




Exploring Factors that Affect the Performance of Financial Intermediaries in the Insurance Sector

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ABSTRACT

This article evaluates the prominent factors affecting financial intermediaries' performance in the insurance industry. It is widely accepted that the performance of financial intermediaries in the insurance industry contributes to both industrial expansion and an increase in the market value of financial service providers. Surprisingly, there is not much research on financial intermediaries' ability to identify obstacles that hinder their effectiveness. This study thus sought to provide strategies for financial services providers, insurance conglomerates, and senior management to gain a broad understanding and thorough review of the important influential factors that should be considered to enhance the performance of financial intermediaries in the insurance sector. To investigate the factors that enhance the performance of financial intermediaries, a close-ended questionnaire was developed in which 300 responses were collected at a market conduct authority. A quantitative approach was judiciously selected to analyse the data and identify the relationship between several factors. Using logistic regression models, key socioeconomic characteristics impacting the performance of financial intermediaries were identified including organisation, gender, education, level of education, and experience. By examining the interplay of regulatory frameworks, market conditions, and managerial practices, the study identified key drivers and barriers to success in this industry. It is recommended that future researchers adopt the strategies to further explore the complexities surrounding hedge funds and collective investment schemes. The findings of the study may aid in the development of future innovative product designs for financial intermediaries in the insurance sector.

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INTRODUCTION

Financial intermediaries perform the role of the financial system in mobilising savings, risk transfers, and intermediation, particularly in the insurance industry. Essentially, financial intermediaries channel funds and shift risks from one economic unit to another to facilitate trade and resource allocation. According to Almajali *et al.*, to assess financial intermediaries' profiles more accurately and determine the degree of knowledge regarding their performance, financial intermediaries need to be fully informed about their sector.¹ They offer services that enhance the whole insurance business, making it easier for customers and financial service providers to purchase insurance products. The primary purpose of

¹ Amal Yassin Almajali, Sameer Ahmed Alamro, and Yahya Zakarea Al-Soub, "Factors Affecting the Financial Performance of Jordanian Insurance Companies Listed at Amman Stock Exchange," *Journal of Management Research* 4, no. 2 (2012): 266.

financial mediators in the broader economy is to ensure that insurance products are widely accessible, thereby increasing the positive effects of insurance in general in risk-taking, investment, meeting basic societal demands, and economic growth. Without the risk protection provided by insurance companies, the commercial industry would slow to a halt; yet there are financial rewards for organisations and individuals that such growth offers.² Therefore, on both national and international levels, financial intermediary activity benefits the entire economy.

The focus of this paper is on financial intermediaries' performance. A study of this nature is crucial since financial intermediaries dominate the insurance sector everywhere except in South Africa.³ As a result, such a scope provides a wider application for the paper. Specifically, the objective of this study is to investigate factors that enhance the performance of financial intermediaries, and further identify the variable determinants that would influence the performance of financial intermediaries in South Africa. Based on empirical evidence, theories, and models, the study seeks to discover a relationship between financial intermediaries and growth and development. In view of this, the following section of the paper details the corpus of scientific literature, followed by an explication of the conceptual framework supporting the study, the methodology, empirical data, and analysis. The paper concludes with several recommendations aimed at improving the performance of financial intermediaries in the South African insurance sector.

LITERATURE REVIEW

A significant number of previous studies on firms' performance have discovered several variables that empirically influence financial intermediaries' performance and success. Krishnan and Moyer found a negative and substantial association between leverage and business performance, while other factors influencing financial intermediaries' performance include expansion, tax, and risk.⁴

Financial Intermediaries' Performance

According to Sambasivam *et al.*, money is the primary stimulus for the economy, making the function of financial intermediaries critical in encouraging economic growth.⁵ Scholtens and Van Wensveen asserted that financial intermediaries emerge to alleviate the problem of market imperfections by supplying information and lowering the cost of receiving information.⁶ As intermediaries, they gather and analyse documentation on behalf of depositors and investors.⁷ In this context, financial intermediaries aid and promote a country's economic growth and development. They offer the necessary funds for productive activities, which boost aggregate output and economic growth. Moreover, financial intermediaries work hard to attract surplus funds to redirect them to consumers, businesses/entrepreneurs, and the government for investment objectives.⁸ Haiss and Sümegi opined that the function of financial intermediaries in the insurance industry is indispensable since it promotes economic development, enables optimal resource allocation, and reduces the cost of transactions.⁹

Financial Intermediaries' Leverage

Leverage is the ratio of debt to equity in the capital structure of a financial service provider. According to Pandey, the debt-equity ratio influences the payments of dividends, capital costs, and the market value

² Bibi Z Chummun, "An Analysis of the Development Influences of the Low-Income Cover Market-End in South Africa," *African Journal of Science, Technology, Innovation and Development* 9, no. 6 (2017): 795–802.

³ Valentina Flamini, Calvin A McDonald, and Liliana B Schumacher, "The Determinants of Commercial Bank Profitability in Sub-Saharan Africa," 2009.

⁴ V Sivarama Krishnan and R Charles Moyer, "Performance, Capital Structure and Home Country: An Analysis of Asian Corporations," *Global Finance Journal* 8, no. 1 (1997): 129–43.

⁵ Yuvaraj Sambasivam and Abate Gashaw Ayele, "A Study on the Performance of Insurance Companies in Ethiopia," *International Journal of Marketing, Financial Services & Management Research* 2, no. 7 (2013): 138–50.

⁶ Bert Scholtens and Dick Van Wensveen, *The Theory of Financial Intermediation: An Essay on What It Does (Not) Explain* (SUERF Studies, 2003).

⁷ Bibi Z Chummun and Ansh Singh, "Factors Influencing the Quality of Decision-Making Using Business Intelligence in a Metal Rolling Plant in KwaZulu-Natal," *Journal of Reviews on Global Economics* 8 (2019): 1108–20.

