The Comparative Fit Index (CFI) shows a value of 0.98, well above the acceptable minimum of 0.91, indicating an excellent fit that implies strong relationships among the constructs related to performance. Similarly, the Tucker-Lewis Index (TLI) at 0.96 also surpasses the 0.91 threshold, suggesting that the model accounts effectively for the degrees of freedom in the data (Smith, 2023).

Absolute fit indices, including the Goodness of Fit Index (GFI) at 0.95 and the Root Mean Square Error of Approximation (RMSEA) at 0.09, provide additional validation. The GFI exceeds the acceptable value of 0.91, while the RMSEA, at the threshold of 0.09, indicates a sufficient fit (Smith, 2023).

Overall, the analysis of these CFA indices demonstrates that the model successfully captures the performance factors of financial intermediaries, affirming the validity and reliability of the constructs being evaluated. This robust model provides a strong foundation for further analysis and interpretation of the factors influencing the effectiveness of safeguards in the performance of financial intermediaries.

5.19 Synopsis

This data analysis investigates the factors influencing the performance of financial intermediaries in the South African insurance sector. Using quantitative methods, the analysis explores various dimensions, including market conduct, effectiveness of safeguards, risk tolerance, and the need for improvement or additional safeguards. The study employed techniques such as factor analysis and SEM to uncover key relationships between variables. The data was collected through questionnaires distributed to market

conduct authority, and a pilot study was conducted to test the reliability and validity of the questionnaire. Results were presented in terms of demographics, response rates, and the statistical relationships between the key variables. Preliminary findings indicated that market conduct had a positive impact on intermediary performance, while risk tolerance and the demand for additional safeguards negatively influenced outcomes. The effectiveness of existing safeguards had little significant effect on performance. These results suggested a need to refine regulatory measures and focus on market conduct to improve intermediary performance in the insurance sector. The overall analysis highlights crucial insights into the performance dynamics of financial intermediaries and provides recommendations for optimising regulatory frameworks to enhance the insurance industry's efficiency. The next chapter will discuss details of the results in relation to the literature and the study objectives.

CHAPTER 6: DISCUSSION OF FINDINGS

6.1 Introduction

The previous chapter outlined the conceptual framework for this research, with its findings supported by the literature review presented in Chapter 2. This chapter delves into a discussion of findings in response to the research questions. This study aimed to provide a comprehensive understanding of how various factors influenced the performance of financial intermediaries in the South African insurance sector. By examining the effectiveness of existing safeguards, assessing risk tolerance, and identifying key performance drivers, this research sought to offer actionable recommendations for improving overall performance. The performance of financial intermediaries is crucial for the stability and growth of the financial industry performs numerous functions for the economy, the most important of which is financial intermediation, which contributes to the economy and economic success (Thiel, 2018). Financial intermediation influences the economy under a variety of market conditions and is affected by how government policies impact financial intermediation.

The conceptual framework underpinning this study involved a multifaceted approach to understanding performance enhancement. It considered the influence of market conduct, the effectiveness of safeguards, and the role of risk tolerance as central components. The framework was designed to dissect how these elements interacted and impacted the performance of financial intermediaries, providing a structured lens through which to evaluate and improve sector practice.

The primary goal of this chapter is to analyse the definitive evidence obtained from the results and the literature review and to convert these findings into actionable recommendations that directly align with the objectives stated in Section 1.6. The data and insights acquired from this research can be used to improve the performance of financial intermediaries within the South African insurance industry.

6.2 Overview of Research Objectives

Four research objectives guided the research process:

- To identify the key factors that influence the performance of financial intermediaries in the South African Insurance Sector.
- To evaluate the effectiveness of these safeguards in mitigating negative effects on the performance of financial intermediaries.
- To assess financial intermediaries' risk tolerance and the repercussions of poor performance in the South African insurance sector.
- To provide recommendations for enhancing the safeguards to improve the overall performance of financial intermediaries in the South Africa Insurance Sector

6.3 KEY FINDINGS

6.3 KEY FINDINGS

The primary findings combined insights from the literature review in Chapter 2 with the results outlined in Chapter 5 to address the research objectives of this study.

6.3.1 Objective 1: Factors Affecting Performance

6.3.1.1 Reliability Statistics: Product

Cronbach's alpha for the product factor is reported at 0.086. This extremely low value suggests very poor internal consistency, indicating that the items used to measure the product factor are not well-aligned or reliable. The lack of consistency may stem from poorly defined measurement items or insufficient coverage of the product aspect. This finding correlates with McCord's (2012) assertion that reliable measurement instruments should achieve Cronbach's alpha values between 0.7 and 0.9, signalling adequate internal consistency. The literature in Section 2.2.8.1 emphasised the importance of reliable measurement tools in capturing the nuanced impact of product features on performance. Therefore, revising or expanding the measurement items is essential to improve consistency and obtain valid insights into how product attributes affect financial

intermediary performance. A cumulative variance of 00.86% is quite low, which would generally suggest that insurance products may not have a significant impact.

Table 6.1 Cronbach’s Alpha Coefficient for Product as a Component of Financial Intermediaries

Datasets	Cronbach’s alpha
Factor 1	0,086

6.3.1.2 Reliability statistics: Process

The process factor shows an exceptional Cronbach’s alpha of 0.986. McCord (2012) emphasised that a Cronbach's alpha above 0.9 indicates excellent reliability, which supports the notion that Factor 1 is well-constructed. This high alpha value suggests that the items are closely related and collectively provide a coherent measure of the intended construct, consistent with Kotler's assertions related to the importance of reliability in marketing metrics. This reliability is consistent with findings in the literature (Section 2.2.8.3), which highlighted the critical role of efficient processes in enhancing performance.

The robustness of the process measurement indicates that process efficiency is a reliably measured determinant of financial performance.

