

**CLIENTS' PERCEPTION OF SERVICE DELIVERY AT A  
LIFE ASSURANCE COMPANY!**

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MASTERS IN BUSINESS ADMINISTRATION**

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**JULY 2003**

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**25 July 2003**

**TO WHOM IT MAY CONCERN**

**RE: CONFIDENTIALITY CLAUSE**

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Sincerely,

S Modi.

## DECLARATION

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Signed.....

Date..... 25 JULY 2003

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## ABSTRACT

The topic was inspired by my obsession for service excellence. Having served the retail industry as a photographic salesman and ultimately as director of a chain of retail stores, I was startled by some of the blasphemous remarks made to the insurance industry. Furthermore, I was personally subjected to poor customer service by some of the large insurance companies. In my current tenure as a life assurance consultant, I have made it my mission to harness good quality, good values and provide excellent service to the countless patrons of the insurance industry.

The purpose of this study was to analyse service quality at Sage Life Insurance Company. Particular attention was paid to the five dimensions of service quality and consumer behaviour. To provide a background to the evaluation, a brief history of the life assurance industry and companies was explored. The evolution of new legislations and the governing bodies was put into perspective.

The findings of the study showed that clients' perception of service quality at Sage favoured some dimensions more strongly. Recommendations were

made to improve the gaps in customer-relations and a model for Sage Life's customer relationship management was suggested

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## **LIST OF ABBREVIATIONS**

Electronic Data Systems (EDS)

FICA (Financial Intelligence Centre Act)

Financial Services and Intermediary Services Bill (FAIS)

Netherlands Insurance Company of South Africa Ltd. (NICSA)

Policy Holder Protection Rules (PPR)

Sage Life (SL)

South Africa (SA)

## CHAPTER 1 – INTRODUCTION

### 1.1. Introduction

The life assurance industry plays a vital role as a vehicle through which people can plan for their financial security. This industry essentially provides three critical services:

- Life assurance to protect a family's income upon death of a breadwinner/s,
- Savings plans in the form of endowments, retirement funding/ education funding and wealth creation and,
- Medical plans.

In the absence of this industry, many families and individuals could end up destitute and penniless upon retirement or the death of the breadwinner. Insurance companies provide structured plans that require disciplined savings without which many of us would not save for the future.

Current legislation developed by the Financial Services Board (FSB) demands high ethical standards and full disclosure to clients in respect of costs, benefits and commissions. The Policyholder Protection Rules (PPR) effective from 1 July 2001, which emphasises disclosure to protect both intermediary and client.

Clients are driven by a number of factors that characterise their satisfaction:

- Return on their investments,
- Term of their policy,
- Guarantee on their capital investments,
- Familiarity with the company and its performance,
- Trust and confidence in the sales representative,
- Their own perception, awareness and judgements of the financial and stock markets,
- Share price of the company they are investing in, and
- Their personal asset base, liquidity, earnings, tax rate and risk profile.

In the study we will outline some of the problems that plague the insurance industry with particular reference to service delivery and post-purchase satisfaction, with special reference to the issues mentioned above.

## **1.2. The Problem Statement**

The management dilemma at Sage Life is a perception of poor post-purchase service. Whilst this perception is not unique to Sage Life, the purported view relates to the following areas of concern:

- Poor returns on investments.
- Slow processing of applications.
- Unnecessary delays in claims processing.
- Incompetent, dishonest and unscrupulous behaviour of some agents.
- After sales support service.

Interviews with the various heads of department will throw light on the problems and pave the way forward for exploratory research.

## **1.3. Objectives of the Research**

To ascertain the attitudes of clients and various heads of departments to the purported perceptions, and to correlate these findings with the company's mission statement, business purpose and core values. Sage Life's business purpose is dedicated to helping people achieve financial security

In so doing to, to establish the relationship in the model below:

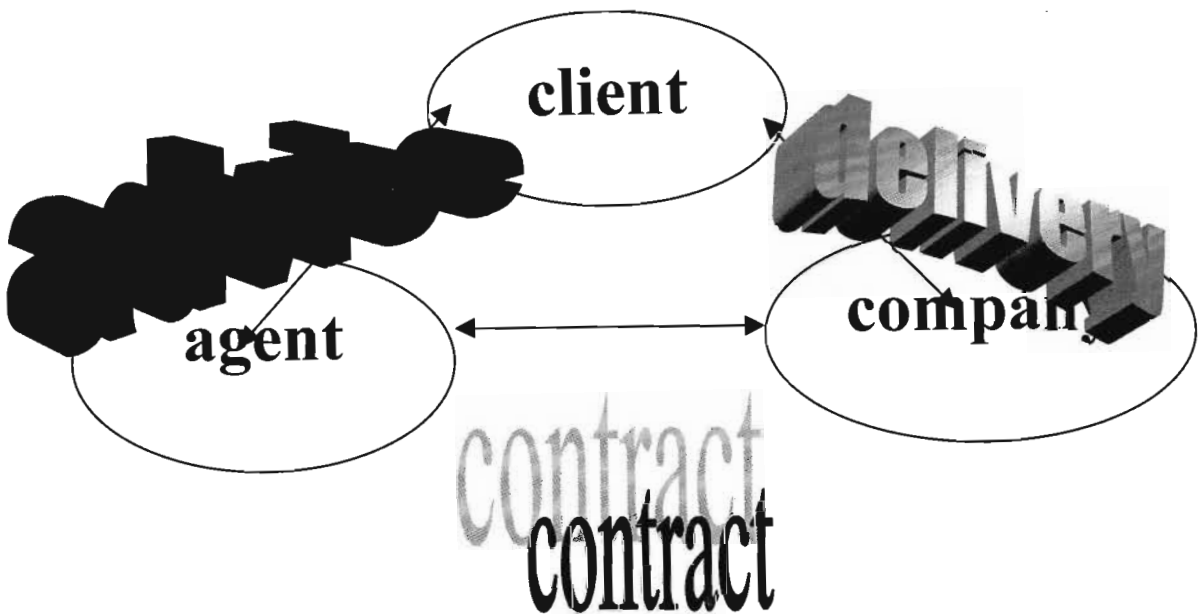


Figure 1.1 – Client, Agent and Company Relationship

- Advice is translated as the sales pitch to the client and the client’s understanding of the sales pitch.
- Contract is the legal agreement that licences and accredits the agent to give advice.
- Delivery is the honouring of the advice and acceptance thereof.

A more defined objective would be to explore the ‘gaps’ that exist in the relationship above. These ‘gaps’ will be discussed in the literature review chapter.

#### 1.4. Motivation for the Research

- Firstly, the competitive nature of this industry demands high ethical standards, poor perceptions against the company have to be disproved, and corrective actions where necessary have to be taken.
- Secondly, to reinforce the positive spin-offs and benefits of dealing with Sage Life.
- Thirdly, to design a blue print or implement changes based on the findings as a recommendation to Sage Life on improving its market perception.

### **1.5. Benefits of the Research**

Sage Life is an international company. The findings and recommendations can be used to further enhance and expand its operations worldwide. Positive responses can be used to market the company's high ethical standards, core values and service delivery.

Further benefits will accrue to the management of the company. The research in itself will create awareness amongst stakeholders and provide as a source of moral persuasion.

Selected clients in the sample will be pleased by the initiative. The study will serve a dual purpose, firstly, as an opportunity to clients to "voice" their feelings, and secondly as a marketing initiative.

### **1.6. Scope of the Research**

This study is confined to the KwaZulu Natal (KZN) region. In-house investigations will be conducted using a sample of regional employees. A stratified random sample of qualified clients will be interviewed by questionnaire.

In principle the study has been approved by the regional manager. The depth and scope of the study will be refined upon a formal presentation to management.

### **1.7. The Hypothesis**

There lies a significant relationship between the two variables being measured. Service delivery is the independent variable and customer satisfaction is the dependent variable.

Service delivery is measured in terms of the company's business purpose, its core values and its mission statement. Customer satisfaction is measured as per the definition earlier. The components of customer satisfaction will form the basis of the research instrument.

## **1.8. Research Design and Methodology**

A questionnaire measuring the five dimensions of service quality will form the basis of the evaluation. Qualified clients across the demographics will be interviewed.

### **1.8.1. Design Strategy**

The research will be a cross-sectional quantitative analysis. The data will be analysed and results compared with Sage Life's business purpose. Any variations will be noted and referred to management for further investigation.

### **1.8.2. Sampling Design**

Due to the intangible nature of the service being provided, the sample will have to be pre-qualified to include clients that are currently holding Sage Life policies in their portfolio for a period of three years or more, and clients that have not reneged on their contributions towards their policies. If the sample includes clients that have lapsed their policies, the results could be skewed because of client-bias.

A stratified sample covering the income demographics from low to high-income groups will be surveyed. The sample will be selected as follows:

- Ten sales agents operating across the spectrum of demographics will each provide a list of five clients. This will result in a sample size of fifty.

### **1.8.3. Data Analysis**

Data will be checked for fraudulent, incomplete questionnaires. Data will be coded, formatted and tabulated and edited for validity and reliability. Data will be further tested for consistency of measuring instrument. The nature and form of the results will take the shape of a report outlining the variances in the findings.

### **1.8.4. Measurement**

The sample questionnaire will be measured using a likert scale. A sample questionnaire is attached in the appendix. The overall scores will be summated to establish the research

findings, that is, a score of 1 indicating a negative response and a score of 5 indicating a positive response.

#### 1.8.5. The Measuring Instrument

The instrument used will be a five-page questionnaire. The first page will request general information. The rest of the questions have been categorised according to the five dimensions measuring service quality. These include the tangible, reliable, responsiveness, assurance and empathy dimensions of service quality. In concluding the questionnaire general questions and comments have been included.

### **1.9. Ethical Considerations**

It is the wish of Sage Life's management not to make public the results of the survey without their explicit consent. The researcher feels obliged to grant the confidentiality request.

### **1.10. Limitations**

- The study has been limited to the KwaZulu Natal region.
- The size of the sample may not provide conclusive evidence as time and cost do not permit for a larger sample size.
- Disconfirmation scales are used in the questionnaire and one of the limitations of this model is that individual perception may vary over time.
- At the time of conducting this study the USA operations formed part of Sage Life's globalisation strategy. Subsequently, these operations have been sold as part of Sage Life's rationalisation strategy.

### **1.11. Conclusion**

#### Chapter 1 – Introduction

This chapter summarises the contents of the research. A background of the life assurance industry, together with the research process is described. A brief discussion on the factors that characterise customer satisfaction is highlighted.



## Chapter 2 – Literature Review

A review of theory pertaining to service delivery is discussed. A review of consumer behaviour and service quality standards expected in service industry forms the basis of our discussion. A conceptual model on service delivery describing the gaps that exist will illustrate the way forward.

## Chapter 3 – Case Presentation

The case presentation comprises a discussion on the financial services industry together with a discussion on Sage Life. Current legislation governing this industry is put into perspective. A selection and profile of the key players is followed by a study on Sage Life, and the products and sectors driving this industry.

## Chapter 4 – Evaluation of Questionnaire

A questionnaire on service delivery handed out to qualified clients of Sage Life is analysed and evaluated. The questionnaire is based on the five dimensions of service quality that impact on clients' perceptions. Some general views surrounding the industry are explored.

## Chapter 5 – Conclusions and Recommendations

Recommendations will be suggested on how service delivery can be enhanced at Sage Life to optimise customer satisfaction. A model suggesting ways of customer relations management is discussed. Recommendations on closing the service quality gaps are made.

## CHAPTER 2 – LITERATURE REVIEW

### 2.1. Introduction

Adam Smith wrote some 200 years ago, that the drive of competing firms to make a profit, by providing customers with what they want, is ultimately in the interest of consumers because they obtain more and better products at lower prices. Companies that do this task well grow and prosper, those that do not, go under (Doyle: 2002).

Two centuries and a bit later, Kotler, suggest that “ it is no longer enough to satisfy customers, you must delight them” (Kotler: 2000).

Satisfaction is a person’s feelings of pleasure or disappointment resulting from consuming or comparing a product or service’s perceived performance in relation to his or her expectation. As this definition makes clear, satisfaction is a function of perceived performance and expectations. Hence a clear indication that marketing firms cannot act in isolation when delivering services. Services are intangibles and easily copied, and as such pose major challenges for firms in designing strategies to improve their competitive edge and customer retention. Service firms are required to constantly innovate to identify and fill the gaps that emerge between customer expectation and service delivery.

The objectives of this chapter are to analyse the factors that impact on consumer behaviour. By understanding consumer behaviour, to establish the components of service delivery and the reasons for service delivery failure. Having identified the gaps, to provide management with a framework to overcome the mystique and myths that surround service-marketing firms.

## **2.2. Analysing Consumer Markets and Buyer Behaviour**

People who understand consumer behaviour make more money in the stock market than professional stock pickers who rely on financial numbers. 'If you like the store, chances are you'll love the stock' (Peter Lynch).

### **2.2.1. Consumers and the Marketing Concept**

The marketing concept in its most basic form states that, organisations need to anticipate and satisfy consumer needs if they are to remain in business. Without customers there is no business. There are many proponents on the belief that 'customer is king'.

Consumer behaviour has been described as 'the dynamic interaction of affect and cognition, behaviour, and environmental events by which human beings conduct the exchange aspects of their lives'. Consumer behaviour is dynamic, meaning that human nature is susceptible to changes in worldwide trends and social conditions. This requires firms to adopt new ideas and approaches on an ongoing basis. Consumer behaviour involves interactions. Clearly, thoughts, actions and emotions colour behaviour, which in turn leads to other related behaviour. Consumer behaviour involves exchanges between human beings. To encourage trade, both parties must benefit. Hence the old adage, a happy buyer and a happy seller.

### **2.2.2. Consumers and the Four P's**

Production oriented marketing has led firms of the past to manufacture the best product at a price. The drawback of this approach is that the consumer is unlikely to buy a product that does not satisfy his needs. Consumer-orientated marketing requires special attention to the four P's:

- What competitive products appeal to our clients? What features and benefits of those products are attractive and why? Where do our products fall short in comparison? Does the performance of the service or product match with the client's perceived value?

- Are we easily accessible to our clients? Are our channels of distribution convenient for continuous support from our clients in competitive environments? How are our competitors different on service delivery? Do we need more outlets?
- Do we offer value for money? Are we offering better products at higher prices or cheaper products at lower prices? Do we offer more benefits or cheaper products? What price will our clients see as good value? Do we offer fixed or variable pricing? How competitive is our pricing?
- Do our clients respond to media advertising? Do we get a better response through door-to-door marketing? What fields of interest do we associate our products to? Do we adopt a religious, sport or community based profile in marketing our products? How do we promote our product to best activate the desire of our clients? How do our clients perceive us in terms of credibility?

The appropriate marketing mix of product, place, price and promotion is fundamental to the survival of all organisations. The cost to benefit ratio of the research will not always be favourable, however good research will improve the odds enormously.

### 2.2.3. Consumers and Segmentation

There are few products that are bought by everybody, simply because different consumers have different needs. In competitive environments, mass marketing seldom exists. Marketers need to identify and group their consumers in segments by way of their demographics and disposable incomes. Are we marketing to corporates or individuals? Are we marketing to high, middle or low-income groups? Are we marketing in urban or rural areas? Which age groups do we market for? Which gender are we targeting?

Each group will need to be treated differently; each group will make choices that affect what they will buy, and where, and how much they will pay for it. Likewise, each group will respond to a different form of promotional activity.

### 2.2.4. Consumers and Relationship Marketing

The Internet and e-commerce has posed greater challenges and opportunities for marketers. Marketing for one-off transactions as a strategy is being replaced by the view that the consumer should be seen as a long-term ‘asset’ of the company. Companies have come to realise that it is easier to keep an existing customer than to attract a new one, and therefore marketers should be concerned with establishing relationships with customers. This trend is become evident in the banking and retail sector. Banks are mining their existing client base and offering other products like insurance to them. Airlines offer the frequent- flyer programme to maintain client loyalty. Retailers form clubs where members enjoy special privileges. Casinos offer ‘MVG’ status to their regular patrons. Another approach is multilevel marketing. Consumers act as agents for the company’s product. By attracting other customers, they earn commission, resulting in a pyramid structure with each consumer selling to friends and family and also recruiting family and friends into the network. This approach has become possible due to the existence of sophisticated research tools and computer networks by which consumers can be identified and categorised. Firms then seek to establish a longer-term rapport with consumers to ensure loyalty (Blythe: 1997).

### 2.2.5. Model of Consumer Behaviour

Kotler (2000) suggests that the starting point for understanding buyer behaviour is the model shown below. Understanding what happens in the buyer’s consciousness between the arrival of outside stimuli and the buyer’s purchase decision will assist marketers in their product design.

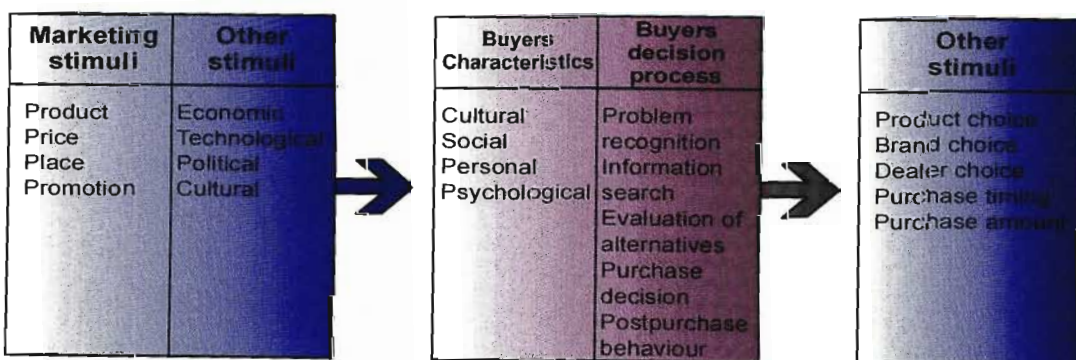


Figure 2.1 – Model of Buyer Behaviour

### 2.2.6. Factors Influencing Buyer Behaviour

A consumer's buyer behaviour is influenced by cultural, social, personal, and psychological factors (Kotler: 2000).

#### 2.2.6.1. Cultural Factors

Culture can be described as a set of beliefs or values shared by a group of individuals, nationalities, religious and racial groups, and geographic regions. Hence it is fundamentally important in determining a person's wants or needs.

Hofstede (1984) identified four dimensions of national characteristics:

- Individualism versus collectivism. Individual freedom to express ideas and carry out tasks are dominant in societies like the US and Holland whereas team work and group task are more prevalent in Japan and Taiwan.
- Uncertainty avoidance. This refers to the degree to which the people of some country or culture keep to the rules and customs in order to avoid uncertainty. A high level of uncertainty avoidance would indicate a culture where traditional values prevail and where change is intolerable and vice versa.
- Power distance. This refers to the degree to which the culture favours the centralisation of power, and the extent to which people from different levels in the power hierarchy are able to have contact with one another.
- Masculinity-femininity. This refers to the degree to which the culture exhibits the traditional characteristics of assertiveness, achievement and wealth acquisition rather than the traditional feminine attributes of nurturing, concern for the environment and concern for the poor. The USA, for example is a strong masculine culture.

Culture embraces all facets of life such as language, dress, advertising, social class and lifestyle. Culture can change over a period of time or adopt and adapt to changes in environment and other stimuli. Since culture is deeply built into people's behaviour, it is probably easier from a marketing point of view to work within a given culture than to try to change it.

#### 2.2.6.2. Social Factors

Kotler (2000) suggests that social factors such as reference groups, family, and social roles and statuses further influence consumer buying behaviour:

- Reference groups: consists of all groups that have a direct or indirect influence on the person's attitudes or behaviour. These groups could be neighbours, friends, family and any person who interacts continuously and informally with the consumer. Secondary groups include religious, professional, sporting and union groups who tend to be more formal and require less interaction. Exposure to these groups influence new behaviour and lifestyles, thus creating pressure to conform that may affect product and brand choice.
- Family: constitutes the most influential primary reference group. Marketers are interested in the roles and relative influence of the husband, wife and children in the purchase of a large variety of products and services. Traditionally the wife acts as the main purchasing agent for food supplies and staple clothing items. The husband is usually faced with the decisions of finance and housing. Today children are involved on issues of entertainment and consumer electronics. In many cases the family is involved in joint decision-making. Marketers need to determine which member/s normally has the greater influence in choosing various products.
- Roles and statuses: a person's position in a group can be defined in terms of roles and status. People choose products and services that suit and communicate their role and status. Thus company presidents drive Mercedes, wear expensive suits and drink Chivaz Regal scotch. Marketers have to be aware of the status symbol potential of products and brands.

#### 2.2.6.3. Personal Factors

A buyer's decision is also influenced by personal characteristics. A buyer's age and stage in the life cycle, his occupation, economic disposition, lifestyle, personality and self-concept are critical characteristics for marketers.

- Age and stage in the life cycle: consumption patterns and tastes needs and desires change over a family's life cycle. Adults experience certain "passages" or "transformations" as they go through life. Marketers pay close attention to changing

life circumstances-divorce, widowhood, remarriage- and their effect on consumption behaviour.

- Occupation and economic circumstances: product and service choice is greatly influenced by net disposable income, savings and assets, outstanding debts, borrowing power and attitude towards savings and spending. Further, economic conditions and future income stability, recession or booming conditions, greatly impact on a consumers decision planning. Marketers have to take steps to redesign reposition and re-price their products to continuously offer good value.
- Lifestyle: SRI International's Values and Lifestyles (VALS) framework was designed to measure consumer lifestyles. This framework identifies 'actualises' as successful, sophisticated, active, 'take-charge' people with generally greater resources. It further helps to identify 'fulfillers, achievers and experiences' in the same group. Believers (conservative, conventional and traditional), strivers (uncertain, insecure), makers and strugglers are identified as groups with fewer resources.
- Personality and self-concept: personality is usually described in terms of such traits as self-confidence, dominance, autonomy, defence, sociability, defensiveness, and adaptability. These traits are useful in designing advertisements. Marketers also try to develop brand images according to the way a person sees themselves (self-concept).

#### 2.2.6.4. Psychological Factors

A person's buying choices are influenced by four major psychological factors:

- Motivation: Motivation can be described as a need that is sufficiently pressing to drive a person to act. Sigmund Freud, a psychologist, alludes to the theory that people are not only driven by the technical specifications of a product, but also by the less conscious cues such as size, shape, weight, material, colour and more importantly brand name. More recent research has shown that products can appeal to different people for different reasons. For example, whisky can appeal to people for fun, social relaxation or status. Therefore the need for 'motivational positioning' of your product. Maslow established the hierarchy of needs. In order of importance, they are physiological needs (food, water, shelter), safety needs (security), social needs (love and sense of belonging), esteem needs (self-esteem, recognition and



status), and self-actualisation needs (self-development and realisation). When a person satisfies one need, it no longer becomes a current motivator, and the person will try to satisfy the next important need. Frederick Herzberg developed a two-factor theory that distinguishes dissatisfiers (factors that cause dissatisfaction) and satisfiers (factors that cause satisfaction). Sellers should do their best to avoid dissatisfiers, things that annoy or irritate a customer and motivate with exceptional service delivery.

- Perception: Perception is the process by which an individual selects, organises, and interprets information inputs to create a meaningful picture of the world. Key to the definition is individual. Some people might perceive fast talking individuals as aggressive whilst others may perceive them as helpful. People emerge with different perceptions because of three processes: selective attention, selective distortion, and selective retention. With selective attention, people notice stimuli that relates to a current need, and they anticipate and notice stimuli whose deviations are large in relation to the normal size stimuli. Selective distortion is the tendency to twist information into personal meanings and interpret information in a way that will fit our own preconceptions. With selective retention we are likely to remember the good points mentioned about a product we like and forget the good points mentioned about competitive products.
- Learning: Learning involves changes in an individual's behaviour arising from experience. Learning theorist believe that learning is produced through the interplay of drives, stimuli, cues, responses, and reinforcement. Marketers are faced with the challenge of identifying these cues when designing their products.
- Beliefs and attitudes: A belief is a descriptive thought that a person holds about something based on knowledge, opinion or faith. From a marketing perspective, the country of origin, or endorsement by famous personalities, or the brand quality of the material components may be determining factors in a consumers buying decision. Similarly, people's attitudes on issues like religion; food, politics, clothes, music and almost everything will put them in a frame of mind of liking or disliking a product or service. Thus companies would be well advised to fit into existing

attitudes and beliefs rather than trying to change the consumers mind. Exceptions to the rule do apply.

Good research into all these factors can provide clues as to how to reach and serve your consumers more effectively.

### 2.2.7. The Buying Decision Process

Kotler (2000) identifies consumer-buying behaviour to be complex. Consumers develop attitudes on brands and products, are guided by their beliefs, influenced by members and seek variety. The key to marketing is to identify who makes the buying decision in a family, the types of buying decisions and the steps in the process. Kotler suggests the following model.

#### 2.2.7.1. Five Stage Model of the Consumer Buying Process



Figure 2.2 – Five Stage Model of the Consumer Buying Process

#### 2.2.7.2. Problem Recognition

The buying process starts when the buyer recognises a problem or a need. The need can be triggered by internal or external stimuli. These stimuli could be hunger, thirst or an increase in disposable income.

#### 2.2.7.3. Information Search

Consumer information sources fall into four groups:

- Personal sources: Family, friends, neighbours, acquaintances
- Commercial sources: Advertising, salespersons, dealers, packaging, displays
- Public sources: Mass media, consumer-rating organisations
- Experiential sources: Handling, examining, using the product

The company should try to identify the consumer's information source and evaluate their relative importance. This will aid the company in preparing effective communication for its target market.

#### 2.2.7.4. Evaluation of Alternatives

The consumer sees each product as a bundle of attributes. He places relevant importance on attributes such as price, colour, size, weight, safety, comfort, quality, effectiveness, reliability, image and competitor brands. The objective of the marketer is to identify these attributes of importance and if necessary reposition the brand in the eyes of its target market.

#### 2.2.7.5. Purchase Decision

The intention to purchase a brand is influenced by two factors. First, the attitudes of fellow members, friends and colleagues towards the brand and second, unanticipated situational factors. These could be a pay rise or fall, attitude of the salesperson or an emergency requiring immediate attention. These factors could lead to delay, avoidance or postponement of his decision. Sub-decisions such as brand, vendor choice, quantity, timing and payment method can lead to further deliberation. Marketers must understand the factors that provoke a feeling of risk in consumers and provide information and support to reduce this perceived risk.

#### 2.2.7.6. Post-purchase Behaviour

- Post-purchase Satisfaction: Consumers will be highly satisfied or dissatisfied after making a purchase. Satisfaction is a function of the closeness between the buyer's expectations and the product's perceived performance. The level of satisfaction will influence repeat purchases.
- Post-purchase Actions: The level of satisfaction discussed above will determine whether the consumer will abandon the product, buy again or strongly recommend to others. Marketers can reduce negative actions by follow up courtesy calls (where appropriate) or in-store survey questionnaires.
- Post-purchase Use and Disposal: Marketers must monitor the use/uses of the product by consumers. The way their products are stored or disposed when used. These trends can help to define new marketing strategies.

Post-purchase behaviour and conversely after sale service are fundamental to the repurchase decision making process.

#### 2.2.8. Connecting with Consumers – The Four D's of Effective Positioning

Alice M. Tubout and Brian Sternthal in *Mastering Marketing* established that for sustained success a brand must be linked closely to consumers' goals and positioned strategically. The successful positioning requires the performance of four tasks in relation to the consumers' goals and the competitor brands.

- Firstly, the brand must be clearly defined
- Secondly, there must be clear and meaningful differentiation from similar products
- Thirdly, insightful deepening of the brand's connection to consumer goals over time, and
- Fourthly, disciplined defence of the position of the position as competitors' react and consumer tastes change.

##### 2.2.8.1. Competitor-based positioning

Once a brand's position is defined, it needs to be differentiated from other members of the category. Often this entails focusing on how the brand dominates its competitors with respect to some benefit important to consumers. The strongest position is one where a brand has a point of difference on the primary benefit that motivates consumers

to buy the category. For example, Discovery Life may be seen in the insurance category as a company that embraces social values with its vitality programme. Sage Life could be seen as a company that offers best value! Competition-based positioning defines what a brand should be compared to and why it should be preferred to those alternatives. Deeper positioning by connecting with consumer goals and values enhances the chance that a brand's position will provide enduring competitive advantage.