⁸ Isabella Chepngetich Too and Eddie Simiyu, "Firms Characteristics and Financial Performance of General Insurance Firms in Kenya," *International Journal of Business Management & Finance*, 1 (39): 672–89 (2018).

⁹ Kjell Sümegi and Peter Haiss, "The Relationship of Insurance and Economic Growth-a Theoretical and Empirical Analysis" (EcoMod, 2006).

of the financial service provider.¹⁰ A higher ratio indicates the inability of financial service providers to meet their liquidity requirements, which compels them to take on further debt. A greater loan ratio, however, could lead to higher profitability because the financial services providers hold more interest-bearing assets if they practice appropriate risk management. In contrast, financial service providers with less liquid assets may have lower profitability.¹¹ The reason for this is that their loan-to-asset ratios are larger.

Financial Intermediaries' Liquidity

Liquidity, as defined by the International Financial Reporting Standards, is the sum of money that will be available for use after all associated financial obligations have been fulfilled.¹² The 2008 theory of Liargovas and Skandalis suggested that financial intermediaries can finance their operations and investments with liquid assets. Increased liquidity during financial difficulties might assist financial intermediaries in meeting obligations and handling unforeseen circumstances. The liquidity of financial intermediaries significantly affects the company's financial performance.¹³ As a result of the favourable correlation between liquidity and overall financial success, financial services providers should raise current assets and decrease current liabilities.

Financial Intermediary's Size

Athanasoglou *et al.* claimed that expanding a financial intermediary's size enhances its financial performance.¹⁴ Financial intermediaries have the power to impact fundamental aspects of a company, such as the need for external capital and size. When a financial intermediary reaches a certain magnitude, borrowings become unnecessary once a financial intermediary reaches a particular size since the cash generated from internal operations is enough to support planning decisions.¹⁵

Financial Intermediaries' Profitability

The profitability of financial intermediaries is impacted by the retention ratio. The retention ratio is the portion of the underwritten business that is not sold to reinsurers. A higher retention ratio and a lower claims ratio are likely to have a positive impact on the performance of financial intermediaries. According to a research conducted by Pervan *et al.*, the claim ratio has a considerable detrimental effect on profitability. They also demonstrated how age and market share have a substantial impact on the financial success of financial intermediaries.¹⁶

Financial Intermediaries' Return On Assets

Return on assets (ROA) is utilised to quantify the efficiency of the financial intermediaries in making returns by benefiting from their assets.¹⁷ Financial intermediaries are in a strong position in terms of financial performance, as seen by the higher ROA, which is the ability of a financial intermediary to create income for a predetermined period due to the higher rate of return on investments. This study uses return on assets to evaluate financial intermediaries as a factor impacting financial performance.

¹⁰ I. M. Pandey, *Financial Management*, 9th ed. (New Delhi, US.: Vikas, 2018).

¹¹ Philip Bourke, "Concentration and Other Determinants of Bank Profitability in Europe, North America and Australia," *Journal of Banking & Finance* 13, no. 1 (1989): 65–79.

¹² International Financial Reporting Standards (IFRS), "An AICPA Backgrounder" (AICPA, 2018).

¹³ Almajali, Alamro, and Al-Soub, "Factors Affecting the Financial Performance of Jordanian Insurance Companies Listed at Amman Stock Exchange."

¹⁴ P. P. Athanasoglou, S. N. Brissimis, and M. D. Delis, "Bank-Specific Industry Specific and Macroeconomics Determinants of Bank Profitability," Bank of Greece, 2005.

¹⁵ R. Albuquerque and H. Hopenhay, "Financial Intermediary Capital. On The Evolution Of The Firm Size Distribution: Facts And Theory," 2004.

¹⁶ Maja Pervan, Marijana Ćurak, and Ivana Marijanović, "Dynamic Panel Analysis of B&H Insurance Companies' Profitability," in *4th WSEAS World Multiconference on Applied Economics, Business and Development (AEBD'12)*, 2012, 158–63.

¹⁷ Becker Friedman Institute (BFI), "The Role of Intermediaries in Asset Pricing," 2017, <https://bfi.uchicago.edu/news/the-role-of-intermediaries-in-asset-pricing>.

Financial Intermediaries' Soundness

Financial soundness uses indications from the markets in which financial intermediaries participate to measure the present state of their financial health.¹⁸ International Monetary Fund Report stated 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.¹⁹ As a rule, financial intermediaries must abide by the financial soundness requirements that are relevant to their licensing.²⁰ Financial intermediaries must also carefully handle their financial duties. Therefore, having adequate financial resources to carry out their services is one of the general criteria for financial intermediaries.

Influential Factors that Enhance the Performance of Financial Intermediaries

According to Mehari and Aemiro, various techniques can be used in financial intermediation marketing strategies to raise consumer awareness of financial products and services offered by financial intermediaries.²¹ To generate leads that will become new consumers, numerous advertising campaigns are launched. The influential factors that drive the financial success of financial intermediaries are people, price, product, and process.²²

People

The first element of marketing is people. People are an organisation's most valuable resource.²³ They play a crucial role in service delivery, influencing customers' impressions in the process. People include the staff of the service business, the client, and other clients in the service setting. Employees of financial intermediaries are the most precious resource and can affect how customers view the business. Financial services providers will become more profitable if they value their employees who play a crucial part in the success of the business. In this study, people, as one of the four Ps of marketing, will be examined as an influential factor that enhances the performance of financial intermediaries in the insurance sector.

Price

The second element of the marketing mix is the price a client must pay for the services provided by financial intermediaries.²⁴ As a result, frequent or ongoing charge reduction might be used in this competitive market among several financial services providers as a strategy to draw customers. Hamal argued that price is a crucial component of the marketing mix since it directly affects financial intermediaries' market share, product positioning, customer loyalty and competitiveness.²⁵ In this study, price, as one of the four Ps of marketing, will be examined as a factor that enhances the performance of financial intermediaries in the insurance sector.