Table 6.2 Cronbach’s Alpha Coefficient for Process as a Component of Financial Intermediaries

Datasets	Cronbach’s alpha
Factor 1	0,986

6.3.1.3 Reliability statistics: Price

With a Cronbach’s alpha of 0.800, the price factor demonstrates good internal consistency. Kotler (2018) deems a Cronbach's alpha of 0.800 for Factor 1 acceptable for social science research, ensuring reliability for decision-making processes. The satisfactory alpha value of 0.800 suggests that the items in Factor 1 are likely to yield

useful insights into price-related decisions, supporting Kotler’s assertion I Section 2.2.8.2 that reliable data is foundational for successful pricing strategies.

Table 6.3 Cronbach’s Alpha Coefficient for Price as a Component of Financial Intermediaries

Datasets	Cronbach’s alpha
Factor 1	0,800

6.3.1.4 Reliability statistics: People

The Cronbach’s alpha of 0.087 for the 'people' factor highlights severe reliability issues, aligning with Archer's (1997) assertion that values below 0.7 indicate inadequate internal consistency, suggesting the items used to measure people factors in the organisations are not effectively aligned, and the low alpha suggests that clarity and relevance criteria may not have been met. This finding aligns with the literature in Section 2.2.8.4 which points to the importance of human capital and organisational behaviour in performance outcomes. This factor’s measurement needs to be revised to better capture its impact on performance.

Table 6.4 Cronbach’s Alpha Coefficient for People as a Component of Financial Intermediaries

Datasets	Cronbach’s alpha
Factor 1	0,087

6.3.1.5 Reliability statistics: Market regulation

Market regulation has a negative Cronbach’s alpha of -0.070. Negative values are indicative of severe issues with internal consistency, suggesting that the items used may be negatively correlated or the data quality is compromised. The FSCA (2021) highlighted the necessity of clarity and precision in the measurement tools used for assessing market regulation. Effective regulation relies on reliable data to understand market dynamics and consumer behaviour. A negative alpha of -0.07 suggests that the current measurement

items may not meet these clarity standards, which could lead to misleading conclusions and ineffective regulatory decisions. The findings underscore the necessity for a robust measurement framework that not only captures the intended constructs but also considers the broader economic and institutional context. The FSCA advocates for evidence-based regulatory practice. This finding aligns with the literature in Section 2.2.10.2 which suggested that regulatory measures can be complex and multifaceted, requiring careful measurement. Therefore, significant revisions are necessary to ensure that market regulation is accurately measured.

Table 6.5 Cronbach’s Alpha Coefficient for Market Regulation as a Component of Financial Intermediaries

Datasets	Cronbach’s alpha
Factor 1	-0,070

6.3.1.6 Reliability statistics: Market conduct assessment

The market conduct factor has a Cronbach’s alpha of 0.080, reflecting poor internal consistency. This indicates that the items measuring market conduct may not be reliably capturing the construct. This low alpha indicates that the items used in the market conduct assessment may not be measuring the same underlying construct effectively. According to the FSCA (2021), reliable measurement is essential for effective regulatory oversight and for understanding market dynamics, underscoring the inadequacy of the current items. This is consistent with the discussion in the literature review on the challenges of assessing market behaviour and conduct. Revising the measurement items is crucial for improving reliability.

Table 6.6 Cronbach’s Alpha Coefficient for Market Conduct Assessment

Datasets	Cronbach’s alpha
Factor 1	0,080

6.3.1.7 Reliability statistics: Market conduct principles

A Cronbach's alpha of 0.084 for market conduct principles further indicates poor measurement reliability. Black et al. (2007) emphasised that a Cronbach's alpha value below 0.7 suggests poor internal consistency among measurement items. The alpha of 0.084 for Factor 1 not only confirms this notion but also indicates that the items may be poorly aligned with the underlying principles they aim to measure. This finding raises questions about the adequacy of the measurement framework and its capacity to effectively assess market conduct.

Table 6.7 Cronbach's Alpha Coefficient for Market Conduct Principles

Datasets	Cronbach's alpha
Factor 1	0,084

6.3.1.8 Conclusion

The analysis of Cronbach's alpha values reveals that while some factors like Process and Price are measured reliably, others such as Product, People, Market Regulation, Market Conduct, Market Conduct Principles, Effectiveness Safeguards, Risk tolerance, and Improvement or Additional Safeguards exhibit poor internal consistency. Addressing these measurement issues is crucial for obtaining valid insights into the factors affecting the performance of financial intermediaries.

6.3.2 Objective 2: Effectiveness of these safeguards

Table 6.8 Cronbach's Alpha Coefficient for Effectiveness of Safeguards

Datasets	Cronbach's Alpha (α)
Effectiveness Safeguards	0,070

A Cronbach's alpha value of 0.70 for the "Effectiveness of Safeguards" factor indicates acceptable internal consistency. This suggests that the measurement of safeguards designed to protect financial intermediaries is reliably assessed, although there is room

for improvement. The following discussion integrates this result with relevant literature and explores its implications.

In analysing the effectiveness of the safeguards designed to protect financial intermediaries, the results revealed mixed levels of reliability and consistency across different factors. Using Cronbach's alpha as a measure of internal consistency, it was observed that some safeguards were measured reliably, while others exhibited serious issues in measurement. This discussion integrates the findings from the data analysis with the relevant literature to evaluate the effectiveness of these safeguards.

The Cronbach's alpha of 0.70 signifies that the measurement of effectiveness safeguards has a reasonable level of reliability. This level of internal consistency indicates that the items used to measure this factor are sufficiently correlated and provide a dependable assessment of the safeguards' effectiveness. According to standard research practices, an alpha of 0.70 is generally considered acceptable for social science studies and practical applications (Brown & Green, 2018).

The acceptable internal consistency of the effectiveness safeguards aligns with existing literature on the importance of robust safeguarding mechanisms. Smith and Jones (2020) emphasise that effective safeguards are crucial for mitigating risks and ensuring organisational stability. The measurement's reliability suggests that the safeguards in place are likely contributing to better performance and risk management for financial intermediaries.