#### 2.2.8.2. Goal-based positioning

Goal-based positioning entails a deepening of competition-based positioning. Its frame of reference is not a product category but rather consumers' goals and values. The writer infers that brands develop brand essence through a 'laddering' technique. This means that a position that focuses on the some feature of the brand might be deepened by using a benefit implied by the feature as the basis for the brand's next position. For example, McDonalds illustrates its cleanliness of its restaurants and the good taste of food, as a step on the 'ladder'- to a place that is good for kids and trusted in the community. By identifying the points of commonality between the brand essence and the consumers' goals, marketers will be able to reach a point of complementarities (i.e.: the brand complements the goals).

### **2.3. Designing and Managing Services**

"A business has two, and only two, basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs." (Peter F. Drucker)

#### 2.3.1. The Customer-Led Business

The purpose of a business is to satisfy the needs of its customers and make a profit. A business that fails to do this in a competitive environment will not survive because customers will go elsewhere. Marketing management needs to identify target markets, research the needs of potential customers, develop products that satisfy the needs and wants sufficiently, determine the right marketing mix for the products and monitor customer response. Successful organisations put the customer first. However, many organisations operate under different philosophies as illustrated in the diagram below:

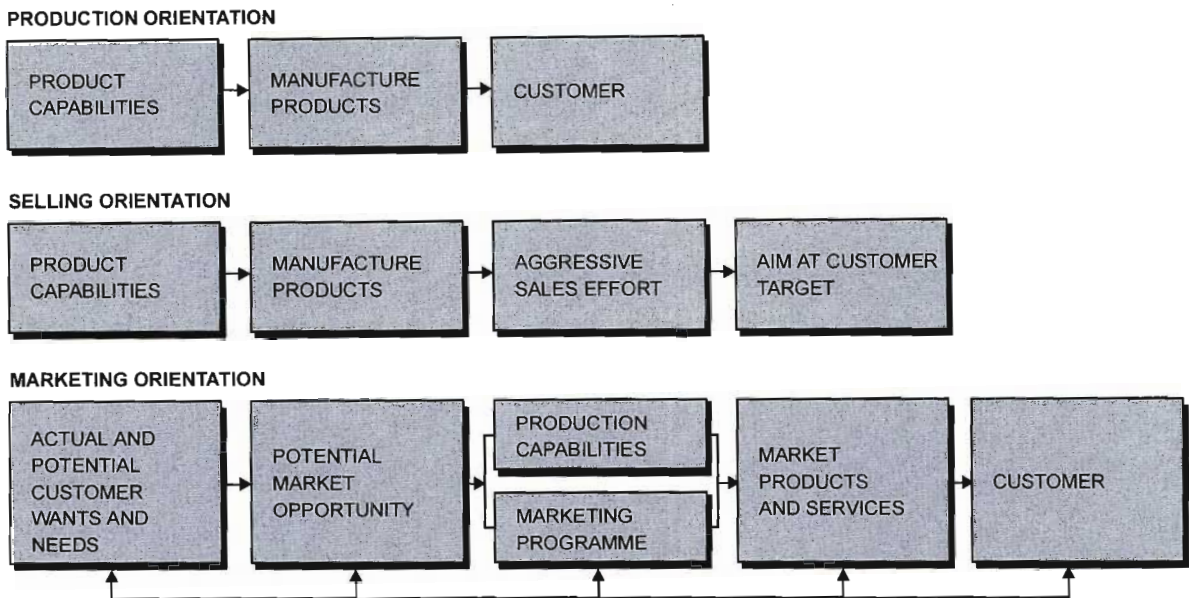


Figure 2.3 – Production, Sales and Marketing Orientations

Doyle (2002), points out in the ABC of customer loyalty,

- Loyal customers are assets
- Loyal customers are more profitable
- Winning new customers is more costly than retaining existing ones
- Increasing customer retention leads to increased profits
- Highly satisfied customers repurchase
- Dissatisfied customers tell others
- Most dissatisfied customers don't complain
- Satisfactory resolution of complaints increases loyalty, and
- Few customers defect due to poor product performance.

Success therefore stems from increased customer orientation as opposed to profit or product orientation. Companies must have their clients at the centre of their focus.

### 2.3.2. Building Customer Satisfaction, Value and Retention

The core competencies and operations of a business are fundamental to sustaining good client relationships and future growth of the organisation. The value-chain and value delivery network are critical components of the organisation for developing sustainable competitive advantages.

#### 2.3.2.1. Value Chain

Michael Porter (1985) proposed the value chain as a tool for identifying ways to create more customer value. The value chain identifies nine strategically relevant activities that create value and cost in a specific business. These activities consist of five primary and four support activities.

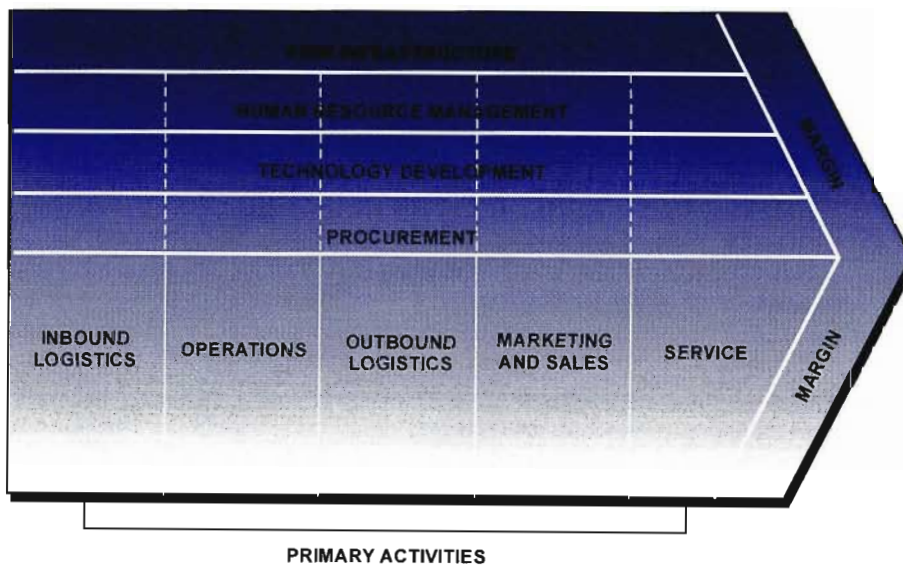


Figure 2.4 – The Generic Value Chain (Source: Adapted from Porter. 1985. Creating and Sustaining Superior Performance).

The firm's task is to examine its costs and performance in each value-creating activity and to look for ways to improve it. Importantly, to benchmark its costs and performances against market leaders to attain a competitive advantage. Success depends on how well the various departmental activities are coordinated. It is essential that the success of one department is not hindered by the failure or poor performance of

another in the value chain. The solution to this problem is to place more emphasis on the smooth management of core business process which include:

- New-product realization
- Inventory management
- Customer acquisition and retention
- Order-to remittance
- Customer service.

#### 2.3.2.2. Value-Delivery Network

Creating a superior value-delivery network will lead to competitive advantages. This requires the successful networking of suppliers and distributors. In this way, partners in the supply chain use the most current sales information to manufacture or design what is demanded rather than try to forecast demand. Networking uses demand sales as the source for its design and manufacture of products and services. Kotler (2000) aptly says, companies no longer compete-marketing networks do!

#### 2.3.2.3 Attracting and Retaining Customers

Customer acquisition requires substantial skills in lead generation, lead qualification, and account conversion. To generate leads, companies advertise in various media, building up a list of possible clients through response. These possible clients are then qualified through interviews, financial checks and needs. Account conversion of the qualified leads involves making presentations, answering objections, and negotiating final terms.

However, attracting customers is not enough. Statistics show that most industries face a high churn rate. Furthermore, attracting new customers can cost up to five times more than retaining existing ones. The key to customer retention is customer satisfaction. As discussed earlier, satisfied customers remain loyal, buy more, talk favourably about the company/brand, pay less attention to competitive brands, offer product improvement ideas to the company and cost less to service.

There are four steps to reduce the defection rate of customers:

- Companies must define and measure its retention rate, for example, the average lifespan of a policy



- Distinguish the causes of customer attrition and identify those that can be managed better, that is, how many leave because of poor service, or better alternatives or price
- The company needs to estimate loss of profits due to loss of clients. In the case of an individual customer, the lost profit is equal to the customer's lifetime value, that is, the present value of the profit stream the company would have realised if the customer had not defected.
- The company needs to figure out how much it would cost to reduce the defection rate. As long as the cost is less than the lost profit, the company should spend that amount to reduce the defection rate.
- Finally, nothing beats plain old listening to the customer.

#### 2.3.2.4 Relationship Marketing

The customer development process entails converting initial suspects into lifelong partners as indicated in the model below. The challenge to companies is to reactivate dissatisfied customers through win-back strategies. It is easier to re-attract ex-customers because the company knows their names, habits, needs and history, than to find new ones.

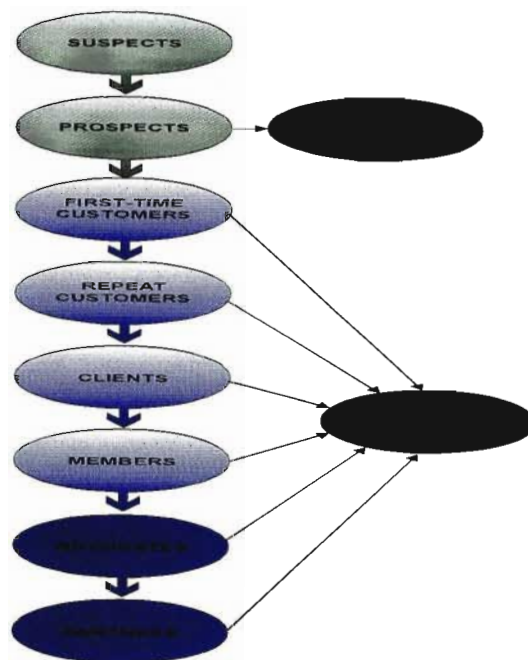


Figure 2.5 – The Customer-Development Process (Source: Adapted from Griffin. 1995. Customer Loyalty- How to Earn It, How to Keep It. Lexington Books).

Most companies practice basic marketing. Here, the salesperson simply sells the product. The next level of investment in customer-relationship building is reactive marketing. Here, the salesperson encourages the client to call if he or she has any questions or problems. With accountable marketing, the salesperson follows up a short time later to check if the product or service is meeting the client's expectations. The salesperson investigates any disappointments and suggestions he might receive to aid service improvements. With proactive marketing, the salesperson informs the customer regularly on product and service updates. Also, informing the client of new uses of the product and add-on benefits, for example, dread disease on a life policy.

Ideally, companies wish to practice partnership marketing. This involves working continuously with customers to discover better ways to perform and or to improve product and service delivery. Advancements in computer- based technology are drivers of change in very competitive environments. The trend in interactive websites is forming the basis upon which large corporations compete.

Airline companies have introduced frequent-flyer programmes as a financial benefit to retain their clients. Club membership programmes have worked successfully in bonding customers and suppliers. Other companies have worked on increasing their social bonds with customers by individualising and personalising customer relationships. Common today in the banking fraternity is a personal banker. Some companies identify their 'A' category clients, and incentivise them with tickets to a ballgame or holidays. The bottom line of relationship marketing is to accept that 'the customer is king', and 'a customer in hand is worth two in the bush'!

## **2.4 Quality in The Marketplace**

Kirkpatrick and Locke (1996), point out that 'quality reflects the vision of modern companies'. Porter (1980), emphasises that aiming for superior quality could be an effective competitive strategy in developing customer loyalty, lowering price elasticity or barring other potential competitors from entering the market. The implementation of quality strategies could create a higher rate of profit (Johnson and Kleiner: 1993), as well as greater market share.

### 2.4.1. Concept of Quality

A great part of modern literature on quality deals with the philosophy of Total Quality Management (TQM). TQM is best described as a management philosophy that is characterised by a few basic principles – doing things right the first time, striving for continuous improvement, and fulfilling customer needs. The successful implementation of TQM depends on how companies assess the quality of their products in the marketplace, how their customers assess the quality of the products in the marketplace, and the congruency of these interpretations. An inconsistency of these interpretations could lead to the wrong quality product or service for the wrong market. To achieve service excellence, companies have to find the perfect fit between consumer's criteria for quality and producer's criteria as depicted in the model below:

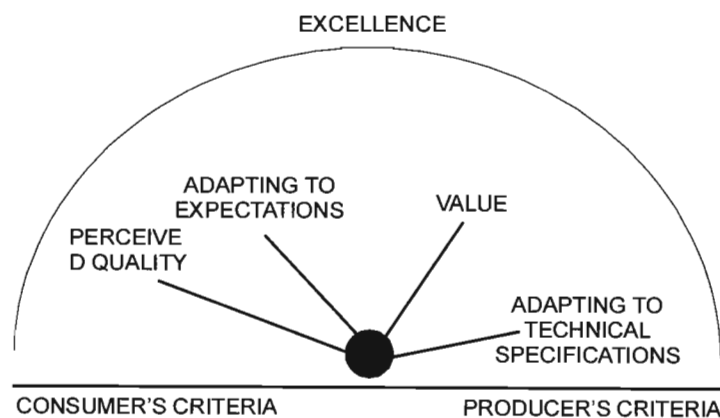


Figure 2.6 – Interpretations of Quality

### 2.4.2. Consumer's Perception of Quality

Perceived quality is a result of the consumer's subjective assessment of the quality of a given product. Perceived quality thus differs from objective quality. Objective quality may be described as 'the measurable and verifiable superiority on some predetermined ideal standards' (Zeithaml: 1998). Objective quality can be construed as the technical and functional specification of a product. Subjective quality on the other hand is linked to the consumer and his or her perception of the quality of a product. The consumer's perception of quality can be seen as the expression of his satisfaction of the product. This expression underlines the consumer's criteria in the figure above.

#### 2.4.3. Quality as Adaptation to Expectations

As discussed earlier, consumer's perceptions are subjective. Further, it is impossible to develop a product for each unique individual. Hence, the theory of quality generalisation. This problem can be slightly overcome by producing goods of high objective quality. Whilst this solution does not meet each consumer's perceived quality, it allows for consumers' to adapt to expectations.

#### 2.4.4. Quality as Value

The economic value of quality can be described in the relationship between quality and price. Often high price is related to high value and vice versa. The concept of value therefore encourages firms to focus on internal economic efficiency, thereby trying to achieve high quality at low prices. This focus will lead to sustainable competitive advantages. However, consumers' also attach a personal value to a product. This value is seen as the expression of its social and environmental obligations. The interpretation of value comprises both producer and consumer perspectives, and thus has been placed in the middle of the model above. The producer's view seems to be more predominant in this interpretation, that is, there is a tendency to view the world from the perspective of the producer in terms of value.

#### 2.4.5. Quality as Adaptation to Technical Specification

In this interpretation, quality is viewed as an objective, measurable variable, which can be described in terms of technical specifications. The better the product meets these specifications, the better the quality.

#### 2.4.6. Quality as Excellence

On more occasion than one, quality has been described as an expression of excellence. Products of high quality thus become 'best' products, that is, they meet the highest standards. Bodies like the SABS and ISO 9000 are responsible to some degree in standard setting. In the insurance industry, the FSB and FPI legislate on appropriate standards.

#### 2.4.7. Ways in which to Manage Quality

Studies show that the perceived relative quality of a product or service is the single most important factor determining its long-run market share and profitability (Doyle: 2002).

However, quality in the service industry is a concept that customers find difficult to articulate and researchers find hard to quantify. It is hard to measure quality because intangibility means that there are rarely physical quality standards such as colour, taste or fit that can be measured. The interaction of consumer and producer, which is particular feature of services, means that consumers evaluate quality not only in terms of outcome, but also in terms of the process in which it is delivered. Managers of service organisations therefore have to focus on both the quality of outcomes and the quality of processes. Doyle (2002), suggests the following ten criteria managers should focus on:

- Reliability, how consistent and dependable is the service?
- Access, is the service easily accessible and delivered with little waiting?
- Credibility, can consumers trust the company?
- Security, is the service free from risk and danger?
- Knowledge, does the company make every effort to understand the needs of the consumers?
- Responsiveness, how willing are the employees to provide service?
- Competence i.e. do staff have the knowledge and skills required to give good service?
- Courtesy, are staff polite and considerate to consumers?
- Communication, does the company clearly explain its services?
- Tangibles i.e. does the appearance of the personnel; the facility and other tangible evidence of the service project an image of high quality?

Customers are satisfied when performance exceeds perceived quality and expectations. These expectations are created by past experiences, word of mouth and advertising. Customers lose faith and confidence when there is quality failure.

### 2.4.8. Potential Causes of Service Quality Failure

How often we here a service provider say, "We are aware of the problem"?

Realisation is the first step to solving quality failures. Management needs to put in motion a continuous process to;

- Monitor customers' perceptions of service quality
- Identify the causes of service-quality shortfalls, and
- Take appropriate action to improve the quality of the service.

Zeithaml (1990), identify the causes of failure in their Service-Quality Model below:

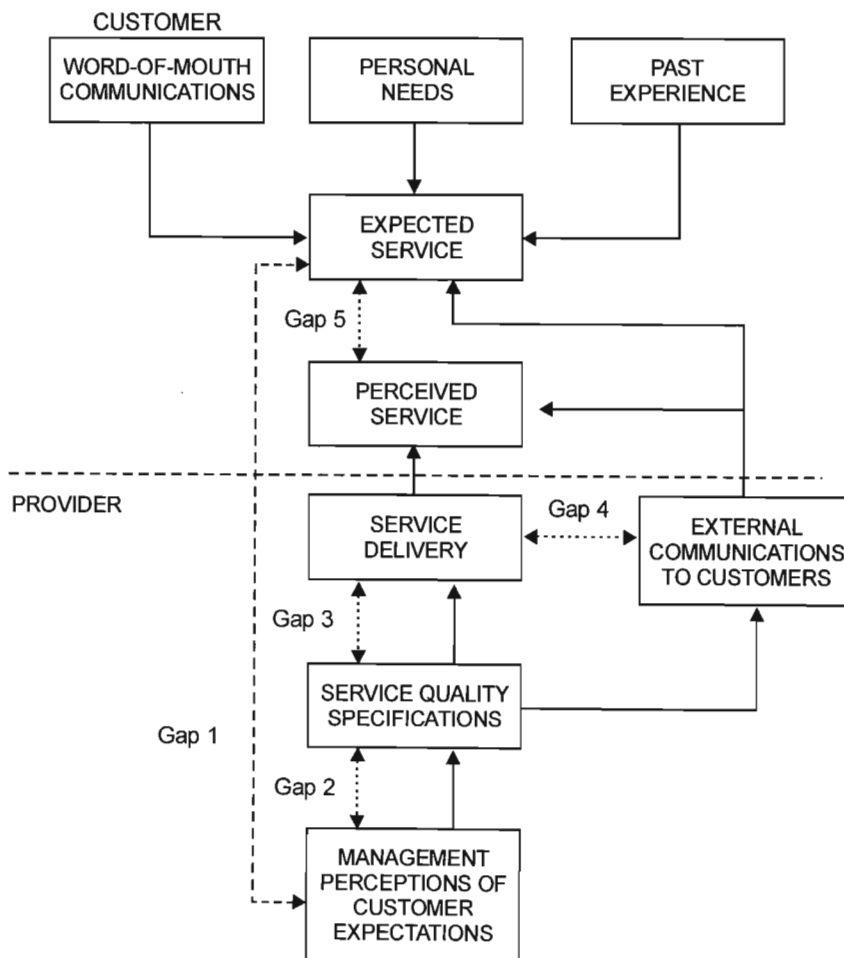


Figure 2.8 – Conceptual Model of Quality

#### 2.4.8.1. GAP 1 - Not Knowing what Customers Expect- Management

##### Misperception!

Providing services that customers perceive as excellent requires that a firm know what customers expect. Being a little wrong about customers' expectations can mean losing a customer's business especially when a competitor gets it right!

Zeithaml identifies the following problems on Gap 1 of the model:

| FACTOR & DEFINITION   | SPECIFIC ILLUSTRATIVE ISSUES  |
|---|---|
| Marketing Research Orientation: extent to which managers make an effort to understand customers' needs and expectations through formal and informal information-gathering activities. | <p>Is research conducted regularly to generate information about what customers want?</p> <p>Does the marketing research a company conducts focus on quality of service delivered by it?</p> <p>Do managers understand and utilise the research findings?</p> <p>Do managers mingle with customers to learn what is on their minds?</p> |
| Upward communication: extent to which top management seeks, stimulates, and facilitates the flow of information from employees at lower levels  | <p>Do managers encourage suggestions from customer contact personnel concerning quality of service?</p> <p>Are there formal or informal opportunities for customer contact personnel to communicate with management?</p> <p>How frequently do managers have face-to-face contact with customer contact personnel?</p>                   |
| Levels of Management: Number of managerial levels between the topmost and bottommost positions  | Do too many managerial levels separate top managers from those responsible for dealing with and serving customers?  |

Table 2.1 – Conceptual Factors Pertaining to Gap 1.

#### 2.4.8.2. GAP 2 – The Wrong Service Quality Standards – Management's

##### Misspecification of service quality

Many factors such as resource constraints, short-term profit orientation, market conditions, or management indifference may account for Gap 2, the discrepancy between managers' perceptions of customers' expectations and the actual specifications they establish for service delivery:

| <b>FACTOR AND DEFINITION</b>   | <b>SPECIFIC ILLUSTRATIVE ISSUES</b>   |
|--|---|
| Management commitment to Service   | <p>Are resources committed to departments to improve quality?</p> <p>Do internal programs exist for improving the quality of service to customers?</p> <p>Are managers who improve the quality of service to customers more likely to be rewarded than other managers?</p> <p>Does the company emphasize its sales goals as much as or more than it emphasizes serving customers?</p> <p>Are upper and middle managers committed to providing quality service to their customers?</p> |
| Perception of Feasibility: extent to which managers believe that customer expectations can be met                                  | <p>Does the company have the necessary capabilities to meet customer requirements for service?</p> <p>Can customer expectations be met without hindering financial performance?</p> <p>Do existing operations systems enable customers demand?</p> <p>Does management change existing policies and procedures to meet the needs of customers?</p>   |
| Task standardisation: extent to which hard and soft technology is used to standardise service tasks.                               | <p>Is automation used to achieve consistency in serving customers?</p> <p>Are programs in place to improve operating procedures so that consistent service is provided?</p>   |
| Goal-setting: extent to which service quality goals are based on customer standards and expectations rather than company standards | <p>Is there a formal process for setting quality of service goals for employees?</p> <p>Does the company have clear goals about what it wants to accomplish?</p> <p>Does the company measure its performance in meeting its service quality goals?</p> <p>Are service quality goals based on customer-orientated standards rather than company-orientated standards?</p>  |

Table 2.2 – Conceptual Factors Pertaining to Gap 2

#### 2.4.8.3. GAP 3 – Service Quality Specifications – Service delivery

The difference between service specifications discussed earlier in Gap 2, and the actual service delivery, is the service- performance gap. Zeithaml (1990), identify seven key conceptual factors in the exhibit below that result in poor service delivery:

| <b>FACTOR AND DEFINITION</b>  | <b>SPECIFIC ILLUSTRATIVE ISSUES</b>  |
|---|--|
| Supervisory Control System: The appropriateness of the evaluation and reward systems in the company | <p>Do employees know what aspects of their jobs will be stressed most in performance evaluations?</p> <p>Are employees evaluated on how well they interact with customers?</p> <p>Are employees who do the best job serving customers more likely to be rewarded than other employees?</p> |



|  |   |
|--|---|
|  | <p>Do employees who make a special effort to serve customers receive increased financial rewards, career advancement, and/or recognition?</p> <p>Do employees feel appreciated for their contributions?</p>   |
| Perceived Control: Extent to which employees perceive that they can act flexibly rather than by rote in problem situations encountered in providing services | <p>Do employees spend time in their jobs trying to resolve problems over which they have little control?</p> <p>Are employees encouraged to learn new ways to better serve their customers?</p> <p>Are employees required to get approval from another department before delivering service to customers?</p>   |
| Teamwork: extent to which employees and managers pull together for a common goal   | <p>Do employees and managers contribute to a team effort in servicing customers?</p> <p>Do support services employees provide good service to customer-contact personnel?</p> <p>Are employees personally involved and committed to the company?</p> <p>Do customer-contact employees cooperate more than they compete with other employees in the company?</p> <p>Are employees encouraged to work together to provide quality service to customers?</p> |

Table 2.3 - Conceptual Factors Pertaining to Gap 3

#### 2.4.8.4. GAP 4 – Service Delivery – External communications that over promise

If the firm’s advertising or selling over promises, it will lower perception of quality when the performance fails to live up to the hyped-up expectation. Even good service can be judged harshly if it exaggerates how high its service levels actually are:

| FACTOR AND DEFINITION   | SPECIFIC ILLUSTRATIVE ISSUES  |
|---|---|
| Horizontal communication: extent to which communication occurs both within and between different departments of a company                                 | <p>Do customer contact personnel have input in advertising planning and execution?</p> <p>Are customer contact personnel aware of external communications to customers before they occur?</p> <p>Does the sales force interact with customer contact personnel to discuss the level of service that can be delivered to customers?</p> <p>Are the policies and procedures for serving customers consistent across departments and branches?</p> |
| Propensity to Over promise: extent to which a company’s external communications do not accurately reflect what customers receive in the service encounter | <p>Is there increasing pressure inside the company to generate new business?</p> <p>Do competitors over promise to gain new customers?</p>  |

Table 2.4 – Conceptual Factors Pertaining to Gap 4

These concepts identify where managers need to focus to achieve high-quality service. Managers need to identify their target markets and find out what attributes are desired by consumers. Firms require top management commitment to high service standards. Implementation involves setting high and measurable performance standards, training, staff motivation and carefully working out systems for monitoring performance and comparing standards. Finally, communications should be designed to avoid making promises that will not be kept.

#### 2.4.9. Managing Service Quality

When perceived service quality falls below expectations, customers lose interest in that service provider. Kotler (2000), identifies the following common practices that well managed service companies share:

- Strategic concept; top service companies are ‘customer obsessed’, they clearly identify customer needs and implement strategies to satisfy them
- Top Management commitment; management take a day-to-day view on customer service. Management involvement is visible at floor level
- High Standards; breakthrough service standards benchmarked against the best in the industry. Watchdogs like ISO9000, or SABS can be used to attest and approve your quality standards.
- Monitoring Systems; measurement devices such as response cards, customer surveys, ghost shoppers, and service audit teams where appropriate are used by marketers.
- Satisfying Customer Complaints; studies have shown that customers’ whose complaints are satisfactorily resolved often become more company loyal than customers who were never dissatisfied. Good service companies train, encourage and empower employees to satisfy customer complaints positively. They remove barriers that make it difficult for customers to complain. Furthermore, they develop databases from customer complaints, analyse them and adjust their policies where required.
- Satisfying Both Employees and Customers; companies that adopt the motto, ‘customer comes first’, are often faced with stressed employees. An important part

of satisfying employees may require dealing with their issues outside the work environment. More and more employees put a higher premium on family life. Management needs to take cognisance of these social needs when planning their job rosters.

#### 2.4.10. Managing Productivity

Kotler (2000), suggests seven approaches to increasing productivity:

- The firm should hire and foster skilful workers through better selection and training
- Increase the quantity of service by surrendering some quality
- ‘Industrialise the service’ through technology advancements and standardised production.
- Reduce or make obsolete a service by inventing a product solution, the way wash and wear shirts have reduced the need for laundry
- Design more cost effective service
- Offer customers incentives to substitute their own labour for company labour by educating them and providing ‘do-it-yourself’ solutions
- Harness the power of technology to give customers quicker and better access. More service companies develop customer friendly websites to reduce mundane enquiries and facilitate customer interaction.