Product

The third element and the main component of the marketing mix, as per the product.²⁶ As a result, the marketing plan must include any services or goods provided by insurance companies. To be effective, a financial intermediary's product or service needs to highlight the advantages offered to the client. As a result, consumers must trust insurance companies before purchasing an item or service. In this study, product, as one of the four Ps of marketing, will be examined as a factor that enhances the performance of financial intermediaries in the insurance sector.

¹⁸ Asian Development Bank Report, "Detailed Record of ADB's Operations, Activities, and Financial Results over the Year," 2018, <https://www.adb.org/sites/default/files/publication/173663/fsi-viet>.

¹⁹ International Monetary Funds (IMF), "Compilation Guide On Financial Soundness Indicators. [Http://Www. Imf. Org/External/Np/Sta/Fsi/Eng/2020/Guide/Index.Htm](http://www.imf.org/External/Np/Sta/Fsi/Eng/2020/Guide/Index.Htm)," 2020.

²⁰ Masthead, "Factors That Every Financial Advisor Must Consider When Doing A Client's Risk Profile," 2019.

²¹ Daniel Mehari and Tilahun Aemiro, "Firm Specific Factors That Determine Insurance Companies' performance In Ethiopia," *European Scientific Journal* 9, no. 10 (2013).

²² Emmanuel Addai Kwaning, Paul Kwame Awuah, and Baba Michael Mahama, "Factors Affecting Financial Performance of Non-Life Insurance Companies in Ghana.," *ADRRJ Journal (Multidisciplinary)* 25, no. 3 (2015): 19–37.

²³ Philip Kotler and Gary Armstrong, *Principles of Marketing* (Pearson education, 2010).

²⁴ Kotler and Armstrong, *Principles of Marketing*.

²⁵ Janga Bahadur Hamal, "Impact of Firm Specific Factors on Financial Performance of Life Insurance Companies in Nepal," *Interdisciplinary Journal of Management and Social Sciences* 1, no. 1 (2020): 39–52.

²⁶ Kotler and Armstrong, *Principles of Marketing*.

Process

The final element of the marketing mix is the process. To provide customers with information that allows them to assess the quality of service, the process outlined by Kotler and Armstrong includes the precise actions, mechanisms, and activity flow used to provide the service.²⁷ The outcome of the insurance procedure is determined by how well the client and the financial service provider negotiate from the outset until the policy is issued. In this study, process, as one of the four Ps of marketing, will be examined as a factor that enhances the performance of financial intermediaries in the insurance sector.

Financial Intermediaries' Market Conduct Principles

Financial intermediaries must deliver precise, well-defined fairness outcomes for their clients. As a result, market conduct principles are an outcomes-based regulatory and supervisory strategy.²⁸ Strong market conduct policy frameworks should enable the monitoring of the extent to which desired policy outcomes in the financial service sector are being achieved. Financial intermediaries must ensure that preventative measures are taken to mitigate the risk of poor outcomes and ensure that corrective measures are taken when poor outcomes are produced. Financial intermediaries and service providers must demonstrate to their clients that they deliver the desirable outcomes at every stage of the product lifecycle, encompassing design, promotion, advice, servicing, and addressing complaints and claims.

Financial Intermediaries' Market Conduct Assessment

The 2018 KPMG Market Report stated that market conduct assessment is intended to be the first phase in the conduct evaluation of financial intermediaries. A financial intermediary's operating framework and strategy are meant to detect underlying market behaviour risk and its materiality. Financial intermediaries can decide whether to create a separate market conduct risk analysis or to include the relevant risk analysis with the necessary dimensions in the overall compliance risk assessment. The results of the risk analysis should be used to help management decide if it is necessary to implement new or additional control mechanisms or whether to execute the risk strategy.

Financial Inclusion

Financial inclusion refers to the process through which society gains access to various financial services (savings, insurance, and pension services) as well as financial education mechanisms.²⁹ Financial inclusion refers to the endeavour to improve one's material well-being because of access. Specifically, financial inclusion in the insurance sector focuses on supplying goods to lower-income groups of society.³⁰ This allows individuals to protect their lives, health, and investments by utilising the savings and loss compensation methods that are inherent in insurance products.

Financial Intermediaries' Market Conduct Regulatory Framework

South Africa's creation of a new market conduct regulatory framework is part of the country's financial sector regulatory reform toward the Twin Peaks model. As a result, market conduct regulation is the way a financial intermediary interacts with its customers. Keeping abreast with legislation improves the effectiveness of market conduct regulatory requirements.

Financial Intermediaries' Challenges

MAPFRE Economics contended that, due to increased compliance requirements and business complexity, financial intermediaries must build many internal assurance providers and rely on external assurance providers.³¹ These assurance providers are responsible for measuring and reporting risks, identifying control gaps, tracking remediation, and determining whether control processes are operating effectively in specific areas.

²⁷ Kotler and Armstrong, *Principles of Marketing*.

²⁸ Financial Sector Conduct Authority (FSCA), "FSCA Financial Inclusion Strategy," 2022, <https://www.fsc.co.za/Customers/Pages/Unclaimed-Benefits.aspx>; Downloaded On 2022-05-21].

²⁹ Mapfre Economics, *Economic And Industry Outlook: Second Quarter Perspectives* (Madrid: Fundación Mapfre, 2020).

³⁰ Zaheenah B Chummun and Christo A Bisschoff, "A Theoretical Model to Measure the Business Success of Micro-Insurance (MI) in South Africa," *Journal of Economics* 5, no. 1 (2014): 87–96.

³¹ Mapfre Economics, *Economic And Industry Outlook: Second Quarter Perspectives*.