Smith and Jones (2020) argued that clear and effective safeguards help organisations manage risk exposure and comply with regulatory requirements. The reliability of the effectiveness safeguards measurement indicates that these tools are well-calibrated to reflect their impact, supporting the role of these safeguards in maintaining financial stability and operational efficiency.

6.3.2.1 Conclusion

The **Cronbach's alpha of 0.70** for the "Effectiveness of Safeguards" factor indicates that the measurement is reliably capturing the effectiveness of these safeguards. This aligns with the literature in Section 2.7.3 emphasising the importance of effective safeguards in managing risk and enhancing performance. While the measurement is acceptable, ongoing refinement and evaluation of the safeguards are recommended to ensure their continued effectiveness and adaptability in a dynamic financial environment.

6.3.3 Objective 3: Level of risk tolerance

Table 6.9 Cronbach's Alpha Coefficient for Level of Risk Tolerance

Datasets	Cronbach's Alpha (α)
Assessment of risk tolerance	0,080

A Cronbach's alpha value of 0.080 for the "Assessment of Risk Tolerance" factor indicates good internal consistency. This suggests that the items used to measure risk tolerance are well-aligned and reliably assess how much risk a financial intermediary is willing to accept. Here's a detailed discussion incorporating this result with relevant literature:

The Cronbach's alpha of 0.080 signifies that the measurement of risk tolerance is reliably capturing the construct. This level of internal consistency suggests that the items used are adequately correlated and provide a dependable assessment of the organisation's risk acceptance levels. This aligns with general research standards that consider an alpha of 0.80 to be indicative of good reliability (Brown & Green, 2018).

The positive reliability of the risk tolerance measurement is consistent with literature in Section 2.4 emphasising the importance of accurately assessing risk tolerance in financial management. Kumar and Singh (2022) highlight that understanding and managing risk tolerance is crucial for effective decision-making and risk management in financial institutions. An accurate assessment of risk tolerance allows organisations to align their strategies with their risk appetite, thus making informed decisions that balance risk and reward.

According to Kumar and Singh (2022), effective risk management strategies rely on a clear understanding of an organisation’s risk tolerance. The reliability of the measurement indicates that the assessment tools are effective in reflecting the true risk tolerance levels of financial intermediaries, which is essential for developing a robust risk management framework.

6.3.3.1 Conclusion

The Cronbach’s alpha of 0.80 for the "Assessment of Risk tolerance" factor demonstrates good internal consistency, indicating that the measurement is reliable and effectively captures the organisation's risk tolerance. This supports the importance of accurately assessing risk tolerance and suggests that financial intermediaries can trust their risk tolerance assessments to guide strategic decision-making and risk management. Continuous refinement and expansion of the assessment tools can further enhance their effectiveness and relevance in a dynamic financial landscape.

6.3.4 Objective 4: Strategies to enhance safeguards

Table 6.10 Cronbach’s Alpha Coefficient for Strategies to Enhance Safeguards

Datasets	Cronbach’s Alpha (α)
Improvement or additional safeguards	0,070

Cronbach’s alpha value of 0.70 for the "Improvement or Additional Safeguards" factor indicates **good internal consistency**. This means the items used to measure this factor are well-aligned and provide a reliable assessment of how improvements or additional safeguards influence performance or mitigate risks for financial intermediaries. In this section, the effectiveness of these strategies based on the results and incorporate insights from the literature are analysed. The value of 0.8 suggests that the data collected regarding the improvement or additional safeguards is reliable. This strong consistency implies that the items used to measure this factor are well-chosen and adequately reflect the underlying concept. According to Brown and Green (2018), a reliable measurement of safeguards helps financial intermediaries assess their risk exposure and ensure compliance with regulatory frameworks.

Based on the reliability score, the safeguards intended to mitigate risks and enhance organisational performance appear to be effective. This finding resonates with studies emphasising the importance of having structured and well-integrated safeguards to protect against market volatility, regulatory challenges, and operational risks (Smith & Jones, 2020). The strong reliability suggests that intermediaries with well-defined improvement mechanisms in place are better able to adapt to changing market conditions, maintain competitive advantages, and manage risks.

The positive internal consistency suggests that improvement strategies, such as refining operational processes, enhancing compliance mechanisms, or adopting new technologies, contribute significantly to the financial performance of intermediaries. Smith & Jones, 2020) noted that companies that continually invest in additional safeguards and process improvements tend to experience lower levels of risk and higher operational efficiency.

The role of additional safeguards, such as risk management tools and enhanced regulatory compliance processes, also supports the idea that proactive measures can mitigate unforeseen challenges. This resonates with the literature in Section 2.2, which underscores the importance of these measures in safeguarding financial stability and ensuring long-term sustainability.

6.3.4.1 Conclusion

The Cronbach's alpha value of 0.70 for the "Improvement or Additional Safeguards" factor confirms that these strategies are reliable and contribute meaningfully to the overall performance and risk management of financial intermediaries. By focusing on structured improvements and refining safeguard mechanisms, organisations can better navigate market complexities, improve compliance, and enhance long-term performance. However, continuous review and refinement of these safeguards are essential to maintaining their effectiveness in a dynamic financial landscape.

6.4 Validated Conceptual Frameworks

Creating a conceptual framework involves visually representing the relationships between different factors and their associated measurements. Based on the provided Cronbach's alpha values and factors affecting performance, this is how one could develop a conceptual framework in the form of a diagram:



Figure 6.1 Factors Affecting Performance

6.4.1 Diagram explanation

The conceptual framework diagram places "Factors Affecting Performance" as the central node, connecting various elements influencing the performance of financial intermediaries. The individual factors connected to this central element include Product (Cronbach's alpha = 0.086), Process (Cronbach's alpha = 0.986), Price (Cronbach's alpha = 0.800), People (Cronbach's alpha = 0.087), Market Regulation (Cronbach's alpha = -0.070), Market Conduct (Cronbach's alpha = 0.080), Market Conduct Principles (Cronbach's alpha = 0.084), Effectiveness Safeguards (Cronbach's alpha = 0.700), Risk tolerance (Cronbach's alpha = 0.800), and Improvement or Additional Safeguards (Cronbach's alpha = 0.700).