### **2.5. Marketing Strategies for Service Organisations**

The service marketing industry involves high levels of interface with the consumer. This requires firms to integrate their operations and marketing functions more efficiently. Doyle (2002), identifies four central components of a service marketing strategy:

#### 2.5.1. Target Market Segmentation

The initial task entails breaking the potential market into segments according to customer needs and price sensitivities. Management then has to measure the attractiveness of the different segment in terms of size, growth rate, intensity of competition, profit margins and its fit to the organisations current or potential

capabilities. Finally to research the existing and latent needs of the customers in the chosen market/s. Research into the types of problems customers face, the competition, and quality expectations will pave the way for setting service quality standards.

### 2.5.2 Differential Advantage or Managing Differentiation

Price cutting is most often used as a strategy to attract customers. In fiercely competitive industries, price cutting no longer achieves competitive advantages. Kotler suggests the following alternatives:

- The offer of the service can include innovative features. What the customer expects is called the primary service package, and to this can be added the secondary service features. In the insurance industry for example, brokers could supply their clients with portfolio holders, also brokers could communicate daily, weekly or monthly changes in their portfolio values to their clients.
- Improving the physical environment in which the delivery takes place can enhance Service delivery. Door to door delivery may require well-groomed delivery personnel. Insurance companies can have claims inspectors arriving on the scene of the death to make spot payments.
- The image of the organisation can be differentiated through symbols and branding. Slogans such as ‘we’re on your side’, help to restore continued customer confidence in the brand.

The organisation has to reaffirm its position by understanding and satisfying the attributes that are most important to the customer. The differentiation has to be based upon superior reliability, faster response time, better performance and greater convenience.

### 2.5.3. Operating Strategy

Management has to develop an operating strategy that can transform a marketing opportunity into high performance for the company.

- The first step is to search for value-cost leverage. This means maximising the value of the service as perceived by the customer, and cost to company for providing it. A useful starting point is to separate those activities that directly provide customer

value (front desk) and those that are support activities, which the customer does not normally see (back office). The criterion for the front desk should be: how can the operation be designed to maximise customer service? The criterion for the back office should be: how can we minimise cost by standardisation and automation? Methods of leveraging value include exploring the sources of any gaps between customer expectations and perceived performance, and finding new ways of motivating service personnel to work more effectively. Cost structures and break-even can be lowered by better management of capacity and demand, introducing hard and soft technologies into the operation and exploring whether the customer can play a greater part in the production-delivery system.

- The design of the system consists of three main issues. How will quality and cost be controlled? This involves setting targets, incentives and rewards for achieving goals. It also means defining the standards by which quality, costs, productivity, staff loyalty and morale will be measured. Next, what are the key elements of the service delivery system? This involves designing the role of staff, technology, equipment and procedures. Then it is necessary to determine what capacity will be provided and to estimate what its utilisation will be, both normally and at peak times.
- It is crucial to ensure consistent integration of strategy and systems. Customer service quality should not be sacrificed at the cost of smooth operations. There is no point in developing a wonderful consumer service concept if the organisation cannot achieve a level of productivity to break even with it.
- Finally, but not least importantly, managers have to ask, what needs do the employees have, how do they perceive the service concept, and how can they share in the ownership and rewards of the operation? Heskett calls this the inner-directed vision.

#### 2.5.4. Selecting the Optimal Marketing Mix for Service Organisations

Once the target market, differential advantage and operating strategy are defined, management will then need to decide on the marketing mix. The four P's, namely product, price promotion and place form the foundation of a good marketing strategy.

More current literature has identified another three P's, namely process, people and physical aspect as crucial to developing a competitive marketing strategy:

#### 2.5.4.1. Product

Goods can be viewed in terms of their physical attributes. However, services are intangible. This creates two problems for the customer. First, it is often difficult to understand the service that is being offered. Second, because the customers cannot check out a service in advance, they do not know in detail what they are going to receive and how they are going to receive it. Also, they cannot measure the performance of the service upfront. The result is higher perceived risk. Fortunately, most service businesses do employ some tangibles – facilities, people, equipment and advertising materials – alongside their core service. The most effective approach to generating confidence is to usually to emphasise tangibles that customers can understand. An insurance company for example, should have presentation facilities that appear innovative and prosperous. The second problem is that, since contact personnel (intermediaries) are seen by the customers as embodying the service, it is crucial that they look right and reflect the image of the organisation.

Most importantly, the product or service should be designed according to customers needs. Services may have to be modified to fulfil individual requirements.

An important consideration would be to assess the brand equity associated with the service. Marketers have to consider along their product- line quality, where the focus on equity will be. The question that arises is, will the focus be on highest or lowest quality product? To say that a product or service has a life cycle is to assert four things:

- Products have a limited life
- Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller
- Profits rise and fall at different stages of the product life cycle

- Products require different marketing, Financial, manufacturing, purchasing and human resource strategies in each stage of their life cycle

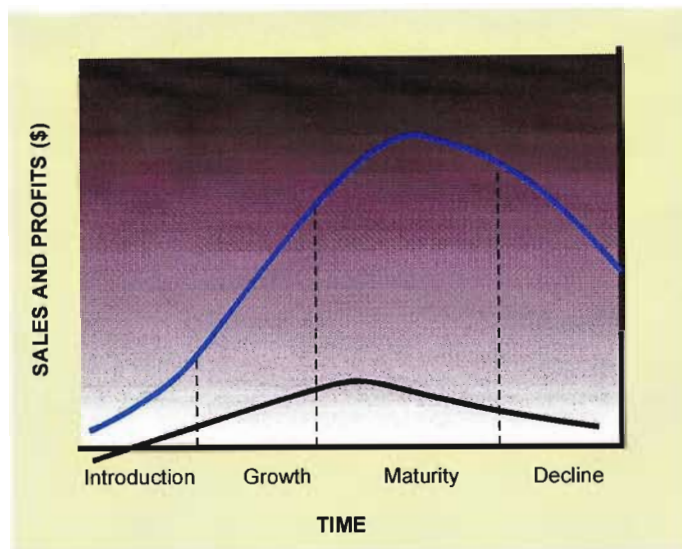


Figure 2.9 – Sales and Profit Life Cycles

At introduction stage, a period of slow sales growth is experienced. Profits are nonconsistent due to heavy marketing expenses.

During the growth stage, a period of rapid market acceptance and substantial profit improvement is realised.

At maturity stage, slowdown in sales growth is experienced due to market acceptance by most potential buyers. Profits stabilise or decline due to increased competition.

In the decline phase, sales show a downward trend and profits erode.

It is at the tail of the maturity stage that management have to innovate and implement new strategies such as brand extension or product line extension or product remodelling to create a new growth phase.

#### ➤ Branding

Brand equity is ultimately expressed in the marketplace, hence firms and customers must be aware of the structure of the product line for the effect to be active. If the marketplace is not aware of the extent of a product line, then the extent is unlikely to be associated with the brand equity. Brand equity may also be influenced by the market's

perception of where the brand focuses its marketing efforts. For a given product line, we might expect a company that chooses high end distribution channels and that advertises in media targeting the high end would develop more brand equity in the middle of the market than a company focussing its marketing resources on mass channels and mass media. Part of the exclusivity and prestige of a brand may be associated with its marketing emphasis at the high- end distribution channel or target market. The paradox is that the value of a focus on the high end of the market actually accrues in the middle of the market. So, a company may simultaneously have to commit resources to create the impression of high-end focus while communicating this impression to the middle of the market.

#### 2.5.4.2. Price

Price has a psychological and an economic role. Because there is greater uncertainty attached to buying services, price is sometimes used as a cue to quality. In other words, low price may indicate low quality and vice versa. However, this effect is not universal and usually applies when there is no other information available and when the consumer has limited experience of using the service.

Economically, price is a key determinant of the organisations revenue and profitability. Customers will pay a premium for services that they see as offering superior value. Most markets are highly segmented, so there are opportunities for price discrimination. Pricing is also sensitive to the demographics of the target market and general economic conditions prevailing at the time. This would require a continuous overview of external economic trends and conditions to combat price wars and retain market share. Marketers need to benchmark their pricing strategy against their nearest arch rival and not necessarily against the biggest or best provider in the industry.

When selecting the pricing objective, the company first decides where it wants to position its market offerings. A company can pursue one of five major objectives: survival, maximum current profit, maximum market share, skimming or product/service-quality leadership.

- Companies pursue survival if they are plagued with over-capacity, intense competition or changing consumer wants. As long as price covers variable costs and



some fixed costs, the company will stay in business. However in the long run, the firm must learn how to add value to increase its prices and long-run profitability.

- Many firms set a price to maximise profits. They estimate the demand and costs associated with various pricing alternatives and choose the one that maximises profits, cash flow or return on investment. This strategy could be detrimental to long-run survival as competition threatens short-run profits.
- Some companies try to maximise market share. They believe that higher sales volumes could lead to economies of scale, and higher long-run profits. By setting lowest prices, they achieve their objectives of increased market share and creating barriers to entry. This strategy could work well in highly price sensitive markets.
- Many firms favour setting high prices to skim the market. This strategy gives an innovative firm the opportunity to extort higher profit by entering the market first. The higher initial price communicates the image of a superior product. However, these profits are short-term. As competition enters the market, prices will bottom out.
- A company might aim to be the product-quality leader in the market place. Top quality brands have a status appeal. Companies like Rolex, Rolls Royce and Leica ignore the mass market and try to cultivate customers who can pay substantially more for superior quality products.

Each price level will lead to different level of demand and therefore have a different impact on a company's marketing objective. The price sensitivity of a product/service will determine the change in demand. Doyle (2002) illustrates these strategies in the figure below:

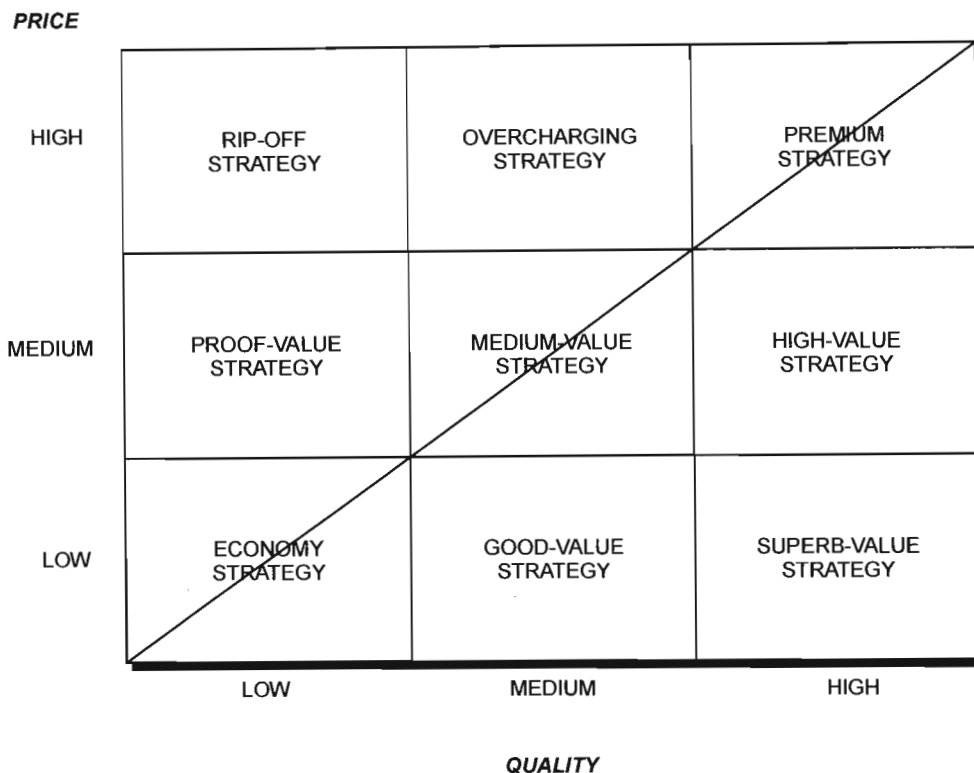


Figure 2.10. - Alternative Pricing Strategies and Value Implications

Positions along the diagonal or to the right of it offer combinations of quality and price that represent value to the customers. The premium strategy represents high quality products at high prices and conversely, the economy strategy is sustainable only so long as competitors cannot offer better quality at similar price. The economy strategy is used when market penetration and market share is the pricing objective. Any combination to the left of the diagonal will surely be short lived as soon as customers become aware of lower value.

The difficulty most firms are faced with is initiating price changes with a view to increasing margins. Cost cutting is the least sensitive way to increase profits. However, the experience curve, increasing competition and rising customer price sensitivity as markets evolve all stimulate pressure on firms to reduce prices. During high inflationary periods, price increases are less difficult to achieve. Doyle (2002) suggests

that customers normally expect to pay more for products with superior benefits or high economic value. The figure below describes some strategies available to firms wanting to improve profits.

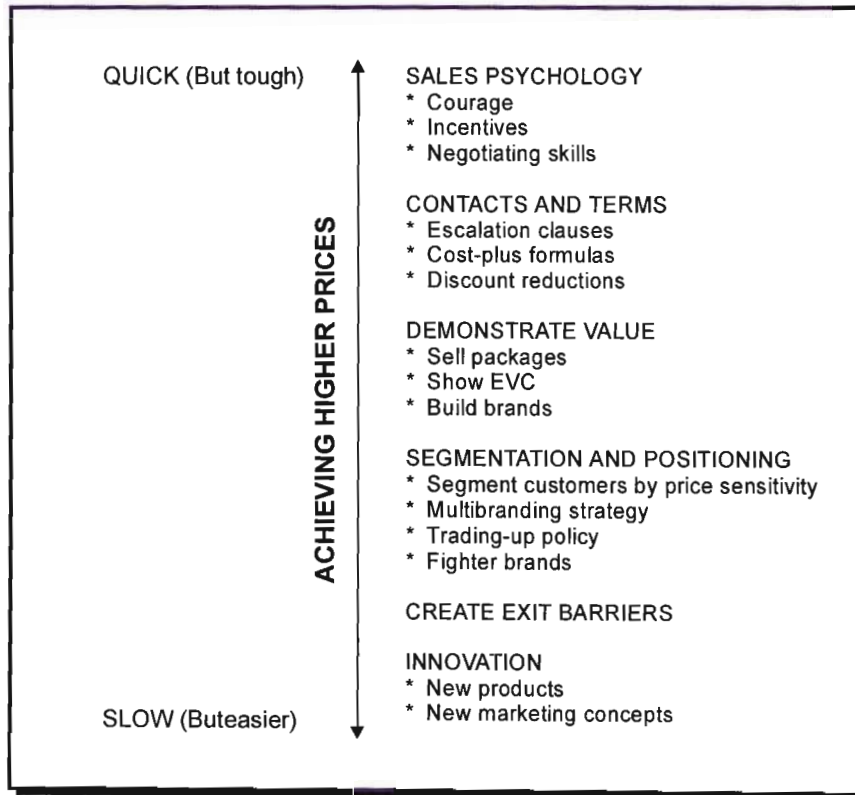


Figure 2.11. – How to Obtain Higher Prices

Pricing is the only element of the marketing mix that directly generates revenue. Pricing policies have the biggest impact on short and long run profitability. In the short-term, strategies for survival, market share and penetration are most appropriate, whilst higher prices and increased margins depend upon value creating strategies in the long-term.

#### 2.5.4.3. Promotion / Communication

Intangibles are more difficult to advertise, promote and communicate than products. Because of the experiential nature of services, word of mouth is generally more powerful than advertising. Consequently, service firms should seek to encourage customers to tell their friends about the good performance they receive. Some firms provide incentives to clients for quality referrals. Nonetheless, word of mouth strategy

is slow in creating brand awareness, therefore the need to implement a sound promotion and communications strategy. Sales promotions are of three main types:

| CONSUMER PROMOTIONS | TRADE PROMOTIONS   | SALES FORCE PROMOTIONS |
|---------------------|--------------------|------------------------|
| Price reductions    | Dealer loaders     | Bonuses                |
| Coupons             | Loyalty bonuses    | Commissions            |
| Vouchers            | Sale or return     | Coupons                |
| Competitions        | Range bonuses      | Free gifts             |
| Free goods          | Credit             | Competitions           |
| Premium offers      | Delayed invoicing  | Vouchers               |
| Trade-in offers     | New product offers | Free services          |
| Stamps              | Competitions       | Points                 |
| Guarantees          | Trade-in offers    | Money equivalents      |
| Events              | Free services      |                        |
| Displays            | Training           |                        |
|                     | Reciprocal buying  |                        |

Table 2.5 – Types of Sales Promotions

## SALES PROMOTIONS

Doyle (2002), alleges that spend on sales promotions have exceeded spend on brand advertising. The argument is that advertising gives customers a rational or emotional argument for purchasing, whereas, sales promotions offer economic incentives in the form of price reductions, rebates and free goods. This theory may apply strongly to overcome short-term pressures faced by management. Brand advertising, arguably takes much longer to have its full effect on the consumer, but economic incentives can improve and increase performance to achieve short-term sales objectives. The other argument in favour of sales promotions is that advertising has a declining effect due to the increasing number of messages customers receive daily. Customers are always looking out for a ‘deal’. In mature and competitive markets, brands of similar value have less effect of attracting customers as opposed to ‘special deals’ that offer discounts, rebates or other economic incentives.

## TRADE PROMOTIONS

Manufacturers incentivise retailers to achieve the following objectives:

- To persuade them to stock the brand

- To persuade outlets to push the product
- To compensate for price increases

## CONSUMER PROMOTIONS

Consumer promotions can increase sales in one or more ways:

- Attracting new customers to try the brand
- Increasing the loyalty of existing customers
- Inducing customers to use more of the product

## SALESFORCE PROMOTIONS

During lean and quiet trading periods, firms incentivise their sales employees to achieve the following objectives:

- Motivate staff to increase output
- Motivate staff to find new customers
- Instil a morale of continuity in the business
- To conduct market research and gather intelligence
- Service existing customers

## COMMUNICATION PROCESS

In this day and age it is imperative that customers can communicate to firms as easily as firms communicate their message to customers. Kotler (2000), identifies eight steps in developing effective communications:

- Identifying the target audience; the target audience is critical in designing the quality and delivery of products and services. Using the familiarity scale, the researcher can establish the audience familiarity of the firm's products and services. Using a favorability scale, the researcher can establish what percentage of the audience prefers the firm's products.
- Determining the communication objectives; the marketer can be seeking a cognitive, affective or behavioural response. Lavidge and Steiner (1961) illustrate six stages in their hierarchy of effects model consumers go through in making a decision. Firstly, consumers have to be made aware of the product or service being

offered. Secondly, product or service knowledge must be communicated. Thirdly, the audience has to develop a liking for the product. Fourthly, the communicator must build a favourable preference by promoting quality, value, performance and other features. Fifthly, the communicator must encourage consumer conviction towards the brand, and finally, the price must be set to encourage the consumer to buy.

- Designing the message; the message should gain attention, hold interest, arouse desire and elicit action. Formulating the message requires solving four problems; what to say, how to say it logically, how to say it symbolically, and who should say it.
- Selecting the communication channels; the company can choose personal or non-personal communication channels. Through personal communication, companies identify influential individuals and firms and devote extra time to them. They use influential people and celebrities to promote and advertise their services. Non-personal communication engages the media and other forms of print advertising to distribute the message.
- Establishing the total marketing communications budget; firstly, the budget must be affordable. The finance department with respect to profitability usually establishes this. Secondly, it can be calculated as a percentage of sales. Here the spend is allocated as part of the variable cost of sales. The third option is to benchmark your competitors. This practice should be exercised with extreme caution. Finally, the objective-and- task method calls upon marketers to develop budgets by defining specific objectives, determining the tasks that must be performed to achieve these objectives, and estimate the cost of performing these tasks.
- Deciding the communications mix; companies must allocate the promotion budget over the five promotional tools – advertising, sales promotion, public relations and publicity, sales force, and direct marketing.
- Factors in setting the marketing communications mix; type of product market, whether to use a push or pull strategy, consumer readiness to make a purchase and the companies market rank are essential in developing the right mix.

- Measuring results; measuring response through sales or response cards will offer good information for future promotional and communications strategy.

The choices that buyers make are a function of three stimuli. First, their broad social environment – their culture, personalities and economic situation. Second, the competitive products in the market. Third, the message that is transmitted by the firm. The role of communications is to persuade customers about its advantages through effective advertising, direct response, sales promotions, good public relations and direct selling. Planning is essential to achieve optimum impact of the whole communications mix.

#### 2.5.4.4. Place / Distribution

The ‘fourth’ P of the marketing mix is commonly known as ‘place’ in the retailing environment. In service marketing the word distribution is more appropriate because of the ‘mobility’ of service marketing. The choice and design of the marketing channel is strategically important because it is a long-term decision and not easily changed as with the other “P’s”. Many service providers lack the financial resources to carry out direct marketing and therefore delegate the task of selling to intermediaries. In the long term insurance industry, brokers and agents are commissioned to market the products and services, which are usually complex and require personal selling. With the invent of internet technology, basic products like unit trust investments are commonly marketed by insurance companies on the ‘net’, however, risk and retirement products require in-depth financial planning. Intermediaries are well equipped to change, modify or customise packages to suit individual needs.

Intermediaries normally achieve superior efficiency in marketing insurance products to their target markets through contacts, experience and specialisation.

When recruiting, firms should determine what characteristics distinguish the better intermediaries. They should evaluate the number of years in the business, qualifications, track record, financial soundness and reputation. Importantly, the firm should evaluate the intermediary’s client base and personal profile to see if it aligns with the firm’s requirements.

If intermediaries are to market the firm's products efficiently and effectively, they need to be motivated. Promotional channel motivators are essentially short-term economic inducements to push and achieve short-term objectives. Partnership motivators are necessary to obtain consistency and long-term interest between suppliers and channel members. Incentives and rewards are developed to maintain long-term mutually beneficial relationships.

The firm has to control or influence its intermediaries to act in a way that is instrumental to its interest. The level of control depends upon predetermined and agreed performance targets. To exert effective control, the firm has to build up channel power, the ability to influence the activities of other channel members.

Doyle (2002) suggests that the ability to control or lead a channel derives from both economic and non-economic sources of power. The economic sources of power are derived from the firm's financial strength and attractive product range. The non-economic power emanates from its offerings of rewards, expertise, reputation, contractual and coercive power.

Intermediaries can often perform distribution and other marketing tasks more effectively and efficiently than suppliers that lack core competences in these areas. But firms can never delegate responsibility for strategy to intermediaries. Management is responsible for channel member selection, managing and controlling channels and assessing how the marketing channel needs to evolve with changing environments in which the firm operates.

In addition to the four P's discussed above, Booms and Bitner suggest three additional P's for service marketing:

#### 2.5.4.5. People

Because people provide most services, the selection, training, and motivation of employees can make a huge difference in customer satisfaction. Ideally, employees



should exhibit competence, a caring attitude, responsiveness, initiative, problem-solving ability, and goodwill.

#### 2.5.4.6. Physical Evidence

Companies also try to demonstrate their service quality through physical evidence and presentation. An insurance company would like to create an observable style that indicates efficiency, speed and financial expertise. An aura of technological, computerised state of the art office décor should prevail.

#### 2.5.4.7. Process

Finally, service companies can choose among different processes to deliver their service. A client at an insurance company may only interact with a financial advisor or staff in policy services. However, the delivery of service involves a whole lot of internal processes, which the client does not see. Therefore, it is important for marketing to get everyone else in the organisation to practice marketing.

### **2.6. Marketing within the Service Organisation**

Marketing within service organisations cannot be separated from their key business unit functions. It is fundamental that a marketing orientation permeates all personnel in the organisation because experts argue that separate marketing departments can have disastrous consequences on quality. Bateson (2002) suggests a contingency approach where organisation of marketing departments should be dependent on the firm and its environment, as discussed in the figure below. Most service firms can be described according to two dimensions: the degree of customer contact and the degree of customisation. High customer contact involves a greater involvement with consumers which slows down the system and prevents standardisation and therefore the higher the customer contact, the greater the difficulty of running a high productivity organisation. Conversely, the higher the degree of individual customisation, the more difficult it is to run an efficient production line system. In the figure below, the different cells entail different roles and organising for marketing. In the high/high cell there is little scope for centralised marketing departments or even specialised marketing personnel. This function lies with professional operators (example lawyers, consultants, accountants) who have intensive contact with the clients and customise the service client by client. In

contrast, in the low/low cell (example car rental) the business is offering a highly standardised service and customer contact is limited. Therefore, such a situation calls for a centralised marketing and brand development. In the other two cells, which mix the high and low dimensions, marketing takes place through a centralised marketing department where marketing tasks are shared and scale economies can be achieved in advertising and brand-building. This creates a stronger customer orientation to the business.

From this we can conclude and say that from a marketing perspective a high/high cell is ideal, since there is greater interaction with the customer and solutions can be designed individually. There is greater efficiency and effectiveness for the organisation.

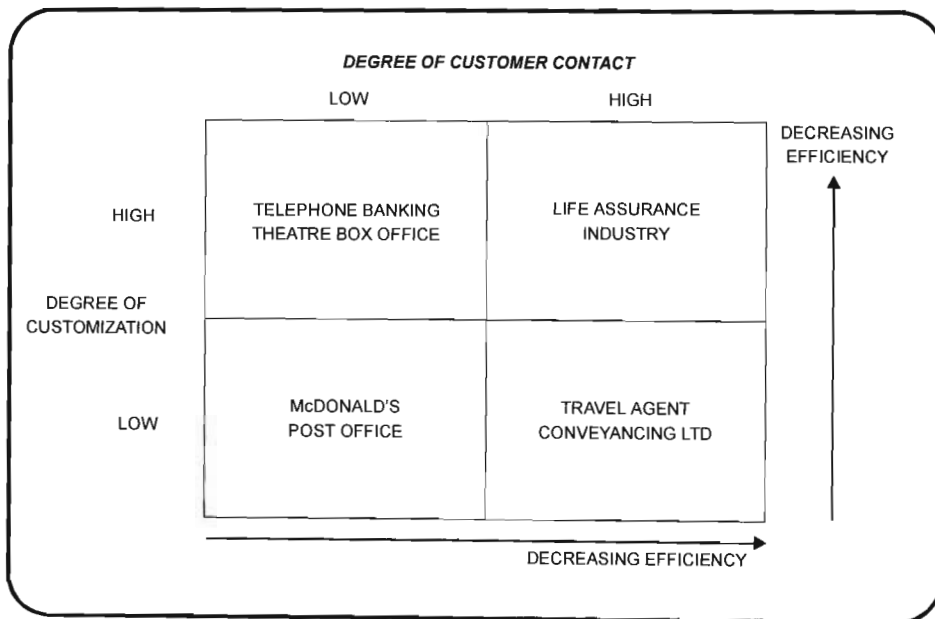


Figure 2.12. – The Customisation / Customer Contact Matrix (Source: Bateson, E.G. 1992. *Managing Services: text and Readings*. Thomson Learning).

## 2.7. Conclusion

➤ Three types of marketing in service industries.

Gronroos (1984), has argued that service marketing requires not only external marketing but also internal and interactive marketing, see model below:

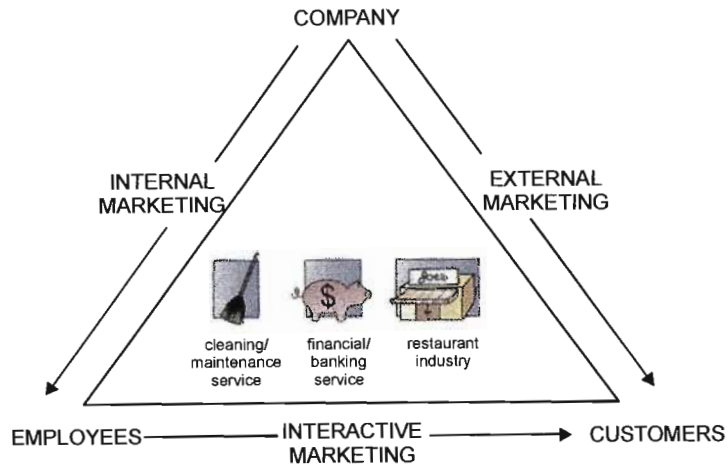


Figure 2.13 – Marketing in Service Industries

External marketing describes the normal work to prepare, price, distribute and promote the services to customers. External marketing communicates to customers the quality, value and image of the service and the company. It is the channel through which customers perceive the service and the company image. This is the stage at which the service is visible to the customer. It includes advertising, billing systems, sales calls, media stories and word of mouth comments.