CONCEPTUAL MODEL

A conceptual framework is described as a narrative structure that highlights the key factors to be investigated and the theories that link them.³² The conceptual framework comprises theories, concepts, and empirical data from the literature and is used to explain how various viewpoints are related and how they impact the research investigation.³³ This study focused on the factors that improve financial intermediaries in the South African insurance market. Therefore, a methodical approach to theories, performance-enhancing elements, and the marketing mix were investigated.

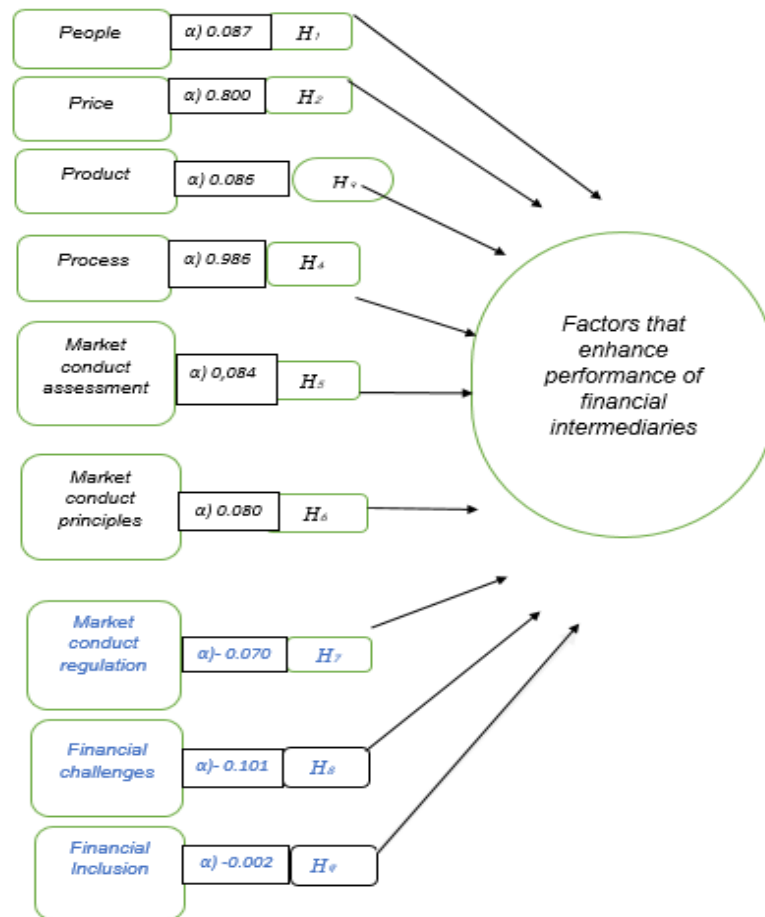


Figure 1: Authors' own construct

According to the results of the hypotheses testing, factors H₁ (people), H₂ (price), H₃ (product), H₄ (process), H₅ (market conduct assessment), and H₆ (market conduct principles) are supported and have a significantly positive effect as influential factors that enhance the performance of the financial intermediaries. Factors H₇ (market conduct regulation), H₈ (financial challenges), and H₉ (financial inclusion) are not supported by the study results on the grounds of negative impacts. The fact that the data for these factors returned values that are less than 0.000, respectively, indicates that sample adequacy was easily achieved.

Empirical Model

The current study analysed the important demographics as variables that would enhance the performance of financial intermediaries in the insurance sector. These variables were identified from a wide range of

³² Matthew B Miles and A Michael Huberman, *Qualitative Data Analysis: An Expanded Sourcebook* (Sage, 1994).

³³ Marlene Sinclair, "A Guide to Understanding Theoretical and Conceptual Frameworks," *Evidence-Based Midwifery* 5, no. 2 (2007): 39–40.

other similar studies across the continent.³⁴ Age, gender, education, and experience are important demographic characteristics that were discovered and examined in this study.

$$y_1 = b_0 + b_1x_1 + \epsilon_1$$

- Y_1 single exogenous variable
- single endogenous variable
- b_i , Y_1 regression coefficient
- b_0 , α_1 intercept of Y_1
- ϵ_1 , ζ_1 residual of Y_1
- Φ variance or covariance of exogenous
- Ψ residual variance or covariance of the endogenous variable

Where Y_1 is the binary logistic regression, the variable Y_1 represents factor enhancement, with a value of 1 if the respondent indicates yes or 0 if the respondent replies no. X represents (X_1 , a set of explanatory or independent variables that can be categorical, continuous, or a combination.

METHODOLOGY

Population and sample

The study was conducted following a quantitative research approach at a market conduct authority in South Africa. The market conduct authority's duties include promoting fair consumer treatment by financial institutions, enhancing the effectiveness and integrity of financial markets, promoting financial education and financial literacy, and assisting in the maintenance of financial stability. The market conduct authority was expanded by the FSRA (Financial Sector Regulation Act 1997) to cover banking services, financial services providers, and foreign exchange trading.³⁵ However, it requires a change in strategy from the conventional compliance-driven paradigm to one that is proactive, preventive, risk-based, and outcomes-focused. Importantly, the FSRA's overall goals include financial inclusion and financial sector modernisation. Therefore, those working at the market conduct authority's head of department, specialist, senior analyst, analyst, and junior analyst were the target population for this study. This process involved stratified random sampling as it had the advantage of being proportionally representative of the population while having less sample bias, and knowing exactly how representative the sample is.³⁶ The sample size calculator was used to get a sample size of 386 with a 90% confidence level. Before analysing the data, ethical considerations were prioritised to ensure the integrity and confidentiality of participants. Informed consent was obtained from all respondents, emphasizing their right to withdraw at any time without consequence. The anonymity of the participants was guaranteed, and the data collected was used solely for research purposes. A total of 300 replies from research participants were obtained from the questionnaires, yielding a good response rate.