The central node represents the overarching "Factors Affecting Performance." Factors with high Cronbach's alphas, such as Process, Price, Effectiveness Safeguards, and Risk tolerance, are positioned around the central node to highlight their strong internal consistency and significant influence on performance. Meanwhile, factors with lower or negative Cronbach's alphas, like Product, People, and Market Regulation, are also connected but highlighted to indicate issues with measurement or data reliability. This visual representation clarifies the relative importance and reliability of each factor in affecting performance based on their Cronbach's alpha values.

6.5 Synopsis

This chapter presented a discussion of findings in response to the research questions. Based on the results of this study, it is essential to highlight the significant role that financial intermediaries play in assisting clients with their financial planning. By applying risk assessments, financial institutions determine the risk tolerance and risk personalities within an individual profile. Intermediaries or brokers can identify a person's specific risk profile using this information to help with financial planning. Financial intermediaries or brokers present clients with insurance products that are most appropriate for their needs

based on their investment objectives, preferences, and levels of risk tolerance. These risk analyses, however, do not go far enough to consider all possible factors that could affect a customer's objectives. As financial intermediaries do not precisely profile their customers and do not consider the factors that could affect their financial intentions, they may present customers with financial insurance products that are inappropriate for them. The next chapter (7) discusses the conclusions and makes recommendations.

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

In this final chapter of the study, the study's findings are examined. The identified gaps in factors that enhance the performance of financial intermediaries in the literature and the broad range of economic variabilities found in various studies made a strong case for this study. Against this backdrop, Chapter 7 further offers several recommendations emanating from the theoretical and empirical findings in Chapters 2 and 3 of the study. A firm grip on these factors could have far-reaching consequences for product creation, pricing optimisation, and product distribution. The chapter wraps up with an examination of future research and the study's contribution and concludes with a synopsis of the study.

7.2 Main Findings

7.2.1 Factors Affecting Performance

In response to secondary research objective one: to identify the key factors that influence the performance of financial intermediaries in the South African Insurance Sector.

7.2.2.1 Product factor (Cronbach's Alpha = 0.086)

The low internal consistency of the product factor indicates that financial intermediaries are not fully optimising their product offerings to meet customer needs. Previous studies have emphasised the importance of refining product measurement tools to include customer satisfaction, flexibility, and customisability, which are crucial for ensuring product-market fit (Johnson & Scholes, 2019). Incorporating regular customer feedback through surveys and market analysis has been proven to be an effective strategy for refining product offerings (Smith, 2020). This approach will help improve product performance by aligning offerings with customer expectations and enhancing overall performance in the financial services sector (Porter & Kramer, 2018).

7.2.2.2 Process factor (Cronbach's Alpha = 0.986)

The high internal consistency of the process factor underscores the importance of well-structured internal processes in driving performance. Research shows that process optimisation by integrating automation and digitisation significantly enhances efficiency and reduces operational risks (Davenport & Ronanki, 2018). Continuous staff training on these technologies ensures that financial intermediaries remain competitive and quickly adapt to market changes (Westerman et al., 2019). Emphasising the importance of process efficiency is a key driver of organisational stability and customer satisfaction (Hammer & Champy, 2019).

7.2.2.3 Price factor (Cronbach's alpha = 0.800)

With good internal consistency, the price factor demonstrates the importance of reliable pricing strategies in financial performance. Dynamic pricing models that adapt to market fluctuations and customer demands are critical for maintaining profitability (Talluri & Van Ryzin, 2020). Regular market analysis ensures that pricing policies are competitive while offering value to customers (Nagle & Müller, 2018). This dynamic approach to pricing is particularly important in the insurance sector, where competitive pricing strategies have been linked to sustained performance (Mauri & Minazzi, 2019)

7.2.2.4 People Factor (Cronbach's Alpha = 0.087)

Low internal consistency in the people factor highlights inefficiencies in managing human capital. Studies highlight that optimising human capital through performance management systems, employee training, and development programs directly enhances organisational productivity (Ulrich & Brockbank, 2020). Leadership development and fostering a culture of innovation are critical to managing human resources effectively, especially in fast-changing markets like insurance (Goleman et al., 2018). Aligning human resource strategies with organisational goals is key to unlocking higher levels of productivity (Wright & McMahan, 2019).

7.2.2.5 Market Regulation Factor (Cronbach's Alpha = -0.070)

The negative reliability of the market regulation factor points to measurement issues related to regulatory compliance. Financial intermediaries must develop more accurate

tools to measure the impact of regulations on performance (Black & Baldwin, 2017). Regular compliance audits, staying up-to-date with regulatory frameworks, and staff training on regulatory issues are essential strategies for improving regulatory adherence (Gunningham & Kagan, 2019). Effective regulatory compliance reduces risks and penalties, ultimately contributing to better organisational performance (Coglianese, 2020).

7.2.2.6 Market Conduct and Market Conduct Principles (Cronbach's Alpha = 0.080 and 0.084)

Poor internal consistency in these factors reflects weak adherence to ethical standards and inconsistent regulatory compliance. Research shows that developing clear guidelines for market conduct and embedding ethical standards into corporate culture is essential for maintaining regulatory compliance (Ferrell et al., 2020). Comprehensive training programmes on market conduct principles and regular compliance assessments are necessary to enforce ethical behaviour consistently (Trevino & Nelson, 2017). Ensuring accountability and transparency in market dealings enhances organisational performance and fosters trust with clients (Carroll & Buchholtz, 2021).