Internal marketing is that which takes place within the organisation and is not visible to the customer. It can be described as the process, which trains and motivates employees to serve the customers well. In the insurance industry, the administration and policy servicing departments employ internal marketing. Berry (1986), has argued that the most important contribution the marketing department can make is to be “exceptionally clever in getting everyone else in the organisation to practice marketing.”

Interactive marketing describes the employees’ skills in serving the client. In the insurance industry, interactive marketing takes place when clients interact with intermediaries and personnel in policy servicing. This is the point at which not only the

technical quality (product/service features) is evaluated, but also the functional quality (the personal touch) of the service is measured. Berry argues that service providers must deliver “high touch” as well as “high tech.”

➤ Managing service quality

A service firm wins and retains customers by consistently delivering higher-quality service than competitors and exceeding customer expectations. These expectations are formed by past experience, word of mouth and advertising. Customers compare perceived service with expected service. These expectations are underpinned by five determinants of service quality:

- Reliability; the ability to perform the promised service dependably and accurately
- Responsiveness; the willingness to help customers and to provide prompt service
- Assurance; the knowledge and courtesy of employees and their ability to convey trust and confidence
- Empathy; the provision of caring, individualised attention to customers
- Tangibles; the appearance of physical facilities, equipment, personnel, and communication materials.

➤ The four tenets to live by

Withal et al (1990) suggest the following four tenets to reach superior service:

- Seek constant improvement; service excellence is an attitude, a mindset; it is also competence and design. The process of service quality should be continuous in good and bad times. Marketing management should develop a culture of ongoing improvement.
- Forget about being a commodity business; service excellence should be seen as an opportunity to differentiate your offerings from competitors by competing on value rather than price.
- Do the service right the first time; first impressions are lasting. Consumers are weary about companies that are careless, and casual about their promises. Apologies tend to wear thin when a company is unreliable and frequently makes mistakes.

- Do the service very right the second time; excellent reliability and recovery represent a powerful one-two punch in service quality. Customers are used to experiencing additional hassle and disappointments. Thus, quick, competent, courteous problem resolution gives organisations an excellent opportunity to impress customers and recover much of the confidence lost via the original service encounter.

Service Marketing has achieved a scientific connotation. Over time, researchers have shown that consumer behaviour is complex and the offerings are wide and varied. The modern consumer demands superior service quality and the number of competitors have increased. The challenge facing marketing executives is to design and develop processes both internally and externally that continuously attracts and delights their target market. Studies have shown that long-term profitability can only be sustained by exciting and retaining customers. Organisations need to seek continuous improvement and differentiation from competitors, combining ultra reliable service with excellent recovery on comebacks. Executives must display service leadership to inspire people to be the best they can; by empowering them with skills, tools and technology to facilitate their work processes, and by building internal cultures of teamwork, congruence and achievement.

The next chapter will describe the challenges and regulations facing the life assurance industry and illustrate particularly the rise and efforts of Sage Life as a service provider in the financial services industry.

## **CHAPTER 3 – SERVICE DELIVERY IN THE LIFE ASSURANCE INDUSTRY WITH A PRESENTATION OF THE SAGE LIFE GROUP**

### **Winston Churchill Once Said:**

“If I had my way I would write the word ‘insure’ over the door of every cottage and upon the blotting book of every public man, because I am convinced that for sacrifices which are inconceivably small, families can be secured against catastrophes which otherwise would smash them up forever. It is our duty to arrest the ghastly waste, not merely of human happiness but of material health and strength which follows them, through the death of a breadwinner, the frail boat in which fortunes of the family are embarked flounders and the women and children are left to struggle helplessly on the dark waters of a friendless world.”

### **3.1. Introduction**

The Life Assurance industry has transformed greatly over the last decade. Sage Life as a major player in the Life Assurance industry has simultaneously undergone many changes to comply with changing legislation and requirements, many of which relate to improving customer service. The industry is made up of some very large competitors against, which Sage Life competes on price, product and most importantly service delivery.

This chapter will review the changing legislation and challenges facing the industry and a follow on discussion on how Sage Life has adapted to these challenges. A discussion on competitor profiling and analysis has been included.

### **3.2. Life Assurance Industry**

The life assurance industry can be seen as one of the pillars of the financial services sector. This industry serves millions of people wanting to achieve financial security.

#### **3.2.1. Historical Background to Life Assurance / Financial Services**

The first life insurance policy was issued in 1583. In that year, William Gybbons, a London citizen, is said to have bought a one-year term insurance policy for thirty-two pounds. He died

within the year and his heirs collected four hundred pounds. Many thousands of years ago, the families of Roman soldiers were paid out funeral costs on the death of their warriors. Some of their pay was set-aside in a central fund for this purpose and on retirement, soldiers were paid out their portion. In the 14<sup>th</sup> century, English merchants insured against the loss of their cargoes, slaves and officers of their ships. Notices were pinned in public places giving details of the risks a merchant wished to insure. Those willing to guarantee these risks, wrote their name and the amount they were prepared to guarantee on the list below – hence the word underwriting. The most famous such place was Lloyd’s Coffee House in London. As time passed, individual underwriters departed and assurance societies were formed. The first life assurance company was the Amicable Society for Perpetual Assurance Office founded in 1705.

Many schemes emerged over time, some provided annuity income and others provided death benefits. A fascinating malpractice that developed was to insure the life of some famous person as a form of gambling. There is a story of doubtful origin and therefore of doubtful validity that a merchant in England put a price on the head of an infamous highway robber, Dick Turpin, and also insured Turpin’s life in order to provide the money to pay the reward to whoever murdered him. So life insurance companies began to insist upon evidence of ‘insurable interest’ when you apply to insure the life of another.

### 3.2.2. Overview of the Life Assurance in South Africa

The life insurance industry in South Africa (SA) is affected by a large number of very different factors, underpinned by socio-political change in an increasingly turbulent economic environment. Financial institutions are operating in an environment mauled with new and changing legislation, surrounded by competitors eager to buy-out or takeover or shutdown competitors. Mergers and acquisitions appear to be the order of the day. Players are forced to rationalise, streamline and be on the cutting edge of technology to keep up with the market leaders.

Changing consumer expectations in the high-income/high net-worth market are having a major impact on product development. The pendulum swing of the Rand against major currencies has further exacerbated the problem. The product mix for this market is now shifting towards

specific products for specific client needs. Hence the emergence of 'risk only' and 'new generation' investment products. Furthermore, life insurance planning forms only part of a client's total financial planning. The industry and clients are demanding the transformation of insurance agents into total financial planners. This move will enhance customer loyalty and control of clients assets to better serve them. The management of lapses and surrenders is critical, especially as most analysts agree that the traditional life assurance in South Africa is mature and stagnant. The only way to grow is to increase market share. This means that the focus is not to find more customers for your products, but to find more products for your customers.

Analysts expect that the "black" component of the middle-income market will increase from currently about 13% to over 30% over the next five years. Data from large insurers indicates that the middle-income market already buys more recurring premium products than high-income market. The endorsement of 'affirmative action employment' and strong emergence of black empowerment, will drive the emerging market into a strong middle-income market.

The impact of AIDS will be the most important demographic development in the low-income market. A model from the Actuarial Society shows that mortality rates will increase by almost 90% by 2004 in the 20 to 40 age group. Although most companies with universally priced products can increase rates, analysts expect that AIDS will still have a negative impact on profitability of risk products in the low-income market.

#### 3.2.2.1. Economic Investment Overview

Investment planning is the process of examining client's objectives (i.e. income and capital growth) together with a client's risk profile and designing an investment strategy which takes into account the impact of risk, inflation, taxation, liquidity and returns, thereby satisfying the client's needs. The value of Life Assurance within an investment portfolio should never be underestimated. Life assurance is the only investment, which will provide a large amount of money in the event of death of a client for a relatively small monthly premium. The key underlying asset classes are bonds, equities, property, and cash. The most current economic overview below illustrates the challenges fund managers are faced with on a daily basis:



After a rebound in confidence in the fourth quarter of 2002, international economic indicators uniformly weakened over the first quarter of 2003. Rand strength assumed center stage this quarter, to the surprise of most market participants. Inflation improved somewhat on the back of a stronger Rand, analyst predict a sharp fall in the CPIX over the second half of 2003. Tax cuts announced in the current budget will give some relief against slow consumption spending, while rates' cuts will set the stage for a recovery in the durable component of consumption spending. The anticipated interest rate cut should accelerate capital spending. It is against this backdrop of constantly changing economic conditions that fund managers have to make investment decisions.

|                      | <b>1<sup>st</sup> Quarter</b> | <b>12 Months</b> |
|----------------------|-------------------------------|------------------|
| JSE All Share (Rand) | - 16, 3 %                     | - 27, 7 %        |
| RSA All Bond (Rand)  | + 4, 9 %                      | + 27, 9 %        |
| Cash (Rand)          | + 3, 4 %                      | + 12, 6 %        |
| MSCI (Dollar)        | - 5, 5 %                      | - 25, 4 %        |
|                      |                               |                  |

Table 3.1 - SAGE Investment Overview Update –Sector Returns (to 31 March 2003) Source: Sage Life Investment Update, April 2003)

After an exceptional 2002, during which the JSE outperformed the MSCI World Index by 50% in dollar terms, the first quarter of 2003 proved to be an exceptionally difficult quarter, with the JSE falling 16% in rand terms, and 8% in US dollar terms.

### 3.2.2.2. Foreign Equities and Bonds

Given the unexciting prospects for economic growth in the major economies, the expensive equity valuations and the uncertain geopolitical outlook (particularly in Iraq and North Korea), it remains prudent to be underweight in foreign equities in the short term and look for equity growth when stability reigns.

### 3.2.2.3. Domestic Equities

Domestic bonds outperformed domestic equities, with the strong rand being the main driver of bond performance, while at the same time resulting in pressure on the All Share Index as prices of the major dual-listed stocks came under pressure.

### 3.2.2.4. Domestic Bonds

Bonds rallied very sharply during the final quarter of 2002, led by the short end as investors began to price in a decline in official interest rates as early as March 2003. The rally was helped by a significant appreciation in the value of the rand, which has now unwound all of its weakness of the past year. Looking ahead, there is clearly now a fair degree of optimism priced in to the bond market, especially at the short-end, where interest rate futures are building in over 2.5% cut next year.

### 3.2.3. Structure of the Financial Services Industry

The financial services industry has a number of professional or membership bodies which are aimed at various groups in the industry. Members must conform to a code of conduct or professional rules which aim to set standards for behaviors and ethics in the industry. The role-players are divided into three different categories: the regulatory bodies, the consumer protection bodies and the industry bodies.

#### 3.2.3.1. Regulatory Bodies

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| Financial Services Board | <p>The FSB is a unique independent institution established to oversee the South African non-banking financial services industry in the public interest. The mission of the FSB is to promote sound and efficient financial institutions and services, together with providing mechanisms for investor protection in the markets is supervises.</p> <p>The FSB acts in a supervisory and advisory capacity. It supervises activities that concern the exercise of control over the</p> |
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|                                | <p>financial institutions and service providers that fall within the FSB's control. In addition, the FSB acts in advisory capacity to the Minister of Finance.</p> <p>The most stringent sanction is the cancellation of the authorization to supply financial services.</p>  |
| South African Reserve Bank     | <p>The SARB is the central bank of the Republic of South Africa and performs various functions and duties that the other banks or financial institutions do not carry out and is also responsible for foreign exchange regulations applying to the South African currency.</p> <p>The main task of the Bank currently is to defend the value of the Rand. In other words, the Bank tries to keep inflation as low as possible. For SARB to protect the value of the Rand, it must be empowered to control the moneymaking capacity of the banking sector.</p> <p>In addition, SARB has responsibilities that distinguish its role in the economy from the role of other banks. For many years SARB has performed practically the same functions and duties that central banks normally carry out.</p> |
| South African Revenue Services | <p>SARS is a statutory body responsible for tax legislation. It also regulates aspects of retirement funds and is responsible for collecting revenue on behalf of the state in South Africa.</p>  |

### 3.2.3.2. Consumer protection bodies

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| Office of the Banking Adjudicator       | <p>The office of the Banking Adjudicator resolves individual complaints about banking services and products. It is an independent and impartial body that reports to the Banking Adjudicator's Commission, not to the banks.</p> |
| Office of the Pension Funds Adjudicator | <p>The Office of the Pension Funds Adjudicator was established to investigate</p>  |

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|  | <p>complaints lodged in terms of the Pension Funds Act in a cost effective manner. In order to lodge a complaint, the complainant must be a member or former member of a pension fund, a beneficiary or former beneficiary of a fund, or an employer who participates in a fund.</p>   |
| <p>Short –term insurance ombudsman</p> | <p>The purpose of the Short-term Insurance Ombudsman is to resolve short-term insurance disputes between members of the South African Insurance Association (SAIA) and consumers in an independent, impartial, cost effective, efficient, informal and fair manner. The Ombudsman’s duty is to evaluate claims received in proper format, but is limited to dealing with “private line” claims against Short-term insurers where the insurer has repudiated a claim under a policy and in the insured party maintains that the insurer’s repudiation was wrong or legally unsound.</p> |
| <p>Long-term Assurance ombudsman</p>   | <p>The main objective of the Long-term Insurance Ombudsman is to mediate between the assurers and policyholders in disputes regarding long-term assurance. The Ombud was created to speed up the process of resolving disputes within this arena, the objective being to have a cost-effective and efficient system in place. There is legislation specific to the role of the Ombud, which will be discussed in greater detail later in this manual.</p>  |

### 3.2.3.3. Representative bodies

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| <p>Association of Unit Trusts</p>                          | <p>The AUT represents the collective interest of all South African unit trust management companies and their unit holders. The primary aim is to facilitate the development and growth of the industry, primarily through its dealings with the authorities and through regular communication with the media, financial planners and advisors and the investing public. Members subscribe to a code of ethics, which states that all members are committed to conducting their business in accordance with the law, the highest standard of ethical behaviour and a sense of fair play.</p> <p>The AUT provides qualifications through education partners in unit trusts and investments. It also hosts a series of financial planner forums aimed at financial planners and advisors, designed to address issues that impact directly of the advisor community and to offer solutions from a unit trust perspective.</p> |
| <p>Banking Council of South Africa</p>                     | <p>The Banking Council of South Africa is an industry body whose primary role is to establish and maintain the best possible framework for banking groups to practice responsibility, yet competitive and profitable, banking. One of its core functions is to provide comment and submissions on regulatory changes, legislation and consumer concerns that affect the banking industry.</p>   |
| <p>Compliance Institute of South Africa</p>                | <p>The Compliance Institute of South Africa (CISA) is a non-profit organization whose main objective is to encourage and promote compliance within the regulatory environment of the South African financial services industry. Their current emphasis is setting challenging objectives, is the development of an industry compliance manual or CISA Member's Handbook.</p>  |
| <p>Financial Intermediaries Federation of South Africa</p> | <p>This federation comprises the Insurance Brokers Council (IBC) , the Life Underwriters Association of South Africa</p>  |

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|                                     | <p>(LUASA) and the South African Financial Services Intermediaries Association (SAFSIA). FIFSA is a new representative umbrella organization for intermediaries, both brokers and company representatives, to speak on their behalf in matters of common concern.</p>   |
| <p>Financial Planning Institute</p> | <p>The Financial Planning Institute is a body dedicated to the profession of financial planning. The organization changed its name from the Institute of Life and Pensions Advisors (ILPA) to reflect a change of focus from life business to the whole spectrum that makes up personal financial planning.</p> <p>The FPI now has two levels of membership below the Certified Financial Planner. This means that financial advisors may join the institute at three different levels of membership, namely:</p> <ul style="list-style-type: none"> <li>• The certified financial planner (CFP), or</li> <li>• An associate member (AFPI), or</li> <li>• A member (MFPI).</li> </ul> <p>To become a member of the FPI, the financial advisor must comply with the Institute's Code of Conduct and a Generally Accepted Planning Practice document (GAPP), be found acceptable by the ethical standards committee, have the required level of relevant qualification for the membership level applied for and have completed an appropriate period of practical experience in financial advice – currently 3 years, 2 years for AFPI and 1 year for MFPI.</p> |
| <p>Insurance Brokers Council</p>    | <p>The Insurance Brokers Council (IBC) was established out of the need for independent brokers to have a national organization to act collectively on their behalf and in the interest of their clients. Their vision is to promote their member's independence and ensure their right to exercise and harness their collective industry capacity to the</p>  |

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|   | benefit of the consumer.   |
| IB Direct   | IB Direct is the commercial or business arm of the IBC (above) and belongs to every member of IBC. A certain percentage of the IBC membership fees goes to IB Direct in order to provide members with certain benefits.  |
| Insurance Sector Education and Training Authority | <p>INSETA represents that skills development interest of the following sectors</p> <ul style="list-style-type: none"> <li>• Short-term insurance</li> <li>• Life assurance</li> <li>• Insurance and pension funding</li> <li>• Risk management</li> <li>• Unit trusts</li> <li>• Health care benefits administration</li> <li>• Funeral Insurance</li> <li>• Reinsurance</li> <li>• Pension funding and any other activities auxiliary to financial intermediation.</li> </ul> <p>Its vision is based on quality skills development for sustainable business growth.</p>                           |
| Insurance Institute of Southern Africa            | The Insurance Institute of South Africa (IISA) is an educational body, which provides a platform for learning by offering a wide variety of qualifications within the different sectors of the financial services industry.  |
| Institute of Retirement Funds                     | The Institute of Retirement Funds (IRF) is a non-political body, which represents and promotes the interest of the retirement industry in Southern Africa, to the ultimate benefit of the members of retirement funds. The most important function of the IRF is to represent the retirement industry in negotiations with government authorities and the FSB. This function includes commenting on legislation and tax matters affecting retirement funds and their members. The IRF has been actively involved in setting out the key principles of retirement provision for all South Africans. |
| Life Offices Association of South Africa          | The Life Offices Association of South Africa (LOA) seeks to promote the  |

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|   | <p>interests of the long-term assurance industry. It is the industry's representative body for long-term assurers. The LOA is an association of registered long-term assurance companies conducting business in South Africa and, as a result, any intermediaries employed by these companies obtain registration to the LOA. The LOA regulates the business activities of its members to a limited extent by virtue of a number of different codes of conduct to which they have to adhere.</p> <p>The LOA seeks to promote the interests of the life assurance industry and the interests of the assured public.</p>  |
| <p>Life Underwriters Association of South Africa</p>    | <p>Although the Life Underwriters Association of South Africa (LUASA) mainly represents the agency force, it also focuses on independent brokers, tied agents, legal advisors and broker consultants.</p> <p>The mission of LUASA is to raise the status and advance the profession of financial services intermediaries and thereby protect the public they serve. Membership of LUASA provides access to the Million Dollar Round Table (MDRT), which is an international body that promotes the writing of quality insurance business. The MDRT is the premier association for the world's best sales professionals in the life assurance-based financial services business.</p> |
| <p>Linked Investment Services Providers Association</p> | <p>The Linked Investment Services Providers Association (LISPA) was formally established as a regulatory body for supplier in the linked product industry. A linked product supplier generally administers client investments that are regulated by the Stock Exchange and financial Markets legislation.</p>   |



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| <p>South African Financial Services Intermediaries Association</p> | <p>The South African Financial Services Intermediaries Association (SAAFSIA) is a national body representing the interest of firms operating in the financial services intermediary sector. It is recognized as such by the FSB.</p> <p>Their main objectives are to protect, promote and advance the common interest of its members and to promote agreement and co-operation between its members on all matters of mutual interest, to provide effective methods for examination and reconciliation of any differences and to introduce and maintain a level of professionalism in the financial services market for the benefit of the consuming public.</p> |
| <p>South African Insurance Association</p>                         | <p>The South African Insurance Association (SAIA) promotes the short-term insurance industry in order to create awareness and understanding of the industry. SAIA represents almost all the short-term insurance companies and is authorized to negotiate on their behalf.</p> <p>Their main objectives are the representation of its members' interest to the public in a proactive manner, to the government at all levels and the provision of a forum for discussion of common interests in the short term insurance industry.</p>  |
| <p>South African Institute of Financial Markets</p>                | <p>The South Institute of Financial Markets (SAIFM) aims to fulfill a unique role in the financial markets by developing the concept of self-regulation in the industry, balanced with central regulation, thereby ensuring a world-class financial sector. This process has already commenced through the creation of the Accredited Persons Central Register as a database of information on individuals whose credentials have been verified as well as the offer of internationally accredited qualifications.</p>  |

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|  | <p>The mission of the SAIFM is to promote professionalism and integrity in the South African Financial markets. Their vision is that all individuals participating in the financial markets. Their vision is that all individuals participating in the financial markets are members of or become accredited with the SAIFM and that it is recognized internationally as a credible association</p> |
|--|---|

Table 3.2 – Structure of the Regulatory Environment (Source: Sage Life Training Course Manual).

#### 3.2.4. Financial Services Regulatory Environment – (Framework for Customer Service Delivery)

The financial services environment is made up of service providers, consumers, analysts and regulatory bodies all lobbying to achieve a clean, fair and well-oiled industry. Consequently, service providers and intermediaries are constantly at the wrong end of the barrel. They are required to adapt to changes in regulations on an ongoing basis. Hence, planning is critical, and changes in regulation need to be integrated into the business as quickly as it occurs. Effective change management is necessary to overcome negative emotional responses and to create a climate of goodwill between service providers, their intermediaries and the consumers.

#### 3.2.5. Roles and Duties of Financial Services Providers and their Representatives

According to the Sage Life Compliance Manual (2003), the Code of Conduct applies to all financial advisers and should be regarded as the benchmark when dealing with clients:

##### 3.2.5.1. The General Code of Conduct for Authorised Financial Services Providers and their representatives

###### ➤ General Provisions

A provider must at all times render financial services honestly, fairly, with due skill, care and diligence, and in the interest of clients and the integrity of the financial services industry.

➤ Specific Duties

When a provider renders a financial service the representations made as well as the information provided to a client:

- Must be factually correct.
- Must be provided in plain language to avoid confusion.
- Must be adequate and appropriate in the circumstances of each client (this must be factually established).
- Must be provided timeously in order that the client is able to make an informed decision.
- May be provided orally and at the client's request confirmed in writing.
- All amounts, sums, values, charges, fees, remuneration or monetary obligations mentioned must be reflected in monetary terms (the basis of the calculation must be adequately disclosed).
- The service rendered must be in accordance with the contracted relationship request or instructions of the client.
- Client transactions must be accurately accounted for.
- Appropriate procedures and systems must be in place to record all written transactions, record verbal client instructions to writing, and store and retrieve client communication.
- Keep clients records safe from destruction for 5 years after termination of product or service.
- All records must be available for inspection 7 days after registrars request.

➤ Information on providers

Where providers render a financial service to a client the provider must give the client full particulars of the following:

- Full business and trade names.
- Registration number (if any).
- Postal and telephone details (e-mail etc).
- Names and contact details of appropriate people or offices.
- Concise legal and contractual details of provider with product suppliers (or in care of representative with relevant product suppliers).

It must be clear to the client which entity accepts responsibility for action of the representative.

Further:

- The names and contact details of the company compliance department.
  - The services, which the provider is authorised to provide, together with any restrictions or conditions applicable thereto.
  - Whether the provider holds guarantees or professional indemnity cover.
- Contracting a client.

A provider must, in contacting or communication with a client act honourable and professionally. When communicating or contacting a client the purpose of the call / visit must be explained including the disclosure of the providers professional business information, all personal information about the provider. Please refer to the above annexure.

➤ Financial Service Information

The provider must:

- Provide a client with a reasonable and appropriate explanation of the nature and material terms of the contract or transaction so that an informed decision can be made
- Where appropriate include the provision of contractual information, material, illustrations, projections or forecasts
- Provide the name and class of financial products concerned
- Provide the nature and extent of benefits to be provided, including details on how their benefits are devised at and the manner they will accrue or be paid
- Where the product is an investment, show the following details how the value of the investment is determined, including concise details of underlying assets or financial instruments, separate disclosure of charges or fees levied against the products, past investments performance.
- Details of exclusions, waiting periods, loadings, penalties excesses or restrictions in terms of which benefits will not be paid, must be disclosed to the client.
- Guarantees or guaranteed minimum benefits need to be disclosed.
- The extent to which the funds in the products are realizable must be disclosed material fact consideration.
- Whether cooling off rights exist.

- Any material investment or other risk that is associated with the product.
- Where the insurance product has a premium escalation benefit the amount of the increased premium for the first five years and then at five yearly intervals, not exceeding twenty years
- Fully inform client that all material facts required to complete the application form Is material to the transaction and is the client's own responsibility

➤ Giving of Advice

Before the provider gives the client any advice the following steps need to be taken:

- Seek from client appropriate and available information regarding the client's financial situation, product experience and objectives to enable provider to provide the client with appropriate and suitable advice.
- Conduct an analysis in order to give advice on the information.
- Determine the clients risk profile and identify appropriate products that match the client's financial needs.
- Where the financial product is to replace an existing financial product held by the client the following must be disclosed.
  - Fees and cost of the replacement product.
  - Special terms and conditions.
  - The impact of age and health on the premium charges.
  - Material differences between the investment risk of the replacement product and the terminated product.
  - Penalties or un recovered expenses payable due to termination of the existing product.
  - To what extent the replacement products is readily realizable.
  - Vested rights or guarantees or benefits that will be lost as a result of the replacement.
- The provider must provide a client with a written motivation as to why the specific financial products are recommended to the client.
- Reasonable steps must be taken by the provider to ensure the client understands the advice and that the client is in a position to replace a policy/contract must within five working days from day of advise notify new product provider of the advise given.

### 3.2.6. Ombudsman for Long Term Insurance

In striving for the maintenance of good insurance practices and self-regulation, the long term insurance industry established the office of the Ombudsman some years ago, predominantly to resolve disputes between subscribing life companies and policyholders. Majority of the cases referred to the Ombudsman are resolved through conciliation, but occasionally it is necessary for the Ombudsman to make a decisive ruling, which is binding on the life company. The office of the Ombudsman is completely independent; a fact that has contributed greatly to its credibility and consequently it has been received very positively both by policyholders and the industry. Sage Life is one of the founding members of the Ombudsman. (In Touch, Nov 2000, No143)

### 3.2.7. Financial Services and Intermediary Services Bill (FAIS)

The broad purpose of the FAIS Bill is to regulate the rendering of certain financial advisory and intermediary services to clients. The Bill clearly defines the role players, the nature of service and advice given, and the licensing requirements for operating in this industry. More importantly, the Bill outlines a code of conduct that ensures clients to make informed decisions. The Bill promulgates the process for record keeping and proper accounting. Other issues covered by the Bill include civil remedies, offences and penalties, saving of rights, and exchange of information. An important Act aligned with this Bill is FICA (Financial Intelligence Centre Act). FICA imposes upon intermediaries and service providers to disclose knowledge or information on all illegal monetary transactions or money laundering to the Receiver of Revenue. (In Touch, June 2002, No155)

### 3.2.8. Policy Holder Protection Rules (PPR)

The emphasis of PPR is on disclosure to protect both the client and the intermediary. It places the onus for disclosure on the intermediary and the insurer as applicable and prescribes that a Statutory Notice, without any amendments, must be given to every prospective client at contact stage. PPR is explicit on issues relating to quotations, replacement of policies and cooling off period. (Internet: 1)

### 3.2.9. Long Term Insurance Act

The Long-term Insurance Act 52 of 1998 came into operation on 1 January 1999 and repeals the Insurance Act of 1943. Previously, the Act covered both the long and short-term Insurance industries. Its main agenda is consumer protection.

The Purpose of the Act is the regulation of long-term insurance products and conduct appropriate to Life Offices. It applies to all long-term Life Assurers, other institutions and representatives who are involved with Long-Term insurance products.

It provides for protection to policyholders and penalties in the event of non-compliance.

#### ➤ Legal Remedies Available to Requesters

Aggrieved parties (including third parties) may apply to the High Court for “appropriate relief” within 30 days following a decision by a private body to grant or refuse them access to information.

#### ➤ The Court may grant any order that is “just and equitable” in the following manner:

- Confirm, amend or set aside the decision.
- Require the private body to take such action or refrain from taking such action as it considers necessary within a period stated in the order.
- Grant an Interdict, interim or specific relief, a declaratory order or compensation.
- Make an order as to costs.