In this study, data analysis was employed to establish coherence, foundation, and a sense of the data collected, as advocated by Bhattacharjee.³⁷ Moreover, data analysis was perceived as a procedure of conferring logic from the answers provided by the respondents in this study.³⁸ Parametric statistical tests—descriptive statistics—were used to examine numerical data from the market conduct authority. The data was then categorised into demographic scales and inferential statistics. A conclusion about the

³⁴ Parampreet Kaur, Jill Stoltzfus, and Vikas Yellapu, "Descriptive Statistics," *International Journal of Academic Medicine* 4, no. 1 (2018): 60–63.

³⁵ Mpho L Maluleka and Bibi Z Chummun, "Competitive Intelligence and Strategy Implementation: Critical Examination of Present Literature Review," *South African Journal of Information Management* 25, no. 1 (2023): 1610.

³⁶ Umeshkumar Dubey, Dwarkadas Pralhaddas Kothari, and G K Awari, *Quantitative Techniques in Business, Management and Finance: A Case-Study Approach* (Chapman and Hall/CRC, 2016).

³⁷ Anol Bhattacharjee, "Social Science Research: Principles," *Methods, and Practices*, 2012.

³⁸ Rajesh Kumar, "Development Communication: A Purposive Communication With Social Conscience-An Indian Perspective," *Global Media Journal: Indian Edition* 2, no. 2 (2011).

population was drawn based on the literature review and a sample of the data gathered from the questionnaires.

Measurement Instrument

A structured questionnaire was employed to collect primary data. A five-point Likert scale was used to create the measurement tools for the factors of the enhanced performance of financial intermediaries in the insurance sector. Table 1 lists the adopted measuring scales. To better understand the distinctive features that enhance the performance of financial intermediaries, the questionnaire included closed-ended questions and demographics.

Table 1: Measurement Scale

<p>Constructs</p> <p>Product Financial intermediaries offer enough information about their product features. Financial intermediaries provide an awareness and benefits of the product for its customers. Financial intermediaries provide more attractive products in the insurance sector for their customers.</p> <p>Price Financial intermediaries provide a more affordable product price for their customers. Financial intermediaries should adopt low price levels to have a positive impact on their profit margin. Financial intermediaries' prices on their products must be regulated by the market conduct regulatory body.</p> <p>Process Financial intermediaries are executing innovative processes for their products in the market. Do you think financial intermediaries have good processes in place to achieve their objective of delivering their products to customers? Do you think financial intermediaries have good processes in place to achieve their objective of delivering their products to customers?</p> <p>People Do you think employees of financial intermediaries represent the organisation well when offering products to the customers? Do you think financial intermediaries provide professional marketing of products to their customers?</p> <p>Market conduct regulation Do you think financial intermediaries comply with existing market conduct regulations, laws, and regulations in the insurance sector? Do you think financial intermediaries require a new comprehensible framework in the insurance sector? Do think there is enough communication with financial intermediaries about regulatory developments locally and internationally?</p> <p>Market conduct principles Financial intermediaries conduct business according to high standards of honesty and fairness. Financial intermediaries engage in active and fair competition. Financial intermediaries achieve compliance with these principles of ethical market conduct.</p> <p>Market conduct assessment Financial intermediaries' market conduct regulatory obligations are effective. There is a decrease in penalties or fines imposed on the financial intermediaries by the regulators. There is an increase in penalties or fines imposed on the financial intermediaries by the regulators. Financial intermediaries monitor their complaints register to ensure it measures market conduct. Financial intermediaries monitor their market conduct culture.</p>

Source: Calculated from survey results

Data Analysis

The Structural Equation Modelling (SEM) maximum likelihood method was used to investigate the factors that enhance the performance of financial intermediaries in the insurance sector. These factors

were empirically evaluated using Structural Equation Modelling, regression weights, and estimated regression weights. Structural Equation Modelling is used to describe simultaneous regression equations with latent variables. Structural Equation Modelling can be viewed as a specific instance of models, such as linear regression, multivariate regression, path analysis, confirmatory factor analysis, and structural regression. In Structural Equation Modelling, the following connections are conceivable: observables to observable variables (regression, for instance), latent to observed variables (confirmatory factor analysis, for example), and variables that are latent to latent variables (such as in structural regression). Niemelä-Nyrhinen and Leskinen stated that Structural Equation Modelling is a multivariate tool that is well suited for examining various hypothesised correlations among variables.³⁹ In Awang *et al.*'s view, SEM incorporates two distinct types of models: an estimation model and a structure-based model.⁴⁰ The first stage in Structural Equation Modelling describes the estimation model and conducts confirmatory factor analysis (CFA) to test for single dimensions, validity, and reliability of items measuring the latent components. Cronbach's alpha and composite reliability were used to assess the measurement items' reliability, while convergent and discriminant validity evaluations were performed to assess the measurement model's validity.

PRESENTATION OF RESULTS

This study set out to examine factors that enhance the performance of financial intermediaries in the insurance industry. The findings revealed that factors such as product, pricing, process, people, market conduct principles, and market conduct evaluation were statistically significant in affecting the performance of financial intermediaries in South Africa's insurance sector. A total of 300 participants' responses were collected for this investigation. For Westland, this degree of response, which is higher than the 250 thresholds (thought to be a minimum for such analyses), is deemed sufficient for Structural Equation Modelling analysis.⁴¹ The findings in this study included the participant profiles as well as their awareness of factors that influence financial intermediary performance in the South African insurance industry. The software package used was IBM SPSS Statistics 27 with a sample size of 125. The results are depicted in Table 2.

Table 2: Employees in relation to the position in an organisation (n 125)

Organisation	Frequency	%
Divisional executive	4	3.2
Heads of department	10	8
Manager	12	9.6
Specialist	25	20
Senior Analyst	20	16
Analyst	28	22.4
Junior analyst	26	20.8
Total	N = 125	100

Source: Calculated from survey results

Table 3: Employees' level of experience in an organisation (n 125)

Experience	Frequency	%
Less than 3 years	35	28
Between 3 and 5 years	33	26.4
Between 6 and 10 years	28	22.4
More than 10 years	29	23.2
Total	N = 125	100

³⁹ Jenni Niemelä-Nyrhinen and Esko Leskinen, "Multicollinearity in Marketing Models: Notes on the Application of Ridge Trace Estimation in Structural Equation Modelling," *Electronic Journal of Business Research Methods* 12, no. 1 (2014): pp3-15.