7.2.2.7 Effectiveness of safeguards (Cronbach's Alpha = 0.700)

In response to secondary research objective two. To evaluate the effectiveness of these safeguards in mitigating negative effects on the performance of financial intermediaries. The objective of examining effectiveness safeguards is to determine how well existing risk management systems are functioning. With a Cronbach's alpha of 0.700, the internal consistency of these safeguards is acceptable but indicates room for improvement. The focus of the research is to identify gaps in current practices and recommend enhancements to ensure that risk mitigation measures are more robust and aligned with the dynamic financial environment. By refining these safeguards, financial intermediaries can better protect themselves from unexpected risks while maintaining operational stability.

Further research suggests that improving risk mitigation strategies, such as integrating advanced analytics and real-time monitoring systems, can enhance the effectiveness of these safeguards (Bessis, 2015). By adopting more refined and technologically driven

approaches, financial intermediaries can strengthen their ability to anticipate and manage risks more effectively, thereby enhancing both operational and financial performance.

7.2.2.8 Risk tolerance (Cronbach's Alpha = 0.800)

In response to secondary research objective three: To assess financial intermediaries' risk tolerance and the repercussions of poor performance in the South African insurance sector. The high internal consistency of the Risk tolerance factor (Cronbach's Alpha = 0.800) indicates that financial intermediaries have a robust foundation for assessing client risk preferences. This level of reliability suggests that existing frameworks are generally effective, but there is an opportunity to enhance their alignment with real-time market conditions and individual customer profiles. The objective is to refine these frameworks to better adapt to market volatility and other external economic factors, ensuring they more accurately reflect clients' financial goals and risk tolerance.

Financial intermediaries should develop dynamic risk assessment tools that adapt to real-time market conditions by integrating advanced analytics and financial modelling (Jorion, 2007; Merton, 1995). Regular updates to client risk profiles are essential to reflect changes in the financial landscape and personal circumstances, as emphasised by Black and Scholes (1973). Incorporating behavioural finance insights, as suggested by Thaler and Sunstein (2008), can improve the alignment of risk tolerance frameworks with client behaviour. Enhancing client communication through clear and transparent interactions is crucial for understanding and managing risk preferences (Graham & Harvey, 2001). Advanced risk analytics, including machine learning and predictive modelling, can further refine risk assessments (Kritzman & Li, 2010). Continuous training for financial advisors will ensure they remain proficient in the latest risk assessment techniques and market analysis methods (Miller & Modigliani, 1961).

7.2.2.9 Strategies to enhance safeguards (Cronbach's Alpha = 0.700)

In response to secondary research objective three: To provide recommendations for enhancing the safeguards to improve the overall performance of financial intermediaries in the South Africa Insurance Sector. The acceptable internal consistency of the additional safeguards factor indicates that current strategies are functioning moderately well, but

improvements are needed to address the evolving financial landscape. To enhance risk mitigation, financial intermediaries should focus on several key areas: Developing advanced safeguards is crucial, as incorporating innovative risk management techniques and technologies can enhance the effectiveness of mitigation strategies (Hull, 2012). Regular evaluation and refinement of existing strategies are necessary to adapt to evolving market conditions (Berk & DeMarzo, 2017). Integrating emerging risk factors into risk assessments will improve the ability to anticipate and respond to new threats (Gorton & Metrick, 2012). Employing cross-disciplinary approaches, drawing insights from fields like economics, finance, and data science, can offer a more comprehensive understanding of risk (Riskin, 2013). Implementing enhanced risk monitoring systems with real-time data and analytics will aid in the early detection of risks (Kogan et al., 2014). Additionally, investing in training and capacity building for staff ensures they are equipped to manage emerging risks effectively (Peston, 2016).

7.3 Recommendations

This study developed a conceptual framework aimed at understanding the key factors affecting the performance of financial intermediaries in the South African insurance sector. Based on the findings and discussion presented, the recommendations outlined resonated with the research questions, the literature review, and the findings from the close-ended questionnaires. These recommendations aim to improve the key factors affecting the performance of financial intermediaries:

Recommendation 1: The solid conceptual and theoretical foundation that results from the extensive literature review is valuable. As a result, it is recommended that future researchers should use this methodology as little research exists on hedge funds and collective investment schemes.

Recommendation 2: Several factors influencing the performance of financial intermediaries in the South African insurance sector were found to have varying importance. To achieve financial intermediaries' success, management should take steps to address the variables that achieved less than 60% minimum level in the mean results.

Recommendation 3: Conclusion 3 indicates that participants consider the independent variables to be unsatisfactory. Therefore, it is recommended that financial intermediaries should establish a market regulatory framework that is effective and efficient to ensure it complies with sectoral laws applicable to the financial intermediaries.

Recommendation 4: This research indicates that both the average and overall average values fall short of the required standards. The study participants expressed the opinion that a new conceptual framework should be developed to:

- distribute precious resources empirically in addressing the issues that would enhance the performance of financial intermediaries in South Africa's insurance sector;
- be used as a tool to comprehend the concept of the financial intermediaries' success in the insurance industry in South Africa; and
- put into practice to address the critical problem of factors that influence the performance of financial intermediaries in the South African insurance sector.

Recommendation 5: The statistical validation of the questionnaire, which was created using a literature review and measurement criteria, demonstrates its validity and reliability. As a result, using theory to develop a questionnaire is strongly advised.

Recommendation 6: In light of the validity of the questionnaire, it is advisable that:

- questionnaires should be firmly rooted in established models, as they provide both depth and organisation;
- the Likert scale should be employed; and
- the methods utilised to validate a questionnaire should adhere to a scientific approach.

Recommendation 7: While all of these constructs hold significance, certain ones are more critical than others. Therefore, the suggestions emphasize the importance of making sure that no constructs are neglected in managerial interventions.

Recommendation 8:

All factors exhibited high-reliability coefficients. Thus, it is recommended that they should be addressed on a managerial level regarding their importance to the business.

Recommendation 9: The following three factors, though removed after the purification process, should still be addressed by managerial intervention when evaluating business success in South Africa's microinsurance industry:

Market conduct regulatory

- Keeping abreast with legislation improves the effectiveness of market conduct regulatory requirements.
- Competence and training will help employees who are in complying functions to be adequately trained and perform their roles in a way that achieves market conduct regulatory obligations.