#### ➤ Offences

Anyone who, with intent to deny a right of access, destroys, damages, alters, conceals, falsifies or makes a false record, commits an offence which carries a fine or imprisonment for a maximum period of 2 years.

#### ➤ Long Term Insurance Act

| <b>Purpose:</b>  | <b>Applies to:</b>  | <b>Provides for:</b>  |
|--|---|---|
| Regulation of long term insurance products and conduct appropriate to Life Offices<br>Offences | All long term life assurers, other institutions, and representatives who are involved with Long term insurance products | Protection to policy holders and penalties in the event of non-compliance |

Table 3.3 – Long Term Insurance Act (Source: Compliance Manual, Page 56-61)

### 3.2.10. Statutory Requirements

Agents and brokers are required to disclose to their prospective clients on first contact the following:

- Details of their agency or broker contracts.
- Office of employment.
- Postal/residential addresses and telephone contact numbers.
- Occupational experience.
- Indemnity.
- Training and accreditation.
- Relevant qualifications.

### 3.2.11. Golden Rules to Follow When Buying Life Assurance – The Customer’s

#### Perspective

According to Bruce Cameron (1996), “Every year South Africans lose hundreds of millions of rands because they are sold products that they should never have bought”. A well-known financial analyst, Bruce Cameron of the Business Report, outlines some rules that consumers should follow:

- Know the intention of your savings programme, such as to pay for future education or travel holidays
- Consider all investment vehicles such as unit trusts, short, medium and long-term endowments. This involves undertaking a risk profiler. Also consider the term of commitment and future increases in premiums.
- Enquire about guarantees, and their effect on future returns
- Do not be fooled by illustrative values, as they are projections based on ‘if’s and but’s’.
- Deal with qualified and accredited intermediaries.
- Understand clearly the difference between risk, health and investment products.
- Be aware of costs, especially when switching policies.
- Do not be fooled by past portfolio performances as markets and changing economic conditions have a serious impact on performances.
- Read the fine print.



### 3.2.12. Consumer Demands on Service Delivery

Martin Courie of AGM Momentum Life states: “The consumer of the 21<sup>st</sup> century is not likely to be cast in the role of a passive participant, but rather one who actively seeks trusted advice for his money both in terms of security and underlying costs. With the onslaught of technology, consumers are able to purchase many investment products online. Investment intermediaries are greatly threatened of their livelihood. Those who survive are the ones who add value in the product chain, and this means more than ‘order taking’. It is hoped that the intermediary will be sought out for his trusted and informed advice in guiding the client’s choice within the broader scope of financial products and services; with a good understanding of both the client’s circumstances and objectives and also the legal, tax, investment and estate planning parameters within which to work”. (Insurance and Investments Magazine, page 10-11)

### 3.2.13. Ethics and the Financial Planner

As highlighted in the Sage Life Compliance Manual (9-12), ethics is commonly defined as the process of determining how one should balance the interests of various stakeholders whilst taking into account your own moral principles and values. Some of the ethical problems within the industry:

- A lack of disclosure to clients with regards to various options available to them.
- A lack of knowledge and skills to advise clients whilst still pretending that you have the requisite knowledge and skills.
- Giving clients misleading or incorrect information.
- Placing money in an investment, which is more beneficial to yourself than to your client.
- Having no regard for the legislative requirements that are designed to protect the client and to assist in creating a professional environment based on the principles of trust and honesty

There are three levels of ethical standards:

- The law, namely legislation, which creates a framework and encourages ethical behavior.
- The policies and procedures of a business the financial planner represents. These will include issues such as sexual harassment, whistle-blowing, dealing with client assets, codes of conduct.

- The moral stance refers to a position taken when any law, policy, or procedure does not govern an issue. Within a business, this stance is either supported or undermined by the culture of the business with regard to ethical issues.

The ethical obligations of the industry towards clients are to promote an environment and culture of:

- Trust
- Confidentiality
- Disclosure
- Respect for clients
- Right to information
- Right to appropriate knowledge and skills

The regulatory structure of South Africa's financial services has mostly served the country well. The strength of the system has undoubtedly transformed financial services into a vibrant and innovative industry.

### 3.3. Competitor Profiling - Key players in the Life Assurance Industry

Four of the major competitors were profiled. These companies are identified by Sage as their main competitors and role models to benchmark for product, branding and service innovations.

#### 3.3.1. Discovery

Discovery's Life Plan affords protection against a comprehensive spectrum of risks. The Life Plan incorporates a wide range of benefits, which are available to the consumer. This plan pivots on the unique concept of the Life or Impairment Fund - the mechanism to provide funding for lifestyle changing events.

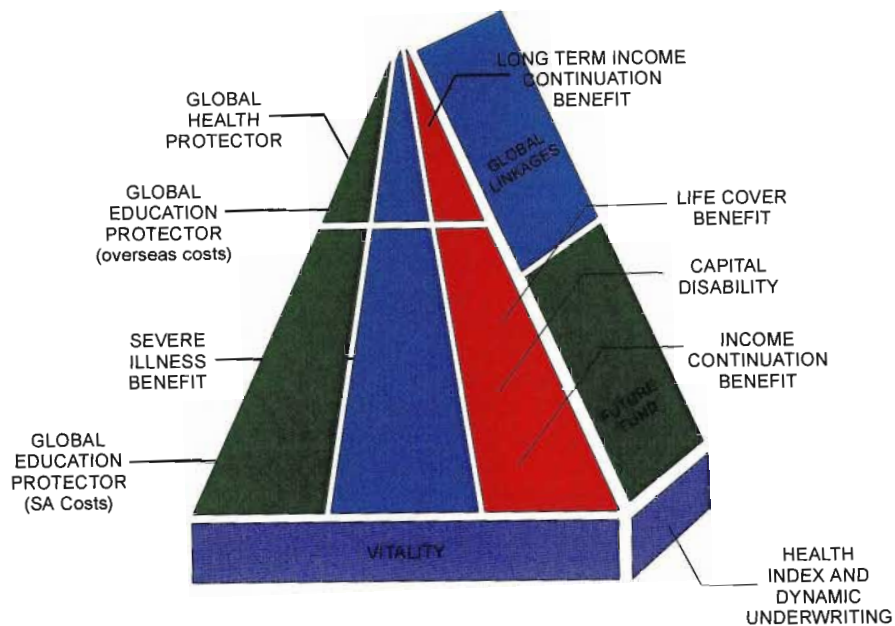


Figure 3.1 - Benefit payments for Lifestyle Changing Events (Source: [www.discoverylife.co.za](http://www.discoverylife.co.za)).

➤ The following benefits are payable from the Fund:

- Life cover benefit
- Severe illness benefit
- Capital disability benefit
- Income Continuation Benefit (First 24 payments only)
- Overhead Expenses Benefit
- Female Benefit
- Family Trauma Benefit
- Childbirth Benefit
- Child Severe Illness Benefit
- Global Education Protector (South African Costs only)

➤ The Fund reduces in the event of payments on a wide selection of flexible benefits.

However, by selecting a minimum protected fund, you may select a minimum below which your Fund will never reduce, irrespective of the number and amount of benefit payments made.

- The following benefits do not effect the value of the Fund:
  - Global Education Protector (overseas costs only)
  - Global Health Protector
  - Income Continuation Benefit (payments after 24 months)
  - A Premium Waiver Benefit ensures continued premium payments for spouse and children's' benefits, on the death of principal life.
  - Terminally ill lives may elect to receive a full or partial acceleration of the life cover benefit.

Four distinct businesses – Discovery Life, Discovery Health, Discovery Vitality and Destiny Health – focused on a single purpose.

- Discovery Life's risk-only approach gaining acceptance in the market

When Discovery Life was launched less than two years ago, its objective was to create a structural paradigm shift in the life assurance market by offering focused, but flexible risk-only products. With growth in new business over the past year, a unique distribution channel and the recent launch of a new product that allows it to deliver on Discovery's core purpose, the company is positive about Discovery Life's prospects for the year ahead.

- Discovery Health positions itself for strong future growth

Despite a complex year, Discovery Health's performance exceeded expectations. It performance and track record positions the company to increase its share of the existing market and bodes well for entry into a new market with the recent launch of the Key Health Plans. Aimed at the employed but uninsured market, these new plans leverage the actuarial, clinical and risk management expertise of Discovery to offer a potential market of approximately 7,5 million lives affordable, sustainable, quality health care cover. Growing Discovery in a demanding environment. The year was a manifestation of the Discovery business model during which all four companies produced strong performances.

- Discovery Vitality delivers real value to clients

Discovery Vitality is the true embodiment of Discovery's vision of making people healthier and has continued to play a crucial role as an underpin to their other businesses by incentivising clients and rewarding them accordingly – resulting in a compelling value proposition for Discovery's clients. With a worldwide drive towards better health and the ongoing

development of innovative lifestyle offerings, Vitality is set to play an increasingly important role as an enhancer and enabler for their other product offerings.

➤ Destiny Health sets out to achieve proof of concept

Since its launch in May 2000, Destiny Health has grown from a greenfields start-up to being acknowledged in the US press as one of the leaders in the new consumer – focused movement within the industry. At the outset, the company's focus was on evaluating the marketplace, putting the basic product and distribution structures in place and establishing initial credibility. During this year the focus shifted to achieving proof of concept – hard work important strategic shifts and a number of macro factors have enabled the company to put our approach to the test and achieve pleasing results.

### 3.3.2. Liberty

The recent merger between Liberty Life and Standard Bank will provide both companies with mutually beneficial resources and huge economies of scale.

#### 3.3.2.1. Corporate Profile

Liberty is a progressive financial services group that adopts a sophisticated approach to providing financial solutions. Liberty seeks to be the preferred supplier of, and point of access to, quality, value-added financial and associated services among high net worth South Africans. Liberty Group boasts high levels of security and good governance supporting its various obligations to its investors. Superior investment performance in relation to the clients' risk tolerance is of paramount importance to the Group and all major asset classes are managed to achieve results.

Liberty Group's key strength remains its high-quality, highly trained and growing agency, franchise and broker marketing forces. An emerging strength is the use of the powerful triangular relationship that the Group is building between itself, its intermediaries and its clients. This secures a close one-to-one relationship that includes face-to-face consultancy and individual response to personal financial needs and aspirations.

The Liberty Group offers a comprehensive and complementary range of non-banking financial services and is highly respected for its contemporary approach to product design. Product development remains a key competence. Sophisticated domestic and offshore investment and risk products which meet ever-changing client needs can be brought from actuarial concept to market offering within days or weeks. The business unit structure within the Liberty Group drives the product design process and resultant service as close as possible to the specific target markets and clients that it aims to serve. The product development committee, chaired by the Group chief executive, supervises overall product strategy and co-ordination across the business units and ensures that all new products meet satisfactory profitability and risk criteria.

#### 3.3.2.2. The Various Business Units

- Liberty Personal Benefits (LPB) – offers assurance and investment products for the individual. These include life and disability insurance options, local and offshore investment plans, retirement savings plans, preservation schemes and annuities.
- Liberty Corporate Benefits (LCB) – markets a flexible, packaged solution to the retirement funding needs of the staff of corporate bodies. Larger funds may separately purchase elements of the package, such as investment services and the provision of death and disability benefits.
- Charter Life – offers retail assurance and investment policies specializing in bank assurance.
- Liberty Healthcare – markets healthcare products and services, such as the Liberty Medical Scheme, which offers the ProVia range of benefits, best suited to the corporate market, and the ProCure range of benefits, best suited to the individual market. The unit also offers the Provision Fund for post-retirement healthcare funding, and Medical Lifestyle, a successful and popular health insurance product.
- Stanlib – integrates the asset management, unit trust, linked product and investment marketing businesses of Liberty Group and Standard Bank. STANLIB is the latest example of strategic collaboration by two of the strongest brands in the South African financial services industry and follows joint-studies by the Groups, which indicated that a full bank

assurance merger was not warranted, but amalgamation of their wealth management businesses certainly was. The new group has two operational arms, STANLIB Asset Management and STANLIB Wealth Management.

- Liberty Group Properties – manages the Liberty Group property portfolio of 103 buildings nationwide in order to enhance the Liberty Group’s investment performance. The portfolio includes the flagship shopping complex at Sandton City in Greater Johannesburg and two other large regional centres at Eastgate in Greater Johannesburg and Greenacres in Port Elizabeth.
- Liberty Hermitage – A Jersey based fund Management Company that specializes in alternative investments. Major business lives include Standard and Poors AA-Am-rated money funds, hedge funds and a range of conventional long only funds.
- Lodestone Investments – a multi-manager asset management company formed through a joint venture between Standard Bank Investment Corporation Limited, Investment Solutions Limited and Liberty Group Limited. Its aim is to provide direction in asset management by selecting specialist asset managers for specific tasks, and combining them in portfolios which each have a distinct objective.
- Simeka Financial Services – Simeka Financial Services (Proprietary) Limited is a financial services company established as a joint venture between Genesis Capital (Proprietary) Limited, Simeka Investment Holdings (Proprietary) Limited and Liberty Group Limited. Its primary focus is the provision of asset management and other related financial services to government and public corporations.

### 3.3.3. Sanlam

#### 3.3.3.1. Business Strategy

Much energy and many Group resources were devoted to progressing the Group strategy in the period and this investment is starting to pay dividends. To recap, the group’s vision is to be the

leader in wealth creation – supports the definition of Sanlam as a group of businesses focussed on building, preserving and growing wealth for their clients.

Their vision is founded on three themes:

- Superior client relationship
- Domestic growth and
- International growth

In the area of superior client relationships, the organisation aims to live the Sanlam brand and provide trusted advice and innovative solutions to their clients. In the recent past the Group has concentrated on improving its customer relationship management systems and integrating a lifetime value management programme for clients. They continue to focus on developing and delivering appropriate client solutions that address the needs of clients in different markets segments as effectively as possible. Products and services are sourced from across the Sanlam Group, and draw on the resources of the individual life, employee benefit and unit trust business units. Their brand and distribution capability are key strengths of the Group. Research has shown that in 2001, for the first time, the disposable income of black South Africans overtook that of white South Africans. Sanlam has identified that 43% of its target market is black and that 57% of that market segment has currently no insurance. Much energy has therefore been and will continue to be, devoted to developing their interface with this important sector of the market. It is significant to notice that in 2002 the number of black advisors in Sanlam increased by 64% from 400 to 655, a third of their advisor corps. Black advisors were responsible for 35% of sales in recurring premiums and black clients represented 44% of new recurring policies in 2000. (Internet 4)

#### 3.3.3.2. The Growth Markets for Sanlam

- Individual / retail
  - Retired
  - Entry level
  - Middle market
  - Affluent
- Self-employed / owner businesses
  - Entrepreneurs
  - Small businesses



➤ Employee benefits market

- Public sector
- Medium sized businesses
- Large businesses
- New economy

3.3.3.3. Focus areas for 2003.

With much of the Group's strategy now in place, their focus for the year ahead will be on delivering value.

They have four clear areas on which they will concentrate:

- Operational performances
- Investment performance
- Harnessing the values inherent in their integrated business model, including banking products
- Developing the four pillars of Black Economic Empowerment

From an operational point of view the company needs to address a number of issues such as improving the Group's operating margin through regaining lost business and adding and retaining new business across all the business units as well as through containing and ultimately reducing the cost of acquiring new business. To this end attention will be paid to the employee benefits division where the current meaningful synergies with the life business can be further exploited to develop appealing products for the corporate market.

One of Sanlam's competitive advantages is their solid distribution channel. This, coupled with their powerful brand, is a great value driver and they will be optimising these assets to deliver significant benefits.

Throughout the Group, employment equity will continue to be encouraged building on the successes already attained. They also aim to introduce new black shareholders into the Group and any participation will be based on the value they are able to add to Sanlam. The Group's suppliers are diverse in terms of race, gender and disability status. In particular, Sanlam service providers will be actively encouraged to utilize the skills of historically disadvantaged

individuals. They remain an active participant in the economic development of the country, not only in the economic debate and policy formulation, but also through direct financial investment. Initiatives such as the R2, 2 billion Sanlam Development Fund and the R500 million Community Builder Fund on which they reported last year, as well as the launch of the Sanlam Development Fund and the R500 million Community Builder Fund on which they reported last year, as well as the launch of the Sanlam development Fund of Funds, South Africa's first private equity fund-of-funds, have become the blue print for similar initiatives which will be announced in the year ahead. The group continues to introduce innovative products and services that will reach the broadest segment of the population and satisfy their wealth creation needs.

#### 3.3.4. Old Mutual

Old Mutual South Africa provides Life Assurance, Asset Management and Banking services to more than 4 million South Africans.

##### 3.3.4.1. Business Partners

###### ➤ Nedcor

Has a multi-branded strategy as a financial institution for the term insurance services to the specific target market of South Africa.

###### ➤ Mutual & Federal

Provides personalized short personal, commercial and corporate markets in South Africa.

Old Mutual's corporate structure reflects the dynamics of the marketplace within which they operate.

##### 3.3.4.2. Corporate Structure

Old Mutual in South Africa has two primary business subsidiaries, Nedcor and Mutual & Federal.

➤ Nedcor is Old Mutual's banking subsidiary, and Old Mutual has a 53% ownership stake.

➤ The general insurance business, Mutual & Federal, is 51% owned by Old Mutual.

##### 3.3.4.3. Financial Planning

###### ➤ Elements of a financial plan

- Wealth Protection
- Planning for emergencies

- Healthcare
- Life, disability and estate planning
- Insurance (e.g. Car and household)
- Personal income tax
- Wealth Creation
- Retirement
- Saving for a goal (e.g. Education or holiday)
- Investment
- Make a plan

Old Mutual plc is an international financial services group whose activities are focused on asset gathering and asset management. They offer a diverse range of financial services in three principal geographies, South Africa, the United States and the United Kingdom.

- South Africa

In South Africa, Old Mutual are the largest financial services business, through their life assurance, asset management, banking and general insurance operations.

Key Highlights for year ending 31 December 2002

- life assurance new business strong
- return on capital within life business 2%
- life sales force up by 7%
- BoE acquisition
- 13% rise in net premiums at Mutual & Federal
- United States

In the United States, Old Mutual are one of the top ten fixed annuity businesses and their multi-style asset management business offers an array of specialist asset management skills. Key highlights for the year ending 31 December 2002

- strength of diversity demonstrated
- superiority fund performance
- net fund inflows of more than \$5 billion
- record sales of \$4 billion at US life
- Benefits of synergies continuing to be realized

In the UK, Old Mutual focuses on wealth management. Gerrard, their largest UK operation, is one of the leading private client stock broking businesses in the country

Key highlights for year ending 31 December 2002

- Gerrard profitable and cost reductions achieved
- Award-winning performance by OMAM (UK)
- Sale of GNI

### **3.4. Presenting the Organisation – Sage Life**

Sage Group Limited has been operating internationally as a life assurer and investment house. Sage currently manages assets of R11,5 billion. The unit trust assets under management are a further R5,5 billion (Sage Annual Report: 2002).

#### **3.4.1. History and Background**

Customers are often surprised to learn that Sage Life's (SL) roots can be traced back to the late 19<sup>th</sup> century. Their name is as modern and innovative as our company, but they have an illustrious history in life assurance and financial services, dating back as far as 1888. Sage Life is the result of several leading companies, each making a significant impact on the South African market, combining forces over a period of many years.

Why is their heritage important? Every salesperson is only too aware that you sell not only your product, you also sell yourself and your organization. If your clients are satisfied that they are doing business with a reputable company, they will more readily accept your credentials as a competent and knowledgeable professional. Sage has a proud history of quality service, innovation and success. From humble beginnings, it has developed into one of the leading life insurance companies in South Africa. It is also the first South Africa life insurance company to enter the life insurance market in the United States of America. (Sage Life Training Manual)

#### **➤ Nationale-nederlanden**

Sage Life predecessors from Holland and Europe recognized the significance of the South African insurance market, so they started at an early date to establish agencies, which gradually developed into branch offices, and ultimately fully-fledged South African companies.

#### **➤ From short-term insurance to life assurance**

Sage Life's Roots can be traced back to the Netherlands Insurance Company, which had been in existence in Holland since 1845, and which was known as Netherlands of 1845. In 1888 it opened its first agency in South Africa to transact fire insurance business and remained a short-term insurer well into the next century. It was not until after the Second World War, in 1947, that the company now named Nationale Nederlanden Group, (a worldwide insurance group) commenced life operations in South Africa.

➤ Netherlands insurance company of South Africa Ltd.

With the formation of Netherlands Insurance Company of South Africa Ltd. (NICSA), Nationale Nederlanden became the first overseas insurance company to convert all its South African operations into a local corporation. Following its rapid growth, NICSA was listed on the JSE. It was also the same year that Sage Holdings was listed as a financial services company, having pioneered unit trusts in South Africa and expanding its activities. Holdings and Nationale Nederlanden entered into an equal partnership to control NICSA and Louis Shill, executive chairman of Sage Holdings, was appointed as Chief Executive.

➤ Equity Life

1969 seems to play an important role in SL's history. It was the year in which both Sage Holdings and NICSA were listed on the JSE and it was also the year in which Equity Life was born, having bought its license to trade from Volks Lewensassuransie Maatskappy (a company formed in Cape Town in 1954). Equity Life made its mark in the industry having successfully pioneered Non-Cancelable Sickness and Accident Insurance (now known as Income Replacement Plans) in this country.

➤ Ned-Equity

In 1974, NICSA and Equity Life merged to form a new company called Ned-Equity Insurance Company Limited and in 1984 Sage Holdings acquired a 75% share of Ned-Equity. The short-term business was sold in 1977, leaving Ned-Equity free to concentrate on its core activity – life assurance.

➤ National Mutual

National Mutual was founded in Australia by Colonel John Montgomery Templeton in 1869 and opened its first offices in Cape Town in 1896. By 1987 the company had grown substantially, with branches all over South Africa.

### 3.4.2. Development Highlights (SL Annual Report 2002)

1965 – 1969

- Launch of Sage Fund, unit trust industry and linked assurance pioneer
- Listing of Sage Holdings
- Establishment of property division and acquisition of Schahat homebuilders
- Partnership in Guarantee Life

1970 – 1979

- Launch of FPS, personal financial planning pioneer
- Investment into Leo Computer Bureau (renamed Sage Computing)
- Acquisitions of Netherlands Insurance Company of SA Limited and Equity Life, to form Ned-Equity Insurance Company
- Establishment of Sage Property Trust Managers
- Launch of Federated Property Trust (FedFund)
- Acquisition of Union & London
- Launch of international financial planning and property development activities

1980 – 1989

- Formation of Pioneer Property Fund
- Launch of CBD Property Fund
- Acquisition of holding in Rand Merchant Bank Group
- Sage Life (Formerly Ned-Equity) / National Mutual Merger
- Establishment of Independent Financial Marketing Group in the USA
- Allied / Sage Grouping
- Sage Property Holdings listed
- Sage Resources Fund launched
- Listing of Sage Financial Services

1990 – 1999

- Amalgamation of Fedfund with CBD Property Fund
- Participation in establishment of ABSA Group Limited
- Rationalization and restructuring establishing Sage Group Limited
- Sage Life Holdings becomes 100% owned

- Sale of non-core investments
- Group completes R 122, 8 million rights issue
- \$30 million share placing in Europe
- Level One ADR Programme established in USA
- Merger of IFMG with Liberty Financial, Boston, bank marketing company
- Focusing of operating activities under Sage Life Holdings
- Establishment of Sage Life of America
- \$45 million foreign preference share issue
- Information technology co-sourcing partnership
- Launch of eight new unit trusts including Sage Money Market, Sage SciTech and Sage Internet funds
- Introduction of a full multi-manager investment approach
- Sage Life launches new generation product range
- Strategic partnership in USA with Swiss Re
- Sage Life of America rated “A” Excellent by AM Best

2000 – 2002

- USA Life sales commence
- Sage Bermuda launched
- Establishment of Sage “Collective Wisdom”, Multi Focus, Income and International Equity funds
- Innovative series of offshore investment products launched in South Africa
- Sage Life of America gets second premier rating from Fitch
- Group structure simplified
- Refinancing of foreign capital through \$65million equity linked notes issue
- Rationalization of property interests through amalgamation of property unit trusts
- Renewal of USA premier ratings
- Rapid development of USA and international distribution

### 3.4.3. Profile of Organisation (Sage Annual Report 1997)

Sage Group Limited is a life assurance and investment organization, with related property activities, controlling and managing assets exceeding R 9 billion. Total net income generated in the past year amounted to R 320 million, of which R 164 million was produced directly by Group companies and the balance by the Group's managed trusts.

The Group's roots extend back to 1965 with the launch of South Africa's first unit trust. Since 1969, Group activities have been listed on the Johannesburg Stock Exchange and Sage Group Limited is listed in the Insurance sector.

Divisional operating activities, managed by Sage Life Holdings Limited, encompass the following: life assurance, related investment, unit trust management, personal financial planning and specialist insurance interests; a significant investment in the banking sector; a United States life assurance organization; and investment, development and management activities in the property sector.

Sage Life Limited is one of the leading medium-sized life assurance companies in South Africa, with activities embracing the full spectrum of individual life, endowment, health insurance, retirement annuities and employee benefit plans, including funeral benefit insurance. Sage Unit Trusts Limited is a wholly owned subsidiary and its operations are closely coordinated with those of the life division.

### 3.4.4. Organisational Structure of Sage Life (2002 balance sheet, Page 3)

Sage Group is diversified into properties, local and international insurance and investments, and unit trust funds. The organogram below illustrates the percentage splits in the various operations.



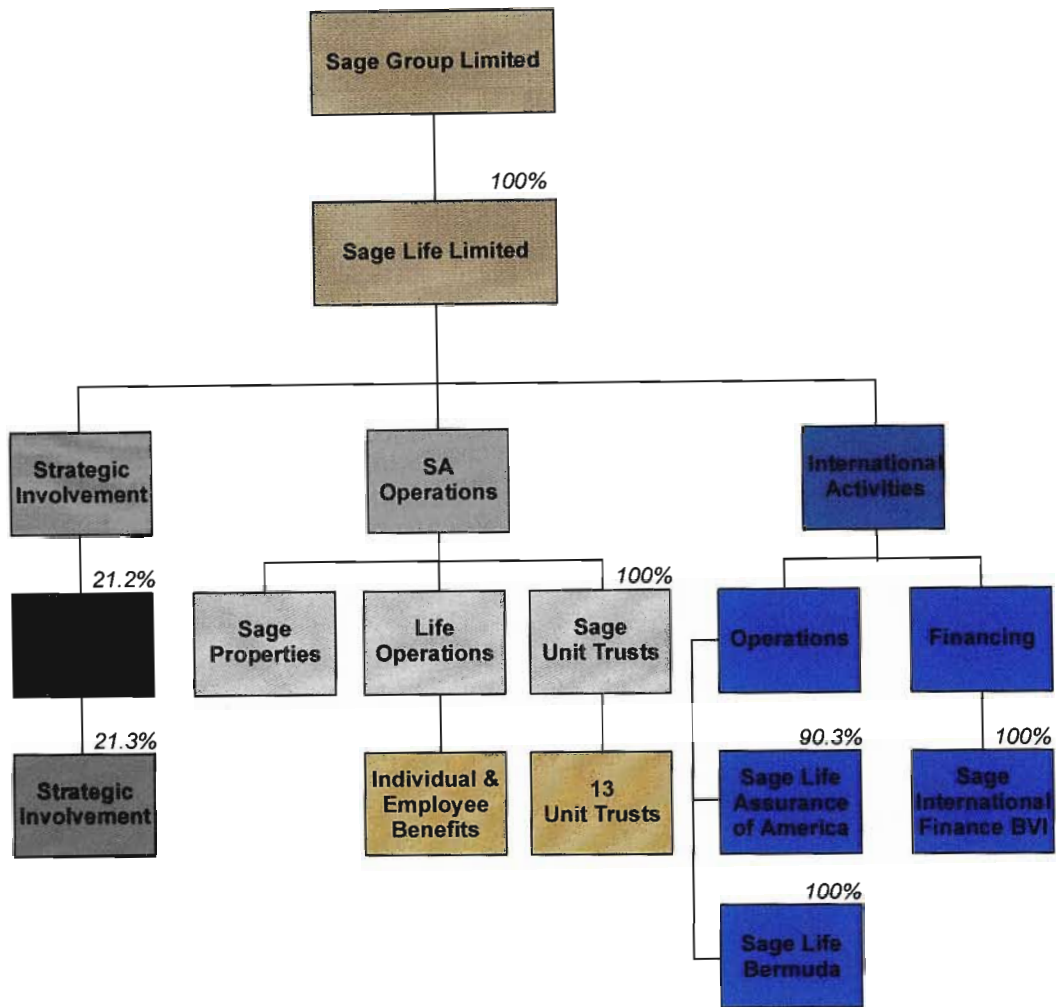


Figure 3.2 - Sage Life Organogram

➤ International Operations

In a year characterized by sluggish new business growth in the life assurance sector in South Africa in general, Sage Life produced impressive new business results. Total new business (domestic and international) increased by 122.9% to a record R 2.97 billion, in sharp contrast to the muted industry trend. Single premiums increased by 168.0% and recurring premiums by a satisfactory 4.8%.