⁴⁰ Zainudin Awang et al., "Modeling Structural Model for Higher Order Constructs (HOC) Using Marketing Model," *World Applied Sciences Journal* 35, no. 8 (2017): 1434-44.

⁴¹ J Christopher Westland, "Structural Equation Models," *Stud. Syst. Decis. Control* 22, no. 5 (2015): 152.

Source: Calculated from survey results

Table 4: Employees' level of experience in an organisation (n 125)

Level of education	Frequency	%
Postgraduate Diploma	48	38.4
Bachelor's degree	44	35.2
Honours degree	22	17.6
Master's degree	11	8.8
Total	N = 125	100

Source: Calculated from survey results

Table 5: Employees gender in an organisation (n 125)

Gender	Frequency	%
Male	66	52.8
Female	59	47.2
Total	N = 125	100

Source: Calculated from survey results

This study examined seven different levels of market conduct authority employees, namely junior analysts, analysts, senior analysts, specialists, managers, heads of departments, and divisional executives. Based on the findings, specialists represented the highest percentage (26%) of respondents, followed by analysts and junior analysts (22.7%), and senior analysts (20%). A varied set of employees completed the questionnaire, ranging from divisional executives to the lowest-level positions at market conduct authority. Market conduct authority employees possess vast knowledge, abilities, and insight, and they offered exceptionally reliable information throughout this study. This research included five educational levels: postgraduate diploma, bachelor's degree, honours degree, master's degree, and doctoral degree. According to Table 2, the majority of respondents (35.7%) held a postgraduate diploma.

A bachelor's degree with a sample representation of 29% was the second most common level of education, followed by an honours degree with a sample representation of 27.7%, and a master's degree with a sample representation of 7%. From the findings, it can be concluded that the majority of respondents held a bachelor's degree. Employee qualifications confirmed that most of the selected employees met a recognised requirement qualification. The qualification level of the participants represents evidence that the majority of market conduct authority staff members had the relevant qualifications. In this study, two gender categories were used, namely male and female. This study further examined four levels of experience: less than three years, between three and five years, between six and 10 years and more than 10 years.

The study revealed that more than 28.3% of the participants had been with the market conduct authority for between three and five years. This means that participants had the right level of experience in the market conduct authority. While 22.7% had been with the market conduct authority for less than three years, 22.3% had been with the market conduct authority for six to 10 years, and 21.7% had been with the market conduct authority for more than 10 years. The gender composition of the sample, as can be seen in Table 5, was 40% female and 60% male. As a result, the majority of the respondents in this study were male.

Confirmatory Factor Analysis

Confirmatory factor analysis allows researchers to investigate the hypothesis that there is a relationship between identifiable variables and their core latent construct(s).⁴² Uncovering common factors is the goal of factor analysis. The factor extraction technique seeks to eliminate as much common variance as feasible from the initial factor. Direct extraction approaches use mathematical models to extract the

⁴² Awang et al., "Modeling Structural Model for Higher Order Constructs (HOC) Using Marketing Model."

factor matrix directly from the correlation matrix.⁴³ Confirmatory factor analysis was performed, and the assessment model was reviewed for potentially problematic estimates, particularly those with low loadings for variables. Factor analysis yielded 13 factors (also known as components) that were extracted from the 51 variables with eigenvalues exceeding 1 in Table 6. The method that was used to extract the components is the principal component analysis (PCA). The main aim is the “Extraction Sums of Squared Loadings” for interpretation purposes. Component 1 accounted for 16,798% of the total variance, component 2 accounted for 8.216% of the total variance, component 3 accounted for 7,377% of the total variance, component 4 accounted for 5,720% of the total variance, component 5 accounted for 4,688% of the total variance, component 6 accounted for 3,951% of the total variance, component 7 accounted for 3,685% of the total variance, component 8 accounted for 3,288% of the total variance, component 9 accounted for 3,207% of the total variance, component 10 accounted for 2,876% of the total variance, component 11 accounted for 2,502% of the total variance, component 12 accounted for 2,413% of the total variance, component 13 accounted for 2,208% of the total variance. The first 13 extracted components accounted for 66,928% of the total variance. The rest of the components were excluded from the study because they accounted for less than 34% of the total variance.

Table 6. Confirmatory factor analysis and variance explanation

Component	Total Variance Explained			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Initial Eigenvalues			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.									

⁴³ Tsutomu T Takeuchi, “Constructing a Bivariate Distribution Function with given Marginals and Correlation: Application to the Galaxy Luminosity Function,” *Monthly Notices of the Royal Astronomical Society* 406, no. 3 (2010): 1830–40.

Table 7: Evaluation of reliability and validity

Construct	Cronbach's alpha (α)	Internal consistency
Product	0,086	Good
Price	0,800	Acceptable
Process	0,986	Good
People	0,087	Acceptable
Market conduct assessment	0,080	Good
Market conduct principles	0,084	Good

Source: Calculated from survey results

What stands out in Table 7, is that Cronbach's alpha and composite reliability values for every component surpassed 0.7, indicating good internal consistency and dependability. Cronbach's alpha values of 0.7 or higher are considered satisfactory.⁴⁴ Cronbach's alpha is used to analyse the average similarity of the various ways of dividing the scale components. Wang and Wang viewed Cronbach's alpha as a metric to determine the internal reliability of survey items.⁴⁵ The minimal coefficient for this study was set at $\alpha \geq 0.70$ as supported by Malhotra.⁴⁶ The results were as follows:

- Cronbach's alpha with a value above 0.086, indicating good scale reliability.⁴⁷
- Cronbach's alpha with a value above 0.800, indicating good scale reliability.⁴⁸
- Cronbach's alpha with a value 0.986, indicating acceptable scale reliability.⁴⁹
- Cronbach's alpha with a value 0.087, indicating acceptable scale reliability.⁵⁰
- Cronbach's alpha with a value above 0.080, indicating good scale reliability.⁵¹
- Cronbach's alpha with a value above 0.084, indicating good scale reliability.⁵²

From these results, it is clear that the selected measures were appropriate for this study since they support the latent components' uniformity, reliability, and validity.