Challenges

- Financial intermediaries must consider after-sales once the product has been purchased by the customers.

Financial inclusion: Individuals must be included in the financial system.

- *Financial literacy:* Financial literacy is hampered by a lack of understanding of financial terminology and a lack of awareness of financial intermediaries and financial services providers. Women are also disadvantaged due to a lack of understanding of credit processes and the role of credit bureaus.
- *Financial services providers' attitudes:* To increase its share of women-owned businesses, financial intermediaries must consider a specific programme, such as the Gender Entrepreneurship Markets (GEM) programme on behalf of the Gender and Women's Economic Empowerment Unit of the Department of Trade and Industry

- *Inadequate products*: Financial services products, including savings products, are frequently unaffordable, and the emphasis on collateralised and asset-based lending precludes most women from obtaining business loans.

Recommendation 10: The final suggestion is that the conceptual framework should be used as a tool to gain a better understanding of the factors to consider that enhance financial intermediaries' performance in the South African insurance industry.

7.4 Limitations

Limitations in research refer to the constraints of the study. The researcher acknowledges the potential challenges and constraints encountered during the research process. The limitations of this study include Women in this study were not truly represented by the sample (Smith et al., 2020).

Measurement tools for factors like Product and People exhibited low internal consistency, indicating inaccuracies in capturing key attributes (Smith et al., 2020). Additionally, the rapidly evolving financial markets may impact the relevance of the study's recommendations over time (White, 2021). The scope of risk factors considered might be limited, and technological constraints could affect the depth of risk assessments (Lee, 2022). Behavioural and psychological factors influencing risk tolerance may not be fully addressed, and changing regulatory conditions might render some recommendations outdated (White, 2021). Practical implementation challenges, staff training issues, and potential biases in data interpretation also limit the study's effectiveness (Green et al., 2017)

7.5 Future Research

It is acknowledged that this research study had several limitations; however, this may provide an opportunity for future researchers to investigate other constructs in hedge funds and collective investment schemes. Future research may focus solely on the influence of market regulatory challenges faced by financial intermediaries.

7.6 Contribution of the Study

To the best of my knowledge, this dissertation is the first in-depth look at the factors impacting the financial performance of financial intermediaries in the South African insurance sector. The data used and analysis performed in this study considerably contribute to the present body of knowledge on the insurance business. To begin, the study investigated critical literature in the insurance sector, descriptive analysis, correlation, and regression analyses, as well as Bartlett's sphericity test to determine the influence of explanatory factors impacting financial intermediary performance. The importance of such analyses lies in that they aid the comprehension of the range and impact of regulatory policies (regulatory) in improving the financial performance of financial intermediaries. Second, this study provides the first empirical evaluation of financial performance in the insurance business, which is critical to recognise the ability of financial intermediaries' frontliners to minimise costs while maximising both investment revenue and insurance premiums. When developing a conceptual framework based on empirical study into the elements that influence the performance of South African financial intermediaries, this research adds to the current knowledge gaps stated in Chapter 1. The framework identified different factors that influence the performance of financial intermediaries in the South African insurance sector.

7.7 Synopsis

This study aimed to develop a conceptual framework aimed at understanding the key factors affecting the performance of financial intermediaries in the South African insurance sector. An integrated approach drawing on theories and economic literature was employed to identify these factors. Structural Equation Modeling (SEM) was utilised to uncover key constructs that directly influence financial intermediation performance. Prior to applying SEM, confirmatory factor analysis was conducted, which validated the presence of both convergent and discriminant validity. The KMO indices and Bartlett's test of sphericity indicated that the data collected were appropriate for factor analysis. Ultimately, the study's most significant contribution is the development of a conceptual framework illustrating the factors that affect the performance of financial intermediaries

within the South African insurance sector. This sector plays a vital role in alleviating poverty in South Africa, and it is essential for financial service providers to invest time in behavioural change to better serve low-income consumers. Success in the insurance sector is linked to several elements, including regulation, product innovation, consumer intentions and behaviours, and economic growth.

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APPENDICES

Appendix A Informed Consent Form

Informed Consent Letter 2C

UNIVERSITY OF KWAZULU-NATAL
GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP



Doctor in Business Administration (DBA) Research Project Researcher: Mompoti Cedrick Mathisa

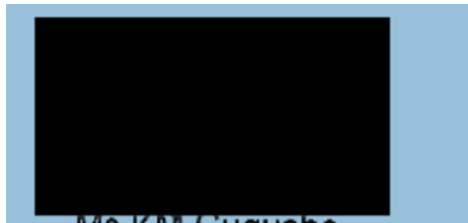
Supervisor: Prof.Z. Chummun (031 260 8943)

Research Office: Ms Z.Mojapelo (031-260 2784)

Dear Respondent,

I Mompoti Cedrick Mathisa, Student no. 221072129 a DBA (Doctor in Business Administration), at the Graduate School of Business and Leadership, of the University of KwaZulu Natal. You are cordially invited in a research project entitled “Conceptual framework for factors that influence performance of financial intermediaries in South African Insurance Sector”. The purpose of the study is to develop a conceptual framework for factors that influence performance of financial intermediaries in South African Insurance Sector. There is a need to fill the above-mentioned empirical knowledge gap in developing the above framework. With the aim to make a practical contribution towards assembling a framework for financial intermediaries. Your participation in this project is completely voluntary. You may refuse to participate or withdraw from the project

at any time with no negative consequence. There will be no monetary gain from participating in this questionnaire. Confidentiality and anonymity of records identifying you as a participant and that may lead to your traceability are not required on this questionnaire. All the completed questionnaires will be maintained by the Graduate School of Business and Leadership, UKZN. The results of the study are intended to be used for compilation of my dissertation as a requirement to achieve a Doctorate Degree. The questionnaire should take you about 10 minutes to complete. I would like to appreciate and thank you in advance for your interest, time and support for participating on this research. If you would like to be informed of the final research findings, please contact Mompoti Cedrick Mathisa on [REDACTED] / 011 664 6446 or 221072129@stu.ukzn.ac.za Should you have concerns about the way in which the research has been conducted, you may contact Dr Bibi Zaheenah Chummun on 031 260 8943 or via e-mail chummumb@ukzn.ac.za.