Sage Life’s achievements in the single premium field in South Africa have been particularly notable with total individual single premiums increasing by 95.5% to R 1.2 billion.

The company has become a market leader in meeting the demand for international investment products catering to the R 750 000 foreign exchange allowance. Total individual recurring new business reached R 320.7 million compared to R 314.9 million in the previous year.

The strong individual business results have been matched by a resurgence in the Employee Benefits division where total new business increased by 39.6% to R 222.4 million. Recurring premiums in this division rose by 22.0% and single premiums by 48.7%.

Total new business (individual and employee benefits) generated within South Africa was R 1.7 billion 60.0% ahead of the previous year. This reflects the success of the company's distribution strategy and its expanding market penetration via diverse channels and strategic alliances, including continuing development of reciprocal business initiatives with ABSA. Other factors include continuing product innovation and in particular, competitive investment performance results achieved for clients by the Group's asset management team.

Sage Life's sustained new business growth reflected in its growing market share in South Africa. Measured against the country's large life offices, Sage Life's single premium market share shows a four-fold increase over the past 5 years while recurring premium market share has more than doubled over the period.

South African unit trust sales for the year totaled R 2.9 billion, 23% below the previous year. In line with the trend throughout the unit trust industry, sales were substantially diluted by a high level of repurchases, resulting in only a modest net inflow of R 79.5 million for the period.

➤ South African Operations

• Absa Investment

ABSA is an important and substantial investment for the Group and is accounted for as a strategic investment. The predominant part of this investment is pooled with the holdings of Remgro Limited and the Mines Pension Funds in Universa (Pty) Limited.

Sage Life has a 21.2% interest, valued at R 806.5 million at 31 March 2002, in Universa, which is one of the major shareholders in ABSA, controlling approximately 24% of that company's capital. In a consortium, Universa and Sanlam Limited control approximately 47% of ABSA.

In the last report (SL Annual Report 2002), SL indicated that negotiations were in progress with the objective of unbundling Universa such that each of the shareholders would own ABSA shares directly, with Sage Life owning approximately 5% of the issued share capital of ABSA, the sale of which would be subject to certain pre-emptive rights and orderly market arrangements. Negotiations between the consortium members regarding the unbundling and the future ABSA shareholding relationship have proved to be protracted but will hopefully soon make progress so that the complex relationship among the consortium members vis-à-vis ABSA will be clarified.

ABSA is one of the dominant banking and financial services groups in South Africa, and there are important reciprocal business relationships between the Group and ABSA, which continue to be actively developed. This includes the highly successful initiatives by the Group's South African and international operations and ABSA's domestic and offshore distribution and asset management divisions in the marketing of international investment products to the South African market, as referred to under "Product Development" below. The continuing development of business initiatives with ABSA has contributed to a further gratifying increase in total new business generated by ABSA for Sage Life, with particularly strong growth in single premium production during the past year.

The financial results of ABSA for the year to March 2002 disclosed headline earnings per share of 291.1 cents compared with 377.2 cents in the previous year. While ABSA's core retail and corporate banking and other financial services activities have continued to perform very well, its results have been impacted for the year by their micro-lending organization Unifer, formerly separately managed. Unifer is to be operationally integrated following a proposed Scheme of Arrangement whereby ABSA will become the owner of the entire share capital of that company.

Sage Life's holding in ABSA is accounted for as an investment which is marked to market and the temporary decline in the ABSA share price at the year-end materially impacted earnings as discussed elsewhere in this report.

- Unit Trusts

Sage Unit Trusts, a wholly owned subsidiary of Sage Life is the management company of the group's unit trusts. Sage Fund which pioneered the foundation for the Sage family of funds which has been progressively expanded to the current thirteen funds, spanning a variety of general and specialist equity and fixed interest investment areas.

During the review period, the Sage Unit Trust product range was extended with the establishment of Sage Income Fund, which has filled a gap in the range of fixed interest unit trusts offered by the company, positioned from a risk viewpoint between the Money Market and Gilt Funds. The Income Fund, which invests in high yielding fixed interest securities with an average duration not exceeding two years, is structured to provide a reasonable to high level of current income and stability for capital investment.

Sage Global Fund, which was closed to new investments in Nov 2000, reflecting SA Reserve Bank exchange control regulations, which limit offshore investments by unit trust companies, was reopened in Nov 2001. However, the limited additional offshore capacity was rapidly absorbed and this fund, which has produced outstanding results for investors, has regrettably again been closed to new investment.

Following regulatory approval, the management company is currently implementing the consolidation of the global equity content of Sage Fund into Sage Global Fund which will hold its international content in future via the Global Fund. This move will streamline administration and asset management.

During the past year, the management company conducted a ballot of unit holders to give effect to the deregulation of unit trust fees and charges following the amendment of the Unit Trusts Control Act. Ballots were approved by a substantial majority of unit holders in Sage Fund and

the Financial Services, Resources, Performance, SciTech and Gilt funds. Effective 1 January 2002, service charges were increased in the relevant funds in line with industry trends, improving the management company's ability to continue enhancing service levels, technology and administrative systems and access to skilled professional managers.

As discussed earlier in this report, the group's asset management team, together with the underlying multi-managers, continues to produce generally competitive results. The diverse group of leading domestic and international managers selected to manage the Group's unit trusts has enabled it to respond rapidly and effectively to changing circumstances and market conditions, and an impressive Group of institutions is managing our fund portfolios.

Performance of the group's unit trusts has reflected the volatile and contrasting sectoral market trends over the year. There have been a number of outstanding performance achievements, notably the Sage Global and Performance Funds which leads the rankings in their sectors and Sage Resources Fund which achieved an exceptional 95.9% return for the year to feature as one of the top performing unit trusts across the entire industry. The Global and SciTech funds received Standard and Poor's awards for their sector leading performances in South Africa. Sage Fund and the MultiFocus and Collective Wisdom funds produced inflation beating returns while the Money Market fund's return was marginally below the sector average. The Financial Services, Gilt and Internet funds performed below their sector averages.

The unit trust industry as a whole continues to expand, specifically in the money market, high income and bond sectors but is still experiencing high volatility in fund flows. The strong performance of the equity market in the year to March 2002 was particularly evident in the resources and mining sectors while the domestic equity funds in general experienced net outflows. With the continuing trend of convergence in the financial services sectors unit trusts are increasingly being utilized by life assurers, pension funds and multi-managers as building blocks for their products – these institutional funds, which already represent 22% of the total funds under management of R 176.3 billion in South Africa, should enhance the stability of the industry's asset base.

The management company's sales for the past year totaled 2.9 billion compared with 3.7 billion in the previous year, a satisfactory performance given the challenging environment. In line with the trend throughout the industry, sales were substantially diluted by high level of repurchases, 2.8 billion, resulting in only a modest net inflow of 79.5 million for the period.

The management company's profits before taxation amounted to 19.7 million compared with 6.4 million in the previous year and profit after taxation totaled 13.9 million which, together with the results of related operations, produced earnings from unit trusts activities amounting to 28.3 million compared with 25.2 million the previous year. Assets managed by the company amounted to 5.5 billion at the year-end. The value of Sage Unit Trusts have been written down by R 70 million to R 300 million to reflect prevailing conditions in the unit trust industry.

Sage Unit Trusts has maintained a meaningful market share in the unit trust sector and we remain confident of continued growth in the future, based on competitive investment performance, continuing new product development and further coordinated effort with other divisions in the Group.

- Sage Properties

Sage Properties, which is integrated within Sage Life, is focused on the needs of the life company and directly manages a focused portfolio of commercial properties and industrial and residential land holdings for various Sage Life properties.

For the year under review, the property division's contribution to group earnings was 17.0 million compared to 7.4 million in the previous year. Limited selective development activity is ongoing.

The Sage Life investment property portfolio, which consists of modern, high quality properties located in prime nodes, continues to provide a satisfactory return on funds invested. Sales progress in Corporate Park, Midrand, where Sage Life holds the entire equity have been slow, in line with a difficult market. However, current activity shows signs of improvement in the marketing of the second phase of this prominent commercial development.

During the review period, Sage Life successfully completed the further rationalization of its property interests through the amalgamation of its managed property unit trusts, CBD property fund and pioneer property fund with pangbourne properties limited. The transaction, which was concluded on 28 March 2002 included the sale of the management company, Sage Property Trust Managers Limited.

Sage Property Holdings is responsible for the commercial, industrial, retail and residential property development and property investment management of the group. Its property portfolio includes the highly successful Sage Corporate Park, which is recognized as having set new standards in industrial township development.

#### 3.4.5. Business Purpose, Core Values, Ethics and Strategies at Sage Life

Establishing needs, empowering people and developing innovative products is the underlying philosophy to Sage's success business purpose.

##### 3.4.5.1. Business Purpose

The business purpose of Sage Life is very straightforward:

“Our business is dedicated to helping people achieve financial security”

We are in the business of:

- Creating
- Selling
- Servicing
- Investing in financial products and services for selected customers designed to create wealth in the long term and to ensure financial well being in the event of death or health disorders. (Gibbs, A and Shawe, L: 1998)

“Our business purpose at Sage is to help people to achieve financial security. And behind every decision is the question, will this add value for our customers?”

To achieve this they believe in five fundamental core values, announced to staff in December 1996. These embrace a commitment to our customers, to staff, to high ethical standards, to innovation, and, to their country, South Africa.

The trick is to get your basic core values right so that they can be adhered to in a world of change. By preserving and reinforcing those values at all costs you can enjoy the freedom to experiment and change almost anything else in your business to meet the challenges of an evolving market.

Everything else outside those core values has to be questioned. One thing this implies is a tolerance for mistakes. For without trying something new you will never know whether you really missed an opportunity. “What we are about here,” says Mr. Davies, “is renewal, change and impetus.”

#### 3.4.4.2. Core Values

“Our core values guides us:

##### ➤ Commitment to customers

Customer satisfaction is vital to our success. To ensure that we can fulfill this commitment on a sustainable basis, we must provide intermediaries, policy holders and investors with professionally managed products and services that yield superior results and benefits. We will strive to continually enhance their financial strength and record of long-term profit growth.

##### ➤ Our People

We see the people of Sage Life as a cohesive team, with loyalty as a core value. In order to achieve this loyalty, we are committed to ensuring that our people have meaningful and productive careers and job satisfaction and that they continue to give us a competitive advantage in the market place. We believe in empowering and developing all our people as active participants in a climate where quality and creativity are encouraged and recognized. We will utilize the individual’s potential to the full.

##### ➤ High Ethical Standards

We are dedicated to acting morally and ethically in all aspects of our business and to treating all our stakeholders policyholders, intermediaries, investors, staff and shareholders, as well as the broader community – with integrity and respect at all times.



Our intention is to build business only with those who share these standards, even if it impacts adversely on us in the short-term.

➤ Innovation

The culture of innovation that has characterized our development continues to permeate our thinking and we will seek creativity in all aspects of our business.

➤ Commitment to South Africa

We firmly believe in the future of South Africa and we are committed to contributing to the growth of the economy and the development of its people.”

#### 3.4.4.3. Business Ethics

The Sage Group is committed to conducting its affairs in accordance with the law, the highest standards of ethical behaviour and a sense of fair play. The successful implementation of these principles is dependent on the conduct and good judgment of each employee. It is expected that employees at all levels will conduct themselves in terms of ethical values that will enhance the reputation of the group. (Training Manual)

The following principles are provided as broad guidance for a variety of situations:

- Integrity is fundamental in all business dealings with their stakeholders, being their customers, shareholders, suppliers, intermediaries, investors and employees.
- The group undertakes to operate in an environment of openness in its dealings with its stakeholders
- The organization is committed to fair value and quality for customers
- In relation to suppliers, intermediaries and investors, fair practices will be adopted with respect to all business activities
- The group undertakes to adopt fair employment practices and to provide equal opportunity of employment and development within a working environment conducive to health and safety.
- The group and its employees will, at all times, comply with the constitution and applicable laws of the country in the performance of their duties.
- An employee must not permit a situation to arise where there may be conflict of interest between the organization and the employee.

Examples of such conflict of interest would be :

- Disclosure of confidential or proprietary information
- Significant financial interest in a competitor or supplier, intermediary or investor
- Acceptance of money from a supplier , intermediary or investor
- Offering of money by a supplier, intermediary or investor
- Acceptance of entertainment or gifts, exceeding ordinary social amenities from a supplier, intermediary or investor
- Appropriation of use of the Sage Group resources for personal benefit i.e. unauthorized use of company property

#### 3.4.4.4. Marketing and Operating Strategies (Value Chain at Sage Life) (Training Manual)

##### ➤ Operating Strategies

“To enhance our inherent financial strength and record of long-term profit growth, we will implement the following strategies:

- Acquire, develop and retain customers who match our profile
- Our profile specified customers who:
  - sell to end-users that need and can afford our products
  - retain the business they sell
  - Are situated close to our support centres
  - Adhere to ethical and moral standards that match our own
- Achieve superior investment returns
- Maintain a highly focused approach to product development, marketing strategy and client service and manage all the company’s resources effectively and continually improve revenue / cost ratios.”

##### ➤ Distribution Channel Development

- Individual – overall performance in this division, which markets through brokers and agents, was most satisfactory, with notable achievements in expanding offshore single premium investment production through external intermediaries, particularly ABSA. Total annualized recurring new premium in the division increased marginally to R 320.7 million,

a sound performance compared to the muted industry trend. On the other hand, single premium new business in South Africa increased dramatically to R 1.2 billion, a 95.5% increase on the previous year.

- Broker division – this division services a large number of intermediaries – ranging from independent brokers and broker networks, to large corporates and major institutions. Annualized recurring new business premiums in the review period increased marginally to R 192.3 million but single premium new business of R 1 billion was more than double the record level achieved in the previous year.

Much effort continues to be devoted to enhancing service standards and relationships throughout the broker division, particularly with the large corporate and banking brokerages which provide substantial support to Sage Life. The intermediary force of ABSA Financial Services again significantly increased its support for Sage Life during the past year, producing substantial single premium business for the Bermuda Branch.

- Agency division – the company’s agency force has been progressively expanded in recent years to some 650 members currently, with specific success in attracting specialized and experienced franchise entities. The introduction of a comprehensive computerized financial needs analysis system called sage-insight, together with sophisticated risk profiling processes, proficiency testing and the enforcement of minimum production standards, sales productivity and the quality of business. These steps have also facilitated the expansion of compliance activities ahead of legislation regulating conduct in the insurance sector.
- Employee benefits – with a strengthened senior management team and an expansionary but focused development strategy, this division has made encouraging progress. Employee benefits is an intensely competitive market sector with premium flows displaying high sensitivity to short-term investment performance despite the essentially long-term horizon of retirement planning. In the event, investment results have shown a very substantial and sustained improvement across the company’s employee benefit portfolios in recent years, attracting renewed interest from the traditional distribution channels.

Total employee benefits new business for the past year increased by 39.6% to R 222.4 million. Recurring premiums rose by 22% to R 66.1 million and single premiums by 48.7% to R 156.4 million.

During the review period, risk premium rates were reviewed and a number of new investment portfolios were introduced to leverage the division's excellent investment performance. Continuing system enhancements have also improved operational efficiency.

➤ Sage Franchises

According to Garzouzie (2002), "In our endeavors to become a major distribution channel in the industry and move into high margins and high growth franchises, we had to focus on recruiting franchises that fit our strict profile and partnering them with Sage Life. Existing franchises had to be uplifted to adhere to, at least, our minimum standards". (Hallmark magazine)

John believes that: "partnering entrepreneurial managers employed by Sage Life with entrepreneurs, owning and running autonomously their own businesses, is paramount to our success". The initial challenge was thus to ensure that the management team of the franchising division fitted the profile of entrepreneurs needed for recruitment and to match franchises that would fit into the entrepreneurial spirit of the franchise division.

The other important issue, besides recruiting new franchises that we are currently dealing with, is to continuously and timeously identify franchises that do not live up to our expectations. These franchises then need to either be closed down or turned around by means of appropriate management interventions.

With these measures in place we are in a position to focus on increasing the productivity of individual agents in the franchise division. Willem Barkhuizen, who joined the division in April this year, says, "The focus was strictly on recruiting and vesting new franchises that fit the required profile with the long term goal of growing these into profitable business units. Profitability and sustainability of these franchises are directly linked to the proper training of consultants, volumes of business and strict adherence to the PPR and FAIS Bill. John concludes that: "in spite of many set backs we were able to bounce back strongly. This resulted in a more cohesive management team with a business purpose that is aligned with that of Sage Life namely helping people, i.e. franchises, achieve financial security".

➤ Product Development (Balance sheet 2002)

Continued progress has been made in terms of new product development during the past year, maintaining the company's record of excellence in innovation and underpinning the momentum of new business growth. In our last report reference was made to the launch of a series of innovative global investment plans providing clients with access to both United States and European – based asset management expertise. These plans, which are US dollar based vehicles for clients to invest their offshore allowance (currently R 750 000) are offered through Sage Life's Bermuda branch and provide significant benefits relative to direct foreign fund investment.

Following the exceptional success of the first offshore initiative, The Global Investment Plan, a second major plan, The International Investor was launched during the past year providing clients with access to both United States and European – based investment expertise in one product. This plan also offered through Sage Life's Bermuda branch, uses the risk profiling, asset allocation, and fund selection resources of LPL financial services ("LPL") one of America's largest independent investment brokerage and financial planning networks and its offshore associate, Global Portfolio Advisors, as well as selected European – based alternative strategy funds managed by TriAlpha. LPL also supports Sage Life America in the distribution of variable annuities in the United States.

The offshore initiatives were further extended during the review period with the introduction of a capital guarantee option and recently with the launch of The Global Savings Plan, an affordable monthly premium option alternative to supplement the offshore series. This plans uses the multi-manager expertise of TriAlpha Asset Management of the UK to access leading global fund managers.

According to Benetton, N (1998), "Other new product initiatives during the past year included an additional tranche in Global Plus Series, a single premium plan providing capital guarantees and performance linkages to leading world markets, and an expanded range of structured finance plans offered under the Sage Life Executive Series. Further enhancements were also made to the Employee Benefits product range". (Insurance & Investment magazine)

➤ Strategic Alliances (Insurance & Investment magazine)

The successful ongoing improvement in customer service also derives from the group's decision to outsource certain functions through three strategic alliances:

- ABSA - Through a cross-shareholding and cross-directorships the company is able to enjoy substantial business co-operation. For example, ABSA has become a very important distribution base for Sage.
- Coronation - This is another avenue for outsourcing, this time through Sage Coronation Fund Managers, a joint investment management venture between Sage and Coronation Holdings in order to manage certain of our life and unit trust portfolios. There used to be two ways to market unit trusts : distribution and performance, now there are three : performance, performance, and performance. And though the company does not think short-term performance criteria is a good thing that is unfortunately the way the market has been going.
- Electronic Data Systems (EDS) - Sage recently struck a deal to outsource its entire IT activities to EDS. They have structured the arrangement in a unique way so that both parties share in the risks and benefits of the venture. IT is pivotal to any financial institution such as ours that relies on effective technical development to enhance growth prospects.

As Group Chairman, Louis Shill, noted in his 1997 annual report, "Of particular importance to the future of Sage Life is the major long-term information technology outsourcing partnership in EDS.

"This alliance breaks new ground in the way insurance companies manage their technology resources and is expected to yield manifold benefits for the company in terms of cost containment, revenue generation, service levels and distribution capabilities."

As a medium sized company, the group realizes it cannot grow in isolation and needs these strategic alliances to equal the big guns of the industry. In noting that the strategy was working Mr. Shill also said in his annual report that the past year had once again demonstrated the competitive performance of the group relative to its peers. "This is reflected in the company's significantly improved stock market rating, and its capitalization which has doubled over the past three years."

### 3.4.6. The Role of the Financial Intermediary

Agents and brokers are elementary to Sage's sales strategy in serving the broader community. Sage is at the forefront of training, licensing and improving its workforce.

#### 3.4.6.1. Counsellor Selling Approach

By working as a sales agent who approaches prospects with a problem-solving attitude, you help prospects meet their needs by selling solutions. This is a win/win approach to problem solving. Your belief about your role as a sales agent influences:

- Your attitude towards yourself and your prospects
- The behaviours that you demonstrate in your approach to prospects
- Whether or not prospects feel you are there to serve them

If you believe your role is simply to make a sale you will focus on your own rather than the prospects needs. On the other hand, if you see yourself as a problem solver, you will focus on your prospects and will seek ways to meet their needs. Meeting your prospects needs through your products, services and questioning techniques provides both of you the opportunity to win in the sales situation. People love to buy but they hate being sold to.

#### 3.4.6.2. The skills of questioning

Questioning is firstly a discovering phase of your sales process. You utilize a variety of skills and techniques to uncover all the factors that affect a prospects decision to change his or her current situation. Secondly, questioning is a way of forming the strategic plan for future sales to the client. The more you know about the client, the easier it becomes to contact him in future. The association is made easier. Thirdly, questioning is way of picking up information on possible referrals, i.e. "you mentioned that your adventure club meets once a month. How would you feel if I did a presentation and sponsored some cocktails"?

#### 3.4.6.3. Specific questions (These are just a few ideas)

- Maiden Name
  - Are you the last to carry your birth name ?
  - How many children are you in the family ?
  - That's an unusual surname, where does it originate?

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➤ Occupation

- How do you feel about the work that you do ?
- Do you believe that this is a career ?
- Would you like to work for this company until you retire ?
- Where do you see yourself in 5 years ?
- Do a few people own the company you work for only?

➤ Hobbies

- What type of sports do you play ?
- When do you have time for your hobbies ?
- Who do you partner up with when you play ?
- Who is your coach or trainer ?
- Which club do you play for or belong to?

➤ Dependents

- How would you feel about supporting your parents ?
- How would you feel if you were dependent on your children one day?

➤ Business

- Who do you report to ?
- Who reports to you ?
- How would you feel about retiring with your current company?

➤ Retirement Age

- If money were no object, what would the ideal age be for you to retire at ?
- At what age would you like to retire and what do you plan to do when you retire ?
- Where would you like to live when you retire ?

Each question that you ask a client and each answer that he gives is an opportunity to know the client better.

#### 3.4.6.4. Priority summary questions

- What is your most important personal / financial goal?
- How do you feel about working wives ?
- How do you feel about your children's education ?



- Where would you like to live when you retire ?
- How do you feel about your current savings situation ?
- How do you feel about providing your family with financial security if you were to die or become disabled ?
- How do you feel about the bank owning most of your home ?
- What do you want your assurance to do for you ?
- How often do you have your assurance reviewed ?
- What kind of plan have you put into place for your retirement ?
- If you had one wish what would it be ?

#### 3.4.7. Call Centres as a Means of Improving Service Delivery

To further improve their service levels to clients, Sage Life has recently introduced an enhanced communication system at their Customer Service Centre. This state of the art system can better accommodate the processing of increasing volumes of calls. At the same time it will support our initiative for superior Customer Relationship Management (CRM).

SL's Customer Service Representatives (CSR's) are highly capable staff with at least 10 years experience. They have received advanced product knowledge and process training, to ensure they are well qualified to deal with any enquiries. Their expertise is now further enhanced by superior technology. The installation of the new infrastructure is the first of three phases to upgrade their call centre to a full CRM solution. In the first phase we have provided a technical platform by using some of the best technology available. In the second and third phases, they will be able to analyze valuable data collected at the call centre. The additional information provided allows them to work towards proactively developing even better client solutions, which will benefit both the clients and Sage Life.

A fully automated system allows the clients to choose the appropriate area they wish to deal with. An interactive voice response system (IVR) enables them to "follow the map" to the relevant Customer Service Representative. Should they wish to contact us outside of our normal business hours they may leave a message. Calls will then be responded to by close of business on the first working day thereafter.

Using advanced technology, our fax system has also been greatly enhanced. The faxes they send are now received by a control computer and routed directly to an Administrator in the administration area of the call centre. SL now has an accurate record of times faxes are received and to whom they were dispatched.

They constantly evaluate the success of our customer service by using various methods. For instance, the enquiries and the way it is handled, is recorded for legal and quality (training) purposes and cannot be tampered with. It allows them to go through the recordings to see how we could have handled the call differently and to ensure that we continually improve our service levels. All complex queries are escalated to the relevant person who will be able to assist the client as soon as possible.

(Hallmark magazine, page 8)

#### 3.4.7.1. Some Interesting Facts about Sage Life's Call Centre

They receive approximately 26 000 inbound calls per month. These calls are divided into three categories – Sage Life Enquiries, Unit Trust Enquiries and New Business Quotations.

In addition they make more than 1 000 out bound calls per month to personally welcome our new policyholders. While speaking to the client they also use this opportunity to verify certain relevant information that is on the application form. SL is currently also asking for e-mail addresses and cellphone numbers to ensure that we keep our database updated.

It also helps the company to accurately capture useful additional information, such as cellphone numbers and e-mail addresses and ensures that we keep our database up to date at all times. The call centre has moved to the first floor at Head Office. According to Gloria van Vuuren from Client Services they are very happy in their new premises and enthusiastic about the new technology. From Gloria and her team thanks to everyone who helped in making this possible especially to all the dedicated staff who came in on Sunday's to learn the new technology.

#### 3.4.8. Enhancing Client Relationships at Sage

In an increasingly competitiveness business environment, the partnering relationship among SL's clients, intermediaries and Sage Life has become more important than ever to enhance their service levels to existing and new clients and to ensure continuing business success.

It is generally accepted that it costs up to five times more to get a new client than to retain an existing client. However, to retain an existing client requires regular contact and continuing service, otherwise they start forgetting their advisor.

Research done by Sage Life has indicated an unacceptably high percentage of clients with maturing endowments and retirement annuities fall off our books, resulting in lost opportunities for clients, intermediaries and the company. The majority of these clients are in an age group where they require further financial planning and investment advice.

The research established that one of the major reasons for failing to retain existing clients, is insufficient two-way communication between the client and the intermediary or the company, particularly when policies mature and the client needs to make further decisions.

As part of an extensive drive to manage client relationships even better and to create opportunities for their intermediaries to provide an ongoing service to their clients, they are now sending letters to all policyholders at various stages before their endowments or retirement annuities are due to mature.

Six months before the maturity date, clients are notified that the policy is due to mature and advised that it may be to their advantage to defer maturity for further potential growth, unless they urgently require the capital. Letters follows up this communication three months before maturity and again one month before maturity. In the three-month letter, clients are advised of their options at maturity and encouraged to contact their financial advisor. These options are repeated in the letter one month before maturity and clients are again urged to contact their financial advisor.

To assist their intermediaries, copies of these letters are sent to them at the same time. This creates an ideal opportunity for an intermediary to make contact with an existing client and to provide ongoing financial advice. A dedicated call centre has also been established to help intermediaries with any additional information they may require to service the client.

#### 3.4.9. After Sales Service at Sage

“Ultimately, it is not the sale that counts but the service after the sale that keeps the client coming back for more!” (Maree, J. 2003)

##### 3.4.9.1. Client loyalty

Policy servicing is a crucial component of the financial advisor’s client relationship management process. It is not a simple or mechanical activity and should on no account be left to somebody else. Without proper follow-through after the sale of a policy, the implementation of financial planning and life insurance is incomplete. Every client expects their financial advisor to give them continued service after they have purchased an insurance policy, to help them understand how the policy they purchased meets their current circumstances and to ensure their planning keeps pace with changing circumstances. If the servicing is done properly, the advisor’s efforts will be rewarded with sustained client loyalty and new high quality business opportunities. However, the client/advisor relationship will suffer if there is no after-sales service. It goes without saying that from a position of credibility and integrity, high quality policy servicing is essential, and it also makes great business sense.