Structural model

IBM SPSS Amos 27 is a strong structural equation modelling (SEM) software that extends basic multivariate analytic methods including regression, factor analysis, correlation, and analysis of variance to support research and hypotheses.⁵³ Table 7 depicts the basic measuring model of this investigation, with linkages between constructs in the model, the research framework, and the stated hypotheses that were investigated. The reliability testing determination rule was used at a significance level of $p < 0.05$ to approve or disapprove a hypothesis.

Table 7: Reliability and validity assessment

Construct	p-value	Significance status
Product	0,031	Significant (p-value < 0,05 level)
Price	0,051	Slightly significant (p-value < 0,10 level)
Process	0,074	Slightly significant (p-value < 0,10 level)

⁴⁴ Mohsen Tavakol and Reg Dennick, "Post-Examination Analysis of Objective Tests," *Medical Teacher* 33, no. 6 (June 24, 2011): 447–58, <https://doi.org/10.3109/0142159X.2011.564682>.

⁴⁵ Jichuan Wang and Xiaoqian Wang, *Structural Equation Modeling: Applications Using Mplus* (John Wiley & Sons, 2019).

⁴⁶ Naresh K Malhotra, *Basic Marketing Research: Integration of Social Media* (Pearson, 2012).

⁴⁷ William C Black, Barry J Babin, and Rolph E Anderson, *Multivariate Data Analysis: A Global Perspective* (Pearson, 2010).

⁴⁸ Dahlia K Remler and Gregg G Van Ryzin, *Research Methods in Practice: Strategies for Description and Causation* (Sage Publications, 2021).

⁴⁹ Remler and Van Ryzin, *Research Methods in Practice: Strategies for Description and Causation*. 118.

⁵⁰ Remler and Van Ryzin, *Research Methods in Practice: Strategies for Description and Causation*. 118.

⁵¹ Remler and Van Ryzin, *Research Methods in Practice: Strategies for Description and Causation*. 118.

⁵² Remler and Van Ryzin, *Research Methods in Practice: Strategies for Description and Causation*. 118.

⁵³ Wang and Wang, *Structural Equation Modeling: Applications Using Mplus*.

People	0,055	Slightly significant (p-value < 0,10 level)
Market conduct assessment	0,966	Not significant
Market conduct principles	0,033	Significant (p-value < 0,05 level)

Source: Calculated from survey results

Product path value (= 0.031) determinants both had a statistically significant p-value (< 0.05) or a positive influence on financial intermediaries' product features, namely providing awareness and benefits of the product to its customers. This supported the idea that it is critical to provide information about the product itself, policy terms and conditions, and compliance with financial intermediary standards. Therefore, the more information people obtain, the more likely they are to purchase the product offered by financial intermediaries. Further analysis shows that Price path value (=0.051) determinants both had a slightly significant p-value (<0,10). This result suggested that financial intermediaries provide a more affordable product price for their customers. Process path value (=0.074) determinants both had a slightly significant p-value (<0,10). As a result, financial intermediaries are executing innovative processes for the product in the market. People path (value =0.055) determinants both had a slightly significant p-value (<0,10). This means that financial intermediaries' employees represent the organisation well when offering products to its customers, and financial services providers provide professional marketing of products to their customers. Market conduct assessment path value (=0.966) determinants were not significant. Therefore, the measurement of market conduct in the insurance sector has no impact on the service rendered by the financial intermediaries. Market conduct principles' path value (=0.033) determinants both had a statistically significant p (<0.05). This indicates that financial intermediaries conduct business according to high standards of honesty and fairness, as well as complying with the principles of ethical market conduct.

Standardised Regression Weights

Regression weight produced the following results.

Table 8: Interpretation of regression weight

Construct	Estimate (Standardised regression weights)	Type of relationship
Market conduct regulator	-0,002	No relationship
Challenges	-0,111	Inversely related
Financial inclusion	-0,101	Inversely related

Source: Calculated from survey results

Table 8 depicts the following:

- The approaches to comply with market conduct regulation had a negative impact on the service rendered by the financial intermediaries.
- Challenges faced by financial intermediaries had a negative impact on the service rendered by the financial intermediaries.
- The inclusion of individuals in the financial system had a negative impact on the service rendered by the financial intermediaries.

Mean values

The mean value is the average score calculated by adding all the scores and dividing it by the sample size.⁵⁴ (Following the responses on the five-point Likert scale, mean values ranged between 4 and 5, indicating that participants agreed with all the items presented in the questionnaire on average (overall mean = 4,36). The mean values are shown in Table 10.

⁵⁴ C. Welman, F Kruger, and B. Mitchell, *Research Methodology* (South Africa: Oxford University Press, 2005).