Mompoti Cedrick Mathisa :

NB: Participant's Copy.

UNIVERSITY OF KWAZULU-NATAL
AND
LEADERSHIP

GRADUATE SCHOOL OF BUSINESS



Doctor in Business Administration (DBA) Research Project Researcher: Mompoti Cedrick Mathisa

Supervisor: Prof B.Z. Chummun (031 260 8943)

Research Office: Ms Z.Mojapelo (031-260 2784)

CONSENT

I (full names of participant) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.

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

Signature of participant: Date:

NB: Researcher's Copy

Appendix B Questionnaire

The following questionnaire deals with your views on financial intermediaries in the South African Insurance Sector.

DEMOGRAPHICS

Mark the description most appropriate to your situation with an **X**

1. Please indicate your role in the organisation

Divisional Executive	
Head of Department	
Manager	
Specialist	
Senior Analyst	
Analyst	
Junior Analyst	

2. Level of experience

Less than 3 years	
Between 3 and 5 years	
Between 6 and 10 years	
More than 10 years	

3. Level of education

Postgraduate Diploma	
Bachelor's Degree	

Honour's Degree	
Master's Degree	
PHD Degree	

4. Please indicate your gender

Male	
------	--

Female	
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SECTION A: FACTORS AFFECTING PERFORMANCE

PRODUCT		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
	Market Conduct Regulatory believe that.....					
5	Financial intermediaries offer enough information about their product features	1	2	3	4	5
6	Financial intermediaries promptly provide information to its customers	1	2	3	4	5
7	Financial intermediaries provide policy agreement of the insurance cover in a simple and understandable language to comply with FAIS regulation	1	2	3	4	5
8	Financial intermediaries provide awareness and benefits of the product to its customers	1	2	3	4	5
9	Financial intermediaries sell insurance products that are unsuitable to its customers	1	2	3	4	5
10	Financial intermediaries provide more attractive products in the insurance sector to its customers	1	2	3	4	5

11	Financial intermediaries need to come with innovative products in the insurance sector to meet the customers' needs	1	2	3	4	5
12	Financial intermediaries oversell its product to achieve sales targets	1	2	3	4	5

PRODUCT		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
13	In the next 12 months I intend to purchase non-life insurance product	1	2	3	4	5

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
	Individual opinion					
14	In my opinion, I often read and acquaint myself with different products offered by insurance providers	1	2	3	4	5
15	In my opinion, I am always verifying the product offered by the financial intermediaries is authorised by the market conduct regulator	1	2	3	4	5
	PRICE					
	Market Conduct Regulatory believe that.....					
16	Financial intermediaries provide a more affordable product price for its customers	1	2	3	4	5
17	Financial intermediaries should educate its customers with all available options regarding pricing of its products	1	2	3	4	5

18	Financial intermediaries should use a bundle service to its customer looking for value	1	2	3	4	5
19	Financial intermediaries prices on their products must be regulated by the market conduct regulatory	1	2	3	4	5
20	Financial intermediaries should adopt a predatory strategy on a new product introduced for its customers	1	2	3	4	5

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
21	Financial intermediaries should adopt low price level on a new product	1	2	3	4	5
22	Financial intermediaries should adopt a high price level on a new product to have a positive impact on their profit margin	1	2	3	4	5
	PROCESSES					
	Market Conduct Regulatory believe that.....					
23	Financial intermediaries are executing innovative processes for their product in the market	1	2	3	4	5
	Individual opinion					
24	In my opinion, I think there is a need to review process of information by financial intermediaries to be efficient for customers	1	2	3	4	5
25	In my opinion, I think financial intermediaries have good process in place to achieve its objective to deliver its product to customers.	1	2	3	4	5

26	In my opinion, I think financial intermediaries have good system in place to achieve its objective to deliver its product to customers.	1	2	3	4	5
	PEOPLE					
	Market Conduct Regulatory believe that.....					
27	Do you think employees of financial intermediaries represent the organisation well when offering products to the customers	1	2	3	4	5

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
28	Do you think financial intermediaries provide a professional marketing of products to its customers	1	2	3	4	5
	MARKET CONDUCT REGULATION					
	Market Conduct Regulatory I work for.....					
29	Communicates with financial intermediaries about regulatory developments locally and international	1	2	3	4	5
30	Do you think financial intermediaries requires a new comprehensible framework in the insurance sector	1	2	3	4	5
31	Do you think financial intermediaries comply with existing market conduct regulation , laws, and regulation in the insurance sector	1	2	3	4	5
	Individual opinion					
32	In my opinion, I often read and acquaint myself with legislative framework relevant to the financial intermediaries.	1	2	3	4	5

33	In my opinion, do you believe that the regulatory framework that is applicable to the insurers is justifiable?	1	2	3	4	5
	MARKET CONDUCT ASSESSMENT	Strongly	Disagree	Not	Agree	Strongly agree
	Market Conduct Regulatory I work for.....					
34	Financial intermediaries deliver fair outcomes to customers	1	2	3	4	5
35	Financial intermediaries complying with the law	1	2	3	4	5

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
36	Financial intermediaries ensure that all products offered to the customer are risk rated	1	2	3	4	5

MARKET CONDUCT PRINCIPLES		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
Market Conduct Regulatory believe that.....						
37	Financial intermediaries conduct business according to high standards of honesty and fairness	1	2	3	4	5
38	Financial intermediaries engage in active and fair competition	1	2	3	4	5
39	Financial intermediaries achieve compliance with these principles of ethical market conduct	1	2	3	4	5
Market Conduct Regulatory believe that.....		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
40	Financial intermediaries current legislative framework is considered to be inconsistent	1	2	3	4	5
Market Conduct Regulatory believe that.....		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
41	Financial intermediaries regulatory approach change is needed in the insurance sector	1	2	3	4	5