##### 3.4.9.2. Legislation

The implementation of the FAIS act will make life difficult for financial advisors with poor servicing strategies and negative business practices. It has also been speculated that the regulators may do away with automatic trail commissions and implement more stringent rules whereby advisors will need to get their client’s approval on an annual basis to receive their update commissions.

#### 3.4.9.3. Remuneration

The question of the financial advisor's remuneration raises several questions about the value of policy servicing. Is the remuneration adequate, given the effort and amount of work involved in writing the business? How is the advisor remunerated for his time and expertise? Does the advisor only receive compensation from initial and renewal commission or will he/she be rewarded for ongoing service? Agreement between the financial advisor and client can go a long way towards determining whether the advisor will write the business or recommend that the business be written by another advisor.

#### 3.4.9.4. Policy servicing in a nutshell

When an advisor services a client's policy, two elements are reviewed:

- the product and funding; and
- the clients' circumstances.

These two elements are interrelated, regardless of the particular life insurance product. It is essential to maintain client contact to ensure that clients understand their financial planning strategy and how it has to be adapted to changing circumstances. Apart from building and maintaining a great advisor/client relationship, ongoing servicing remains an essential part of the process to implement the client's financial planning strategy.

#### 3.4.9.5. Initial contact and sale

The process begins with the initial, management of the client's expectations in terms of the policy and what will happen going forward. Questions regarding the appropriateness of the product by way of a needs analysis as well as the client's understanding of the product by signing the record of advice, are addressed when the policy was selected. Among the most important questions that should have been addressed at this stage are:

- Does the product, and payment for it, meet the client's complexity levels; needs or wants; and financial situation?
- Is the product appropriate for the selected planning strategy ?
- Does the client understand the disclosed pricing of the policy, such as expenses, mortality cost and investment earnings ?
- Does the product suit the client's risk tolerance ?

- Is the client aware that the policy will not necessarily perform the way it is illustrated and is the client aware of the good and bad implications of this ?
- Has the client been shown alternative products and scenarios and is he/she comfortable with the selected product?

All the above should be recorded and given to the client when the policy document is delivered.

#### 3.4.9.6. Ongoing service

At each policy anniversary, the policy needs to be compared to the original reason it was purchased. If it is an investment policy, the performance needs to be compared to the original projections and if there is a discrepancy, the reason for the difference, the client's current and future options and the implications of these options, need to be discussed. Once discussed with the client it must be followed up in writing.

To meet the client's changing needs there are a host of interrelated environmental factors that will invariably need consideration when servicing a policy. These include, but are not limited to:

- changes in the client's situation
- the ongoing viability of the planning strategy for which the policy was purchased
- changes in the legal and regulatory environment
- competitiveness of new products on the market
- does the client have continued ability to fund the premiums ?
- does the client have new obligations ?
- if the client bought the policy to benefit one or more people, is the intention still the same ?
- information with regard to health issues need to be addressed
- market performance

If the policy requires ongoing administration, it is highly likely that the financial advisor has responsibility for part of it. In all events, the client needs to be made aware of the financial advisor's responsibilities and these responsibilities must be well executed.

### 3.4.10. Sage and its Standpoint on AIDS in terms of Providing Support to Clients

(AIDS bulletin 4, April 2003)

#### 3.4.10.1. Are you worried that you might “catch” HIV like you do with a cold or flu?

Relax! There is no such danger. HIV cannot be transmitted through casual contact at work or at home. Sneezing, coughing, hugging or touching of from mosquito or other insects' bites do not spread the HIV virus. Furthermore, the virus does not live for long outside the human body to be transmitted through contact with toilet seats, sharing cutlery, etc. It was pointed out in a previous bulletin that HIV is in fact spread from one person to another through the exchange of bodily fluids, particularly blood-to-blood and during sexual intercourse. When a colleague confides in you about a disease such as HIV, show empathy towards the person – like you would if anyone with an incurable disease came to you for support. The person needs your understanding, moral support and help. The main idea is not to let the person stay in a state of depression, but rather to help them to come up with some options and alternatives which will help the person deal with his / her situation more productively.

#### 3.4.10.2. HIV is not a death sentence

HIV does not result in immediate death and not everybody who is HIV positive contracts AIDS. With the correct treatment and lifestyle a person that is infected with HIV can survive and live a quality life for many years. Statistics show that on average after infection a person can live for ten years and some people even live longer. It all depends on how quickly the virus depletes the person's immune system.

#### 3.4.10.3. Counseling

Counseling is very important and should be encouraged. It has two general aims, firstly to prevent the transmission of HIV and secondly to support those infected and those affected by the disease. The infected person faces a lot of uncertainties and stresses and if such stresses are not dealt with then severe and chronic psychological or psychiatric disturbances (e.g. morbidity and depression) may result, which an unnecessary additional strain on the immune system. Counseling is better left to the experts. Details of trained counselors were supplied in a

previous brochure and are available from any of the Sage AIDS Committee Members or from HR.

### 3.4.11. Sage Life's Investment Philosophy as a Means of Protecting the Investments of Customers

#### 3.4.11.1. Sage Life Investment Philosophy

According to McMurrie (2002): "Investment markets are driven by macro economic cycles over time. Macro economic events will determine the direction in which the markets move and the duration of an investment cycle. Investment returns are largely determined by the relative performance of competing asset classes and sectors, based on their anticipated medium-term reaction to macro economic events and the phase of the economic cycle. The returns can be further enhanced by specific stock selection from the various sectors".

Ensuring the right asset allocation (equities, bonds, cash) and sector rotation (financials, industrials, resources, etc) at the right time during an economic cycle, simplifies the stock selection process. Determining the phase of the economic cycle and anticipating the market reaction to macro economic events do this.

#### 3.4.11.2. Investment Management

Sage Life has over the years built a strong platform of capability to ensure the best long-term performance for each fund. Driven by the Investment Management Committee, the process involves determining the asset allocation and sector selection, defining specific mandates and then selecting specialist asset managers best suited to the specific fund.

In collaboration with internationally recognized consultants such as Brockhouse Cooper and Fifth Quadrant, Sage Life continuously monitors the performance of the respective management companies to ensure continued superior performance and, if necessary, make changes.

Sage Life's Collective Wisdom approach provides access to some of the best expertise available in the world, enhanced by careful management and sophisticated support systems.



#### 3.4.12. Concluding View of Jannssen Davies – Managing Director of Sage Life

Janssen has been with Sage for more than thirty years and has gained in-depth experience across a broad spectrum of the Group's activities, including information technology, human resources, operations and sales.

He started his career at Sun Life of Canada in 1968 and helped form Equity Life, which was later to become Sage Life where he became the Managing Director in 1997. In 1999 he became Chief Executive Officer of Sage Life Holdings, and is also Vice Chairman of Sage Unit Trusts and Chairman of Sage Specialized Insurances. In addition to serving on the boards of 20 companies, he is also an Advisory Board member of Wits Business School and founding Advisory Board member of the WBS centre for Entrepreneurship.

Janssen is a popular speaker at various international and local conferences as well as academic institutions throughout the country. His topics vary greatly, ranging from entrepreneurial leadership to technology outsourcing strategies, competition in business development and personal development.

Janssen is also an active "eco-warrior" having served in various national co-ordinating capacities. He has been an Honorary Ranger of the South African National Parks 21 years and is Chairman of the National Training Committee for honorary rangers.

(Training Manual)

#### 3.4.13. Future of Sage Life

There will be huge opportunities to increase efficiencies even further, notes Mr. Davies.

This ongoing outsourcing reflects a deliberate policy designed to contain expenses and optimize resources and profitability in a medium sized organization in a highly competitive macro environment. This allows the group to concentrate in-house on the three key areas, as mentioned above : creating leading edge products; providing excellence in customer service, and, maintaining exceptional performance criteria across all business levels.

Sage believes it is well equipped for the challenges expected in the rapidly changing and expanding markets, both in South Africa and in the global arena. In 1996 it adopted a set of 'core values' that have already proven their worth, being:

- Commitment to its customers
- Commitment to its own staff
- Commitment to high ethical standards
- Commitment to innovation, and
- Commitment to South Africa

The company is very positive about South Africa's long-term economic prospects, concludes Dr. Illsley. They have always been and will always remain fully committed to South Africa, and intend to enhance our inherent financial strength and record of long-term profit growth, through:

- acquiring, developing and retaining customers,
- achieving superior investment returns,
- maintaining a focused approach to products, marketing and service, and
- managing our resources effectively and improving revenue / cost ratios.

Attaining real added value for all stakeholders (policy holders, intermediaries, staff and shareholders) remain the essential goal of the group, he says, " We have been ahead of the game in outsourcing. It is an effective way of leveraging our medium size.

"We have an interesting challenge in maintaining our investment performance levels. While the investment scene is very turbulent at present, the internationalization of the group is part of the process in meeting that challenge." (Insurance & Investment magazine)

### 3.14. Conclusion

The changing and impending legislation by the FSB provide a stable and safe environment for consumers to engage in trade with insurance companies and investment houses. At the forefront of FSB regulation is PPR. Agents and brokers require indemnity insurance, full accreditation and licensing to pursue a career as life assurance and investment consultations.

The industry is demanding professional to carry out a task with equal amount of responsibility and integrity expected of lawyers, accountants and doctors alike.

New generation products and competition by the likes of Discovery, Liberty and Sage create a vibrant environment with lots of choices for the consumer. Competition has brought about lower cost products offering greater benefits and extended guarantees. Once again Sage Life is at the forefront with their guaranteed products outshining some of the larger players in the industry.

Sage Life has taken the initiative ahead of the pack in becoming compliant with changes in legislation and accreditation requirements. The organization prides itself as an innovative company on product development. SL is in pursuit of service excellence with its current technology upgrades and organization restructuring.

The next chapter is a questionnaire evaluation on client's perception of service delivery at Sage Life. The survey will measure the five dimensions of service quality.

## CHAPTER 4 - EVALUATION

### 4.1. Introduction

It is an old adage that ‘first impressions are lasting’. However, perceptions do change through the evolution of time and change in service levels. The purpose of this survey is to explore the gap (if any) that exists between clients’ perception of service delivery at Sage Life and management’s perception of clients’ expectations.

The survey was designed in the form of a questionnaire. Ten agents from five branches of the agency force carried out the survey. Fifty qualified clients that have policies with Sage Life were approached to fill in the questionnaire. The questions are measured on a likert scale with responses of one indicating strong disagreement, through to a response of five indicating strong agreement. The responses were tabulated and the frequency of each question response calculated as a percentage of the sample size. The cumulative percentage column was used for tally purpose. See tables in appendix.

To ensure error free casting, a random sample of ten questionnaires were given to an outside observer to test, no errors were found.

### 4.2. Service quality dimensions

The primary function of the survey was to establish clients’ perception of service quality across the five dimensions of service quality namely, tangibles, reliability, responsiveness, assurance and empathy. Zeithaml et al explain these five Servqual dimensions as follows:

- Tangibles measures the appearance of physical facilities, equipment, personnel, and communications material.
- Reliability measures the ability to perform the promised service dependably and accurately.
- Responsiveness measures the willingness to help customers and provide prompt service.

- Assurance measures the knowledge and courtesy of employees and their ability to convey trust and confidence.
- Empathy measures the level of care and individualized attention the firm provides to its customers.

### 4.3 Questionnaire Evaluation

- Personal details

#### Gender

| GENDER | FREQUENCY | SAMPLE SIZE | PERCENTAGE | CUM PERCENT |
|--------|-----------|-------------|------------|-------------|
| MALE   | 35        | 50          | 70         | 70          |
| FEMALE | 15        | 50          | 30         | 100         |

Table 4.1 – Gender Analysis

This question reveals that thirty percent of the respondents were female. Married females consume insurance products differently in terms of their needs. Females cannot be discriminated in terms of perception of service quality and hence this finding can be useful for marketing purpose.

#### Age

| AGE   | FREQUENCY | SAMPLE | PRECENTAGE | CUM PERCENT |
|-------|-----------|--------|------------|-------------|
| <20   | 0         | 50     | 0          | 0           |
| 20-25 | 2         | 50     | 4          | 4           |
| 25-30 | 6         | 50     | 12         | 16          |
| 30-35 | 12        | 50     | 24         | 40          |
| 35-40 | 8         | 50     | 16         | 56          |
| 40-45 | 9         | 50     | 18         | 74          |
| 45-50 | 6         | 50     | 12         | 86          |
| 50>   | 7         | 50     | 14         | 100         |

Table 4.2 – Age Analysis

This question is purely for demographic and marketing purpose. Sixteen percent of the respondents fall in the category of thirty and below, whilst eighty four percent include ages of thirty and above. This sample is fairly representative of people that are well established in their working career, with a steady vocation and stable income. Just on sixty percent fall in the age band of 30-50. For insurance purpose, this is the ideal age group to target. On the lower band you have potential clients settled in jobs, with a good

twenty years ahead of them for which financial planning is necessary, and on the upper band you have clients close to retirement age with retirement planning needs.

#### Income

| INCOME CATEGORY | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-----------------|-----------|--------|------------|-------------|
| <R3500          | 4         | 50     | 8          | 8           |
| <R5000          | 12        | 50     | 24         | 32          |
| <R10000         | 8         | 50     | 16         | 48          |
| <R15000         | 13        | 50     | 26         | 74          |
| <R30000         | 13        | 50     | 26         | 100         |

Table 4.3 – Income Analysis

An important finding here is that sixty eight percent of the respondents fall in the category of more than R5000 per month income, and 52% earn R10, 000 or more. This is line with Sage’s niche market focus.

#### Race group (for statistical purpose)

| RACE GROUP | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|------------|-----------|--------|------------|-------------|
| ASIAN      | 41        | 50     | 82         | 82          |
| WHITE      | 6         | 50     | 12         | 94          |
| AFRICAN    | 1         | 50     | 2          | 96          |
| COLOURED   | 2         | 50     | 4          | 100         |

Table 4.4 – Race Analysis

It is not intentional that the findings showed eighty two percent to be of Asian race. In KZN, the agency sales force is largely (at least 65-70%) Asian. This finding could be useful to management in defining their focus.

➤ The five dimensions:

**Tangibles:**

Question 1 – SL has modern looking equipment!

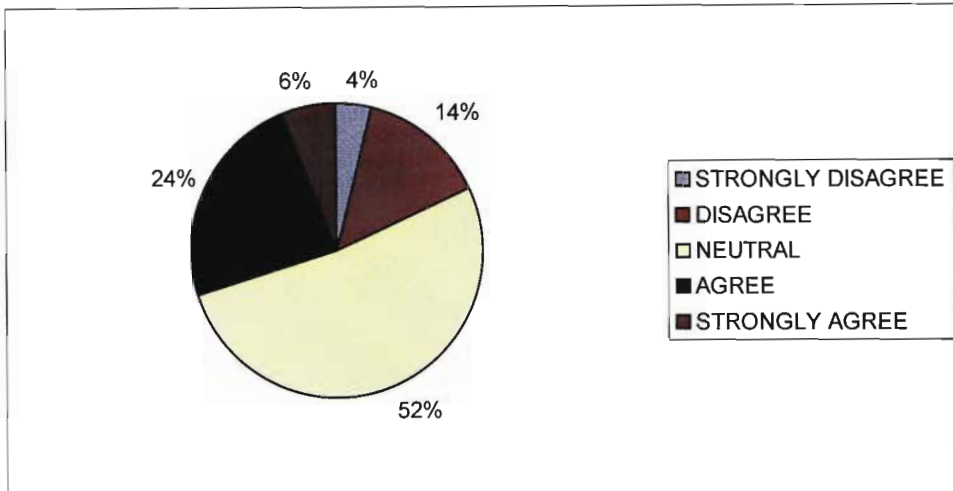


Figure 4.1 – Tangibles-equipment.

Only thirty percent are in agreement, whilst fifty two percent is neutral. Fair to note that most clients do not visit the company premises to conduct their business, hence the bias towards disagreement.

Question 2 – SL offices are visually appealing!

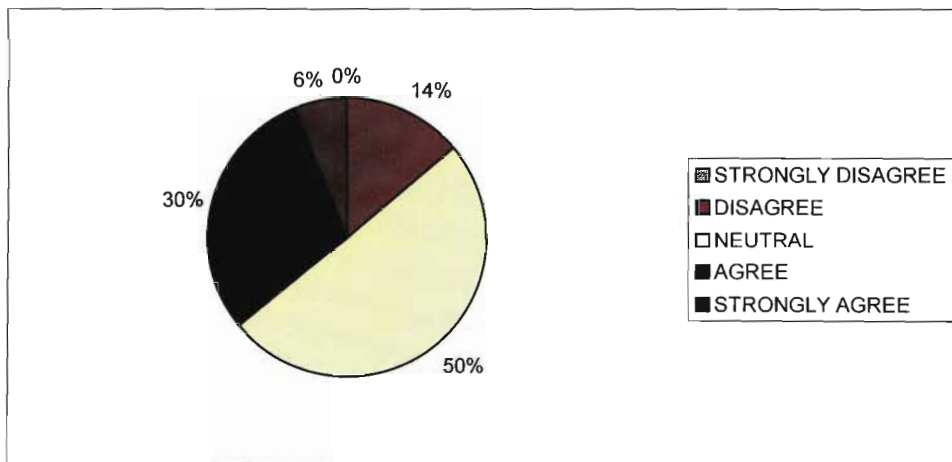


Figure 4.2 – Tangibles-offices.

There is large neutrality bias with some thirty six percent in agreement. Indicating a need for constant upgrading of working environment.

Question 3 – SL employees appear to be well groomed and well dressed at all times!

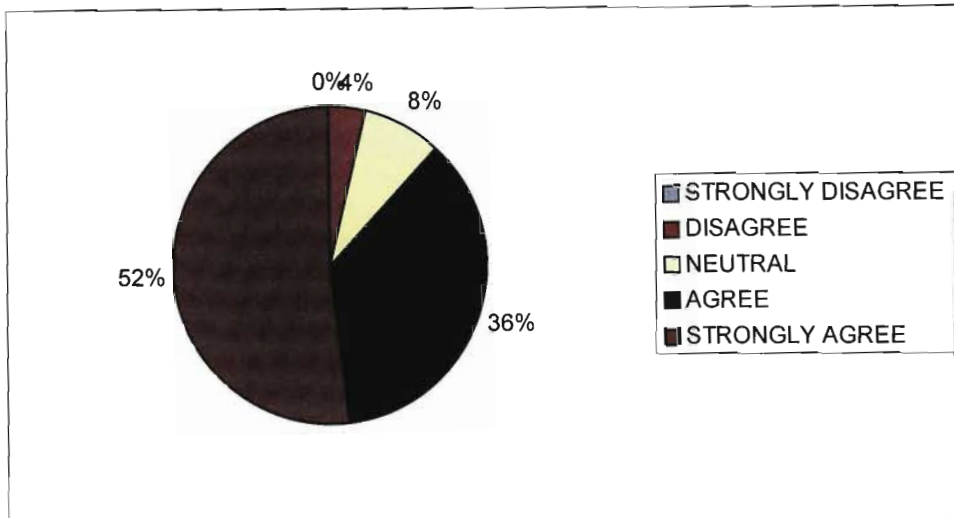


Figure 4.3 – Tangibles-employees.

This graph illustrates a favorable perception of the appearance of the employees at Sage. As professional people, it is imperative for financial planners to be well groomed and presentable in the eyes of their clients. First impressions are lasting.

Question 4 – SL marketing brochures are visually attractive!

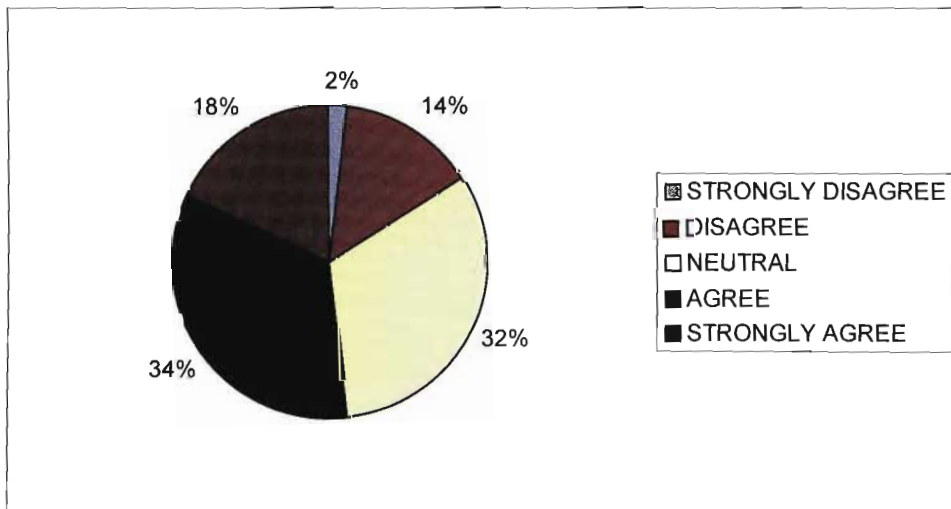


Figure 4.4 – Tangibles-marketing material.

Insurance products are intangible by nature. Being in a highly competitive industry, advertising plays a critical role in the marketing strategies of insurance companies. Customers responded favorably to the quality of Sage’s advertising material, as they are informative and self-explanatory.



Question 5 – SL policy documents are well presented and easy to read!

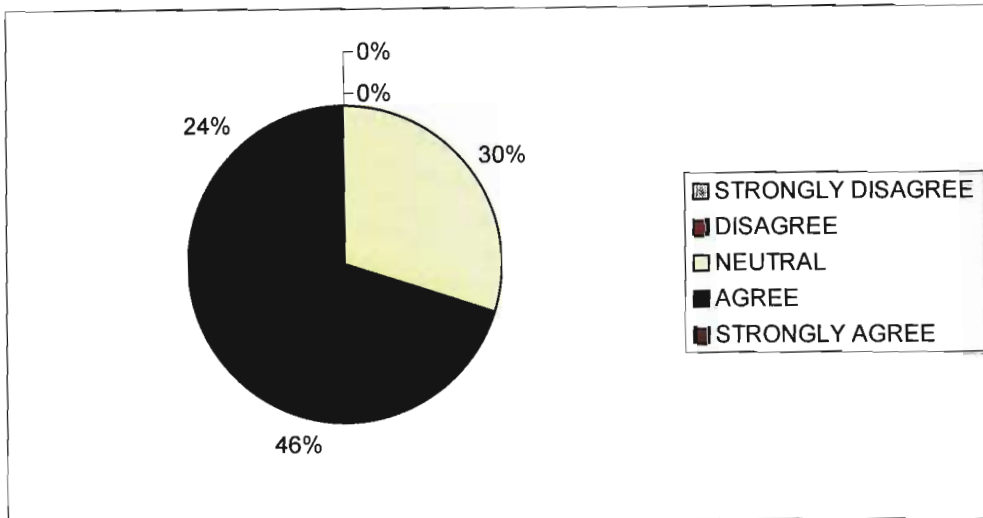


Figure 4.5 – Tangibles-documents.

Due to the technical aspect of policy information, it is important for documents to be simple and easy to read. This is supported by the financial advisors explanation to the client. Hence resulting in a favorable response of 70%.

**Reliability:**

Question 6 – Problems concerning your policies are expeditiously resolved!

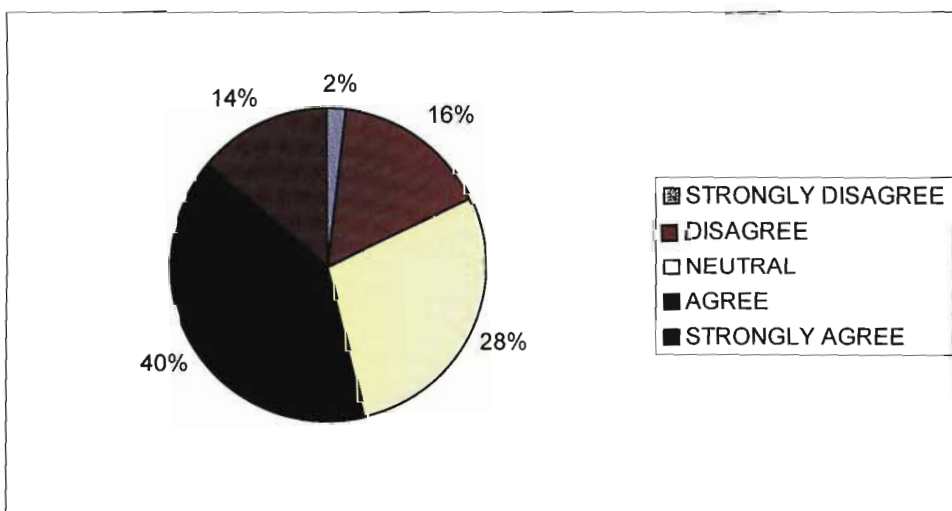


Figure 4.6 – Reliability-problems

A marginal 18% disagree. Common to most service industry is the ‘bad customer syndrome’. It is highly possible for some customers to receive poor service. Whilst the

problems may not be expeditiously resolved, they do get resolved, and therefore this should not have major bearing on reliability as a whole.

Question 7 – SL always performs and or resolves your queries right the first time!

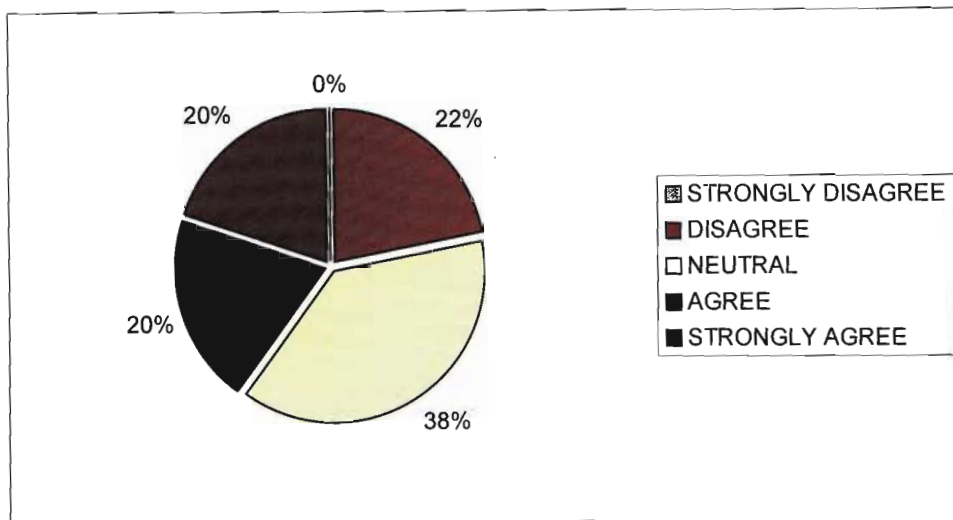


Figure 4.7 – Reliability-queries.

In a highly competitive industry, service is of utmost importance. However, in South Africa we have generally become accustomed to poor service. Only 40% appear to be happy with service the first time, leaving room for improvement. Perhaps the difference between good service and excellent service.

Question 8 – SL always delivers their promises on time!

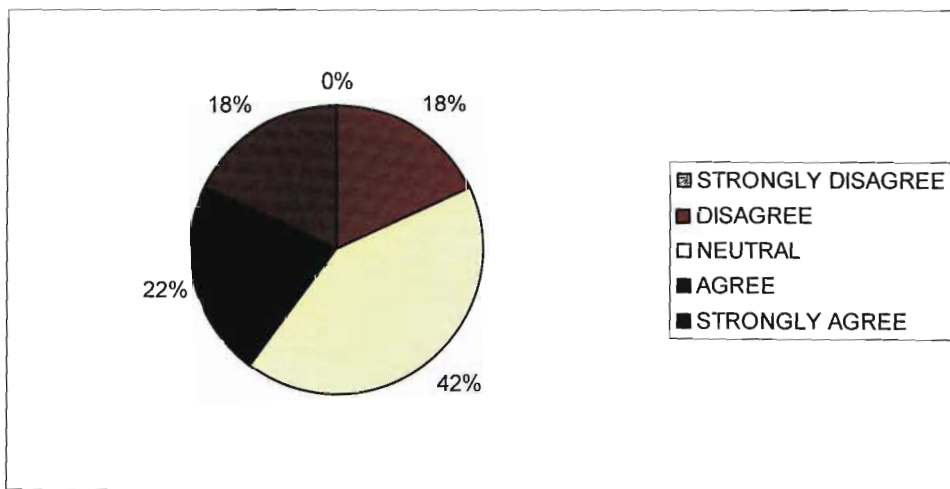


Figure 4.8 – Reliability-promises.