Table 10: Mean values

Variables	Mean values
People	4,30
Price	4,56
Product	5,00
Process	5,00
Market conduct assessment	4,53
Market conduct principles	4,46

Source: Calculated from survey results

The results indicated that *People* as a variable had an average mean of 4,30, which was good. Financial intermediaries’ employees are the most valuable resource and can influence customers’ perception of the brand. Value your people and your company’s profitability will rise. Employees are the face of financial intermediaries and serve as brand ambassadors. *Price* as a variable had an average mean of 4,56, which was good. There was a positive approach to affordable pricing, and financial intermediaries must educate their customers about all available options regarding the pricing of their products. *Product* as a variable had an average mean value of 5,00. Thus, financial intermediaries provide more attractive products in the insurance sector to their customers. *Process* as a variable had an average mean value of 5,00. Therefore, financial intermediaries have good processes in place to achieve their objective of delivering their products to customers. *Market conduct assessment* as a variable had an average mean of 4,30, which was good. Therefore, financial intermediaries deliver fair outcomes to customers. *Market conduct principles* as a variable had an average mean of 4,46, which was also good. This suggests that financial intermediaries engage in active and fair competition.

Based on the hypotheses and goals of the research, the final conceptual model is presented in Figure 2.

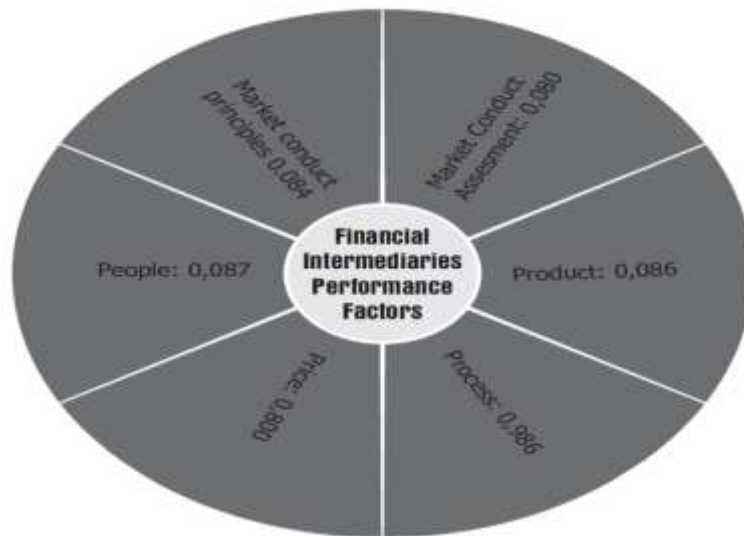


Figure 2: Final Conceptual Model

Discussion Summary

The necessity for insurance products is seriously questioned considering the financial constraints surrounding the insurance sector, as well as continued challenges with insurance product access. This study contributes to a better understanding of the variables that influence the performance of financial intermediaries in the insurance industry. The financial intermediary, in general, is perceived to be successful (total mean results above 85.8%). The validated conceptual model, illustrating the insurance industry’s strengths in terms of financial intermediaries’ success, is a useful tool for understanding and formulating the factors that enhance performance or business success (see Figure 1). This research has undoubtedly demonstrated that influential factors that enhance the performance of financial intermediaries can be based solely on variables. The statistical analysis validated the identified

constructs, products, people, processes, prices, market conduct assessments and market conduct principles. Subfactors within the construct were identified through factor analysis. Relative importance (variance explained and factor loadings) was used to conclude that the research instrument compiled from the literature provided a valid questionnaire, while reliability (Cronbach's alpha), suitability for multivariate analysis (Bartlett) and sample adequacy (KMO) were also used. Cronbach's alpha coefficients were calculated for each factor as a part of the empirical validation of the data. The results reflected that the items had a high level of reliability and internal consistency. Bartlett's sphericity test was also appropriate for this study as it produced p-values less than 0.0001. The correlation between the variables was strong enough to support factor analysis. As a result, it is deduced that the research instrument and data were trustworthy and valid. The solid conceptual and theoretical foundation that resulted from the extensive literature review is valuable.

RECOMMENDATIONS

The findings have revealed that there is a need to improve the performance of financial intermediaries in the South African insurance sector. To achieve this, the following key actions are recommended:

- Strengthen regulatory frameworks to ensure compliance and transparency, fostering trust and stability within the industry.
- Foster greater collaboration between industry stakeholders, enabling the sharing of best practices that can lead to enhanced operational efficiencies.
- Invest in training and development programs to equip professionals with essential skills, ensuring that the workforce is capable of meeting evolving market demands.
- Leverage technology to streamline operations and improve customer engagement, thereby enhancing service delivery and client satisfaction.

By implementing these recommendations, financial intermediaries can enhance their overall effectiveness and better respond to the challenges of the sector.

CONCLUSION

This study aimed to explore the various factors influencing the performance of financial intermediaries within the insurance sector. By examining the interplay of regulatory frameworks, market conditions, and managerial practices, the study identified key drivers and barriers to success in this industry. While certain factors, such as market conduct regulation and financial inclusion, were deemed unreliable for this research, they remain critical areas for managerial focus and further investigation. Despite the limitations encountered, the findings highlight the necessity for ongoing research into the constructs surrounding hedge funds and collective investment schemes. Ultimately, addressing these challenges and fostering a collaborative approach among stakeholders can significantly enhance the operational efficiency and effectiveness of financial intermediaries in South Africa's insurance landscape.

STUDY LIMITATION

In this study, three factors, market conduct regulatory issues, financial inclusion, and related challenges, were excluded due to concerns over their reliability and consistency in measurement. Nevertheless, these elements remain critical to understanding the overall performance and sustainability of financial intermediaries in South Africa's insurance sector. It is essential for managerial interventions to address these factors when assessing business success, as they can significantly impact operational efficiency and strategic decision-making.

Despite the study's limitations, it lays a foundation for future research by highlighting alternative constructs within the realm of hedge funds and collective investment schemes. Researchers could delve deeper into the specific regulatory challenges that financial intermediaries face, examining how these challenges influence their operational practices and overall effectiveness. By focusing on regulatory aspects, future studies can provide insights that contribute to better policy-making and enhance the resilience of the financial services sector in South Africa. Additionally, understanding the dynamics of financial inclusion within the context of hedge funds could reveal opportunities for innovation and growth, benefiting both investors and the broader economy.

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