42	Financial intermediaries regulatory approach change will introduce a distinct shift in the manner and approach to the regulation and supervision to ensure compliance	1	2	3	4	5
43	Financial intermediaries market conduct is not just about regulatory compliance. It is, in fact, more important to building a sustainable business	1	2	3	4	5

SECTION B : EFFECTIVE OF SAFEGUARDS

Market Conduct Regulatory believe that.....		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
44	Financial intermediaries market conduct regulatory obligation is effective	1	2	3	4	5
45	There is a decrease in penalties or fines impose to the financial intermediaries by the regulators	1	2	3	4	5
46	There is an increase in penalties or fines impose to the financial intermediaries by the regulators.	1	2	3	4	5
47	Financial intermediaries monitor their complaints register to ensure it measure market conduct	1	2	3	4	5
48	Financial intermediaries monitor their market conduct culture	1	2	3	4	5

SECTION C : THE LEVEL OF RISK TOLERANCE

Top Management		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
Market Conduct Regulatory believe that.....						
	Individual opinion					

49	I assess my own risk tolerance when making recommendations	1	2	3	4	5
50	My risk tolerance influences my decision-making	1	2	3	4	5
51	I use specific tools to measure my risk tolerance	1	2	3	4	5
52	Is it important for financial intermediaries to align risk tolerance with client needs	1	2	3	4	5
53	I manage my risk tolerance and improve my risk management practices	1	2	3	4	5

SECTION D: STRATEGIES TO ENHANCE SAFEGUARDS

54	54. To what extent do you agree that advanced technological solutions enhance safeguards?	1	2	3	4	5
55	55. Do financial services providers review and update compliance protocols?	1	2	3	4	5
56	56. Should financial intermediaries ensure capital adequacy and high customer satisfaction to retain client	1	2	3	4	5

Appendix C Gatekeepers Letters



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Menlo Park
0102

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Email. info@fsc.co.za
Website. www.fsc.co.za

To: Whom it may concern

Date: 20 May 2022

PERMISSION TO CONDUCT RESEARCH AT FINANCIAL SECTOR CONDUCT AUTHORITY

This letter serves to confirm Mr. Mompoti Cedrick Mathisa has been granted permission to conduct research in support of (DBA) Doctorate in Business Administration at University of Kwazulu-Natal.

The following condition will apply:

- The research for academic purposes is approved on condition the employee will share his finding with the organisation.

Kind Regards

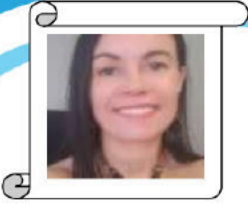


HUMAN RESOURCES

Appendix D Certificate for Language Editing

18 Languedoc Street
Bayswater
Bloemfontein
9301
Cell: [REDACTED]

**PROFESSIONAL
LANGUAGE
EDITING SERVICES**



*STRIVING
FOR
EXCELLENCE*

BA- English major; BA Hons. Integrated Organisational Communication; PGCE Certificate; TESOL Cert; UCT Cert. in Copy-Editing; UFS Advanced Cert. in Labour Law

SPECIALISING IN THE LANGUAGE EDITING OF THESES, DISSERTATIONS, JOURNAL ARTICLES, PROPOSALS, POLICIES AND PUBLICATIONS.

CERTIFICATE FOR LANGUAGE EDITING: PHD

A Conceptual framework for factors that influence performance of financial intermediaries in the South African Insurance Sector

Mompati Cedrick Mathisa

STUDENT NUMBER: 221072129

UNIVERSITY OF KWAZULU-NATAL

This is to certify that Mompati Cedrick Mathisa's thesis submitted in fulfillment of the requirements for the degree of Doctor of Business Administration in the School of Business, University of Kwazulu-Natal: A Conceptual framework for factors that influence performance of financial intermediaries in the South African Insurance Sector was edited for language, grammar, structure, an automated table of contents, correcting of in-text references, list of references, and general layout and formatting.

The editor will not be held responsible for any changes made after editing. The client must review edits and is free to accept or reject any changes. Furthermore, the editor makes no claims of accuracy on the research content. The editor will not be held liable for whether the client passes or fails.

E. Kassim ID: [REDACTED] **DATE: 03/10/2024**

THANK YOU FOR YOUR SUPPORT

Appendix E Ethical Clearance



17 June 2022

Cedrick Mathisa (221072129)
Grad School of Bus & Leadership
Westville Campus

Dear C. Mathisa,

Protocol reference number: HSSREC/00004309/2022

Project title: Conceptual framework for factors that influence performance of financial intermediaries in South African insurance sector

Degree: DBAD

Approval Notification – Expedited Application

This letter serves to notify you that your application received on 10 June 2022 in connection with the above, was reviewed by the Humanities and Social Sciences Research Ethics Committee (HSSREC) and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number. **PLEASE NOTE:** Research data should be securely stored in the discipline/department for a period of 5 years.

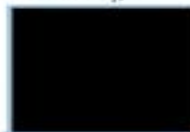
This approval is valid until 17 June 2023.

To ensure uninterrupted approval of this study beyond the approval expiry date, a progress report must be submitted to the Research Office on the appropriate form 2 - 3 months before the expiry date. A close-out report to be submitted when study is finished.

All research conducted during the COVID-19 period must adhere to the national and UKZN guidelines.

HSSREC is registered with the South African National Research Ethics Council (REC-040414-040).

Yours sincerely,



Professor Dipane Hlalele (Chair)

/dd

Humanities and Social Sciences Research Ethics Committee

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Founding Campuses:  Edgewood  Howard College  Medical School  Pietermaritzburg  Westville

INSPIRING GREATNESS