This chart illustrates that only 40% of the respondents are very happy with on time delivery! Alluding to the poor reliability on service delivery. People don't take likely to promises being broken. This can lead to decrease in credibility and hence reliability.

Question 9 – SL information and documentation is always error-free!

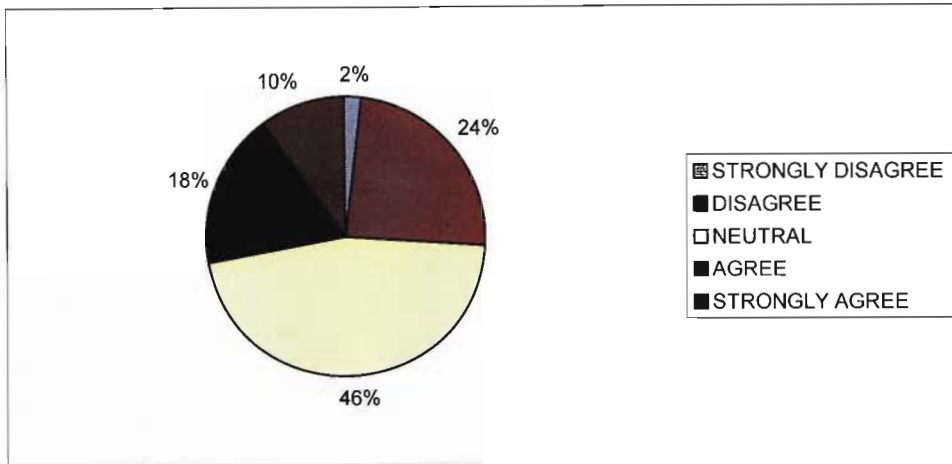


Figure 4.9 – Reliability-information.

Twenty six percent of respondents disagree. Shockingly just as many agree. Critically, we allude to the fact that only 28% are happy with the quality of the documentation. Insurance service and products rate high on intangibility. The only attachment clients have to the sale is the document. Hence it is very important that the documentation is error free and reliable.

**Responsiveness:**

Question 10 – SL informs you exactly when your policy will be approved/ accepted!

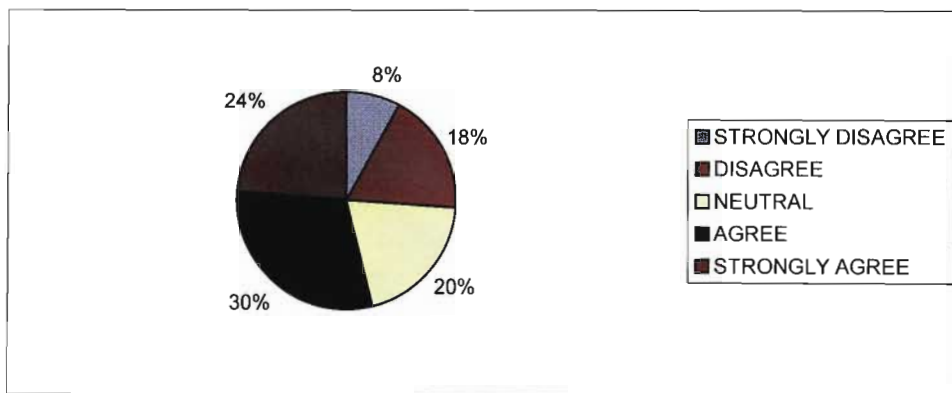


Figure 4.10 – Responsiveness-approval.

The process of application for a life cover policy can be highly stressful for those with sub-standard lives, and or physical impairments. This graph illustrates that just over 50% are receiving on time responses. Perhaps highly professional advisors are servicing them. Management could look at standardization of tasks to improve the quality of this service.

Question 11 – Enquiries are attended to promptly!

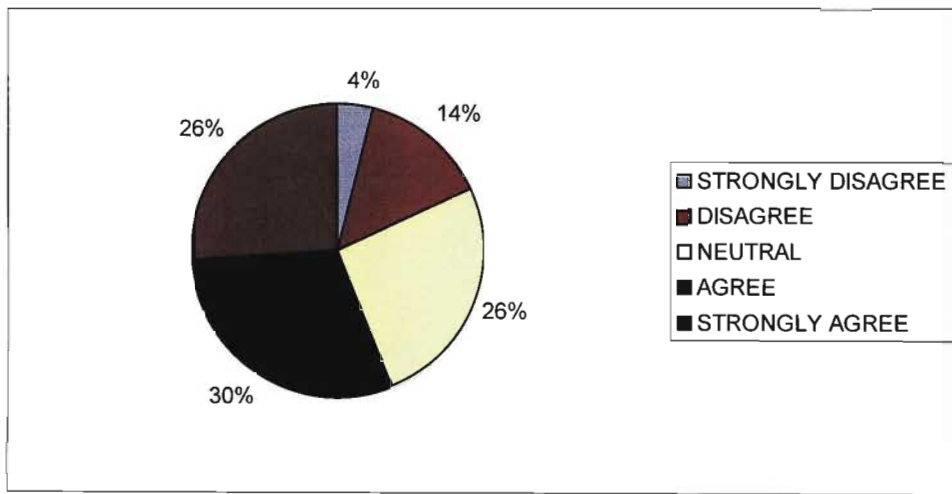


Figure 4.11 – Responsiveness-enquiries.

The results support the previous finding. Only 56% are happy with the prompt response service quality. Further supporting the argument for task standardization.

Question 12 – SL employees are always willing to help!

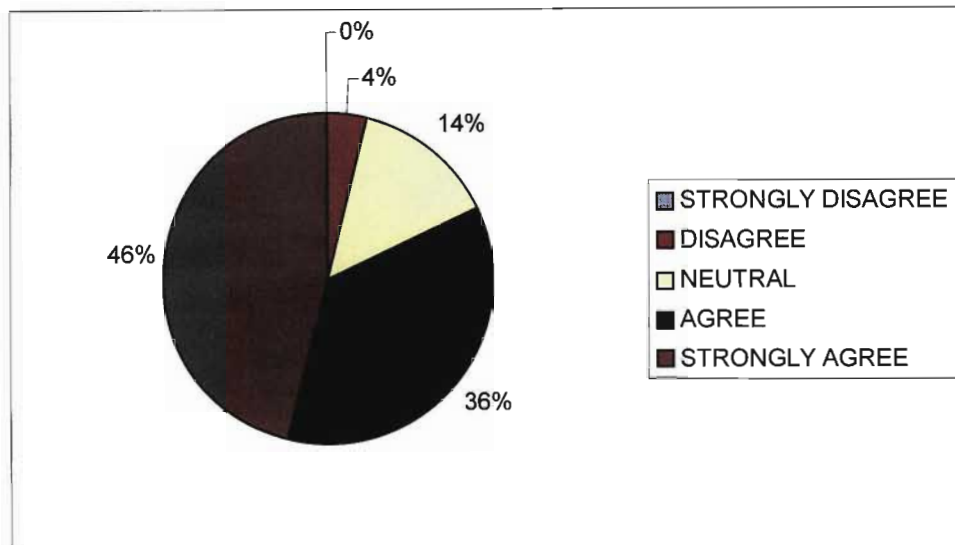


Figure 4.12 – Responsiveness-employees.

This result is highly positive. Generally, insurance agents are talkative, friendly and very approachable. The 82% positive response supports our statement.

Question 13 – SL employees are never too busy to respond to your requests!

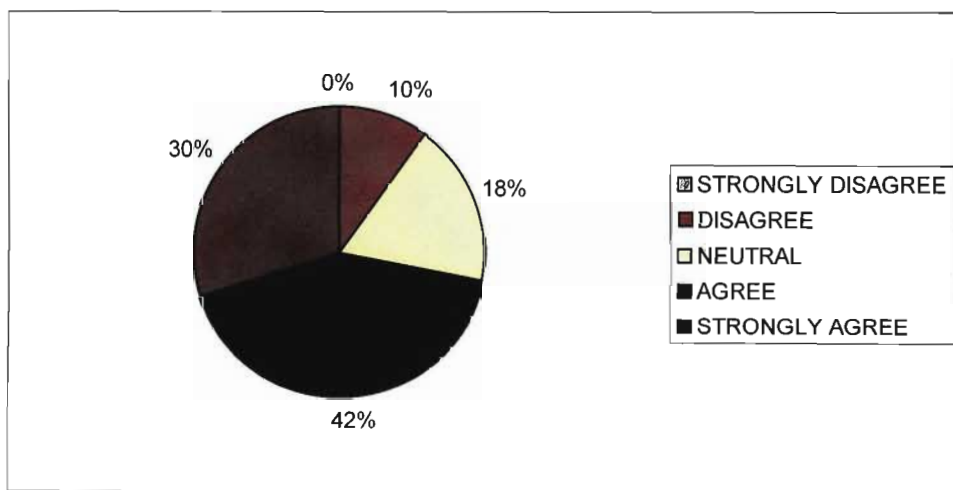


Figure 4.13 – Responsiveness-requests.

As opposed to commodities, clients display a high demand on service when dealing with intangibilities. Seventy two percent are very happy with the prompt service they receive.

**Assurance:**

Question 14 – The attitude and behavior of employees at SL is always reassuring!

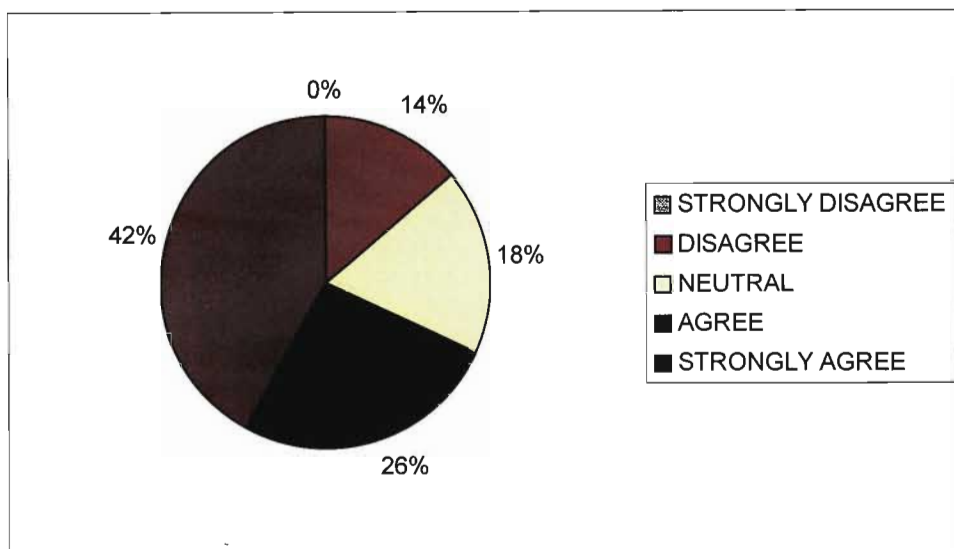


Figure 4.14 – Assurance-behavior.

When you buy insurance, you buy hope and the good word of the selling agent. Whilst 68% of the respondents are feeling reassured, 14% disagree and 18% are neutral.

Question 15 – You feel safe when transacting with a SL employee!

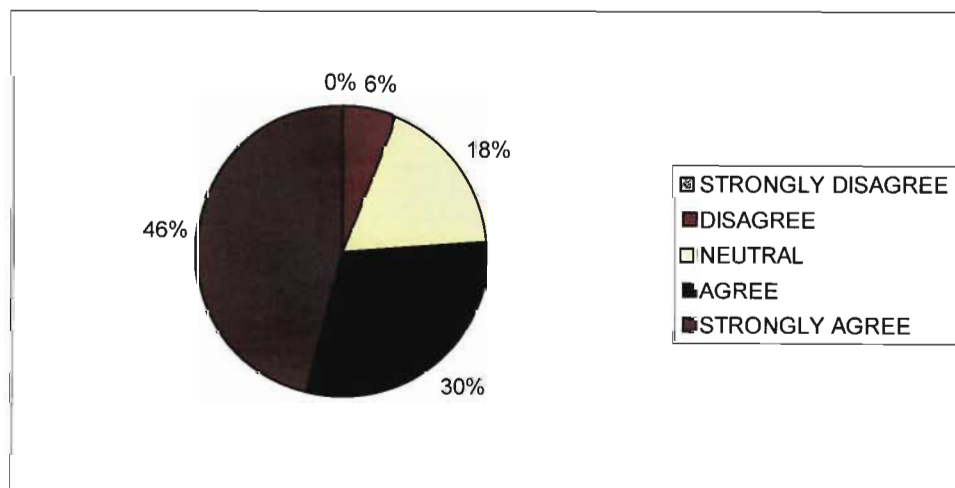


Figure 4.15 – Assurance-safety.

The issue of safety is critical especially in the light of the fraud and corruption that has plagued the industry. In the light of the current compliance requirements enforced by the FSB, it is highly reassuring for Sage to receive a positive score of 76%.

Question 16 – SL employees are consistently courteous!

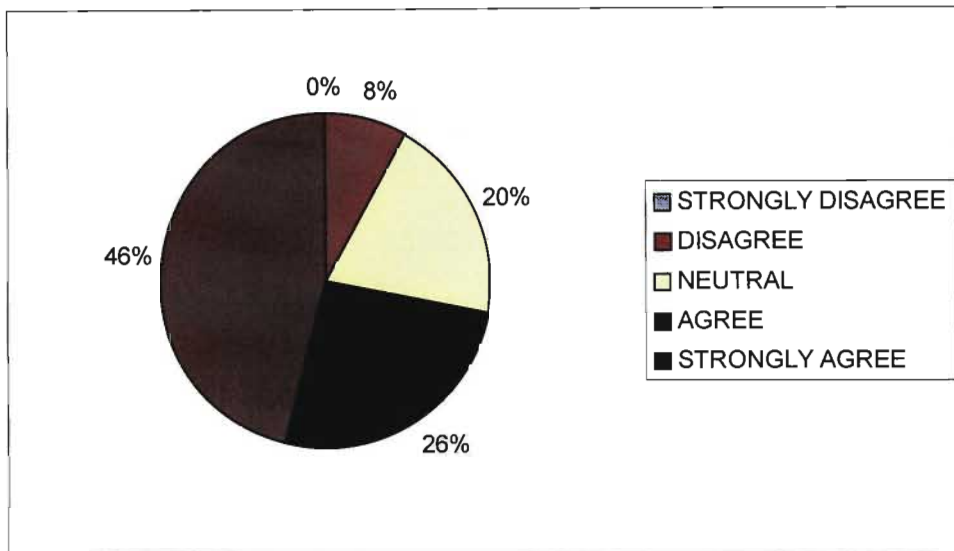


Figure 4.16 – Assurance-courtesy.

This graph illustrates that 72% are happy with Sage employees characteristics. This response supports the previous assurance question.

Question 17 – SL employees have the necessary skills and knowledge to answer your questions!

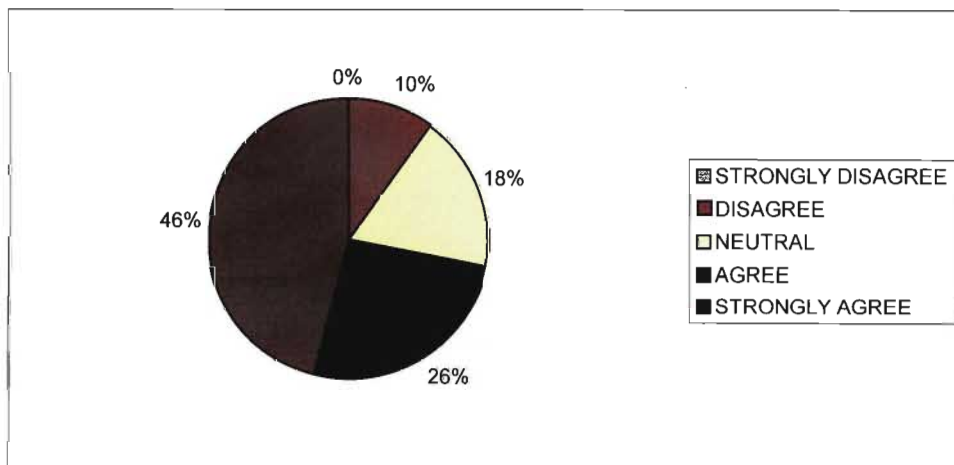


Figure 4.17 – Assurance-skills.

It is no secret that Sage has taken the initiative to accredit their workforce and make them compliant well ahead of the deadlines set by the governing body. Whilst only 72% are in support of this initiative, it is indicative of a general feeling of assurance.

**Empathy:**

Question 18 – SL employees offer personalized service!

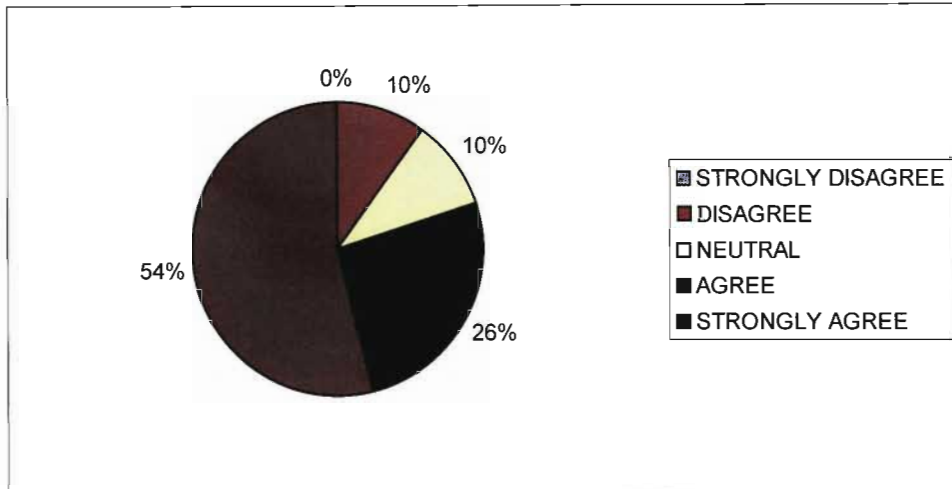


Figure 4.18 – Empathy-service.

The nature of the business requires personal attention. Insurance cannot be seen or touched or felt. Financial planners have to sit down with their clients and talk them through the whole process. This requires one-on-one personal attention. It is no surprise that 80% of the respondents are happy.

Question 19 – SL employees are available at hours convenient to you!

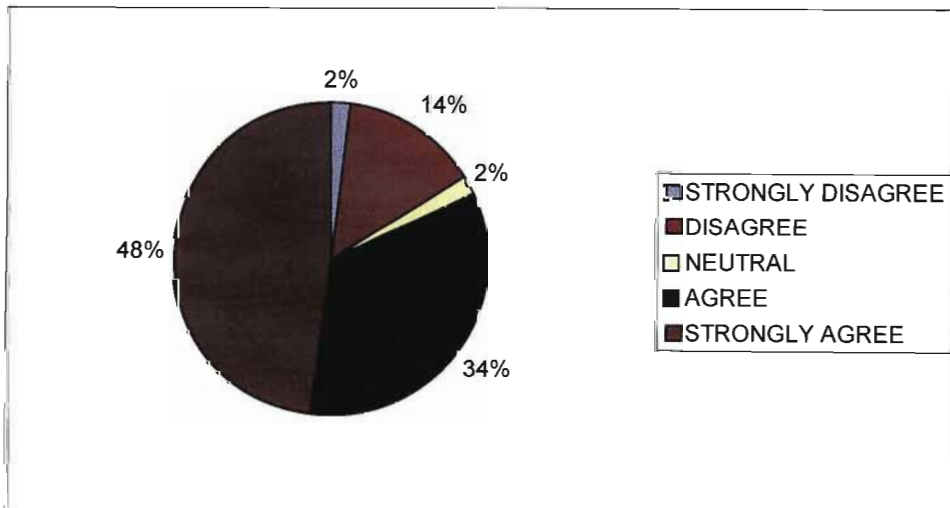


Figure 4.19 – Empathy-convenience.

Once again due to the nature of the service, clients are visited at times convenient to them and their families. It is no surprise that 82% are happy with their advisors.



Question 20 – SL employees always have your interest at heart!

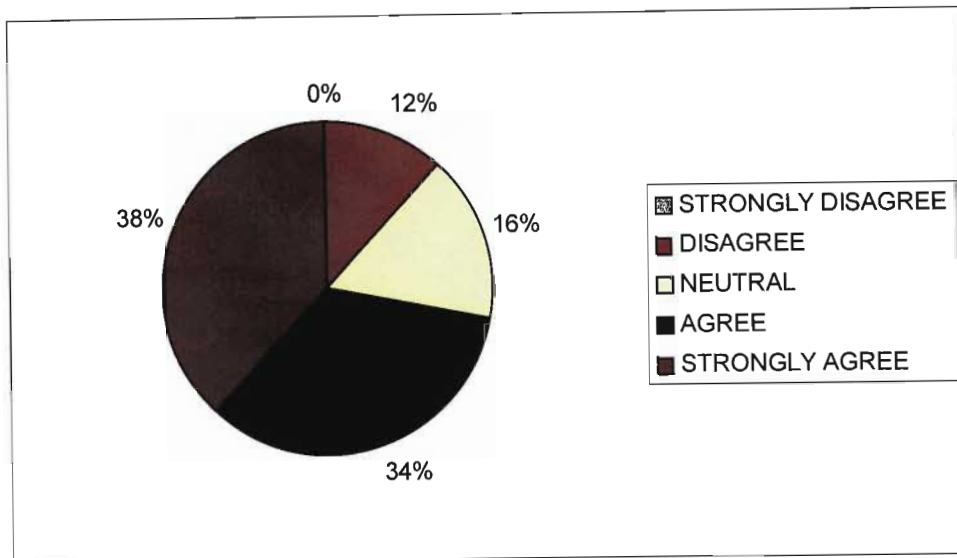


Figure 4.20 – Empathy- interest.

This graph illustrates that 72% of the respondents are happy with the character and credibility of their service agents.

Question 21 – SL employees understand your specific needs!

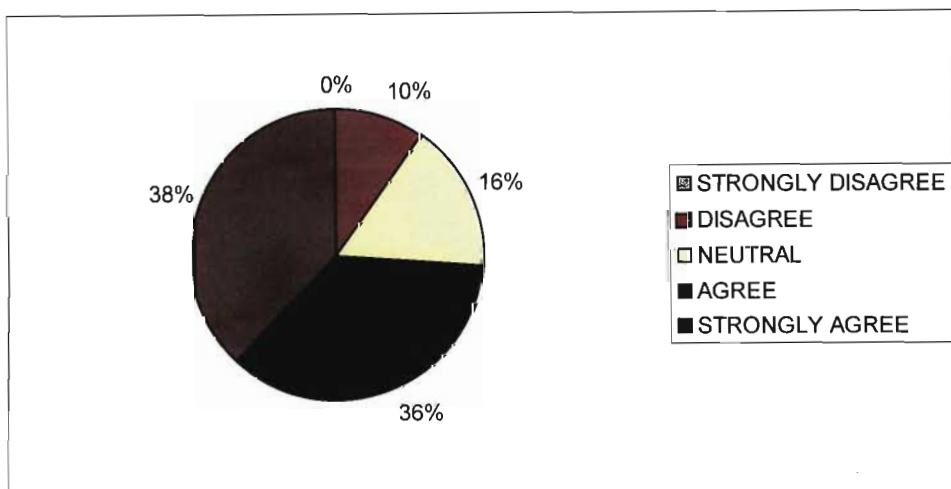


Figure 4.21 - Empathy-needs.

Sage Life has advocated the use of needs analysis tools such as an FNA questionnaire and Sage-Insight software program. According to this graph only 10% are in disagreement. The results of this graph suggest that agents are using these tools effectively to understand and determine clients' specific needs.

**General questions:**

Question 22- SL is the largest insurance company in the South Africa!

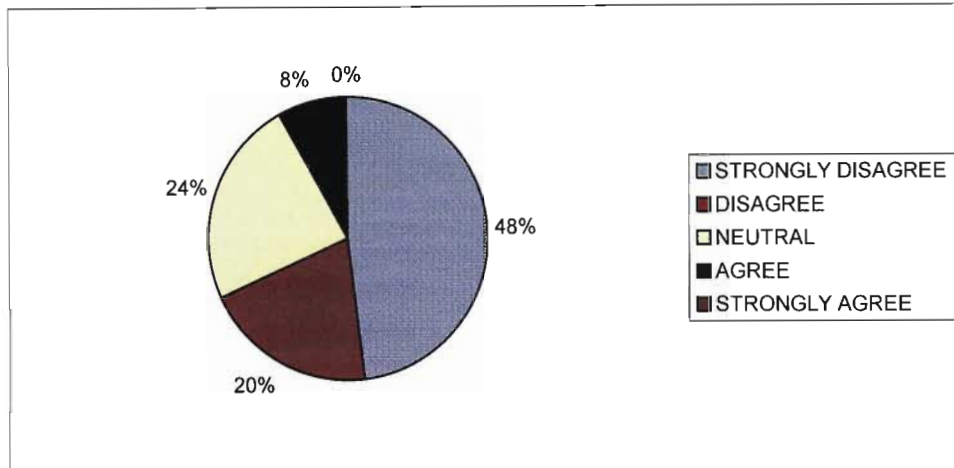


Figure 4.22 – General-size.

This graph shows that only 48% of the respondents are absolutely correct. More than half of the respondents are not quite sure of Sage’s position in the industry. One may assume that Sage is doing a wonderful job of marketing its brand as an industry leader. Sage was responsible for launching the first unit trust investment in South Africa in 1965.

Question 23 – SL is a popular insurance company!

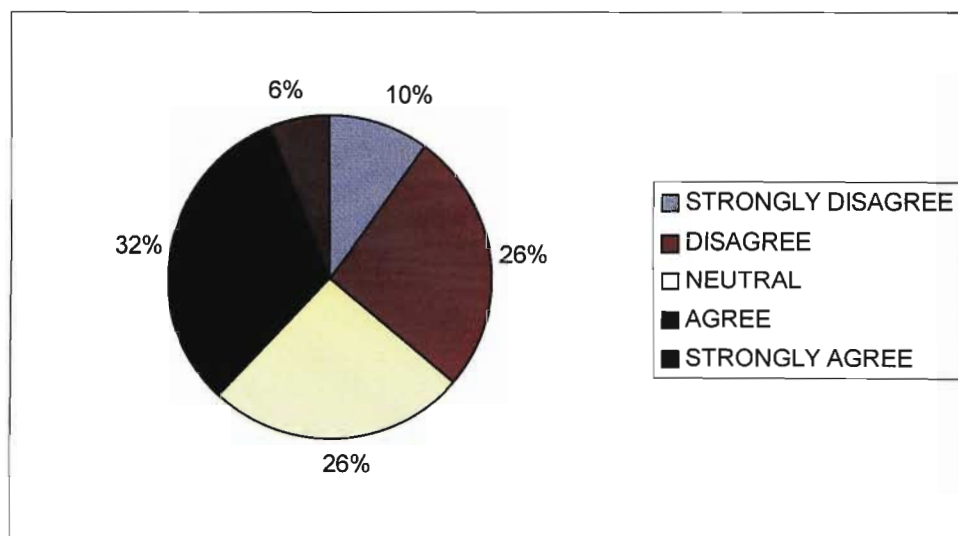


Figure 4.23 – General-popularity.

This chart illustrates the popularity of Sage Life as an insurance company. Just over 1/3 of the sample disagree with the statement, whilst 38% agree and 24% are not sure.

Alarming, the 36% that disagree are existing Sage clients! Perhaps these clients have not had good service of lately. Also, Sage has undergone some major media bashing of lately, which might have prompted these responses.

Question 24 – SL products adequately satisfy my needs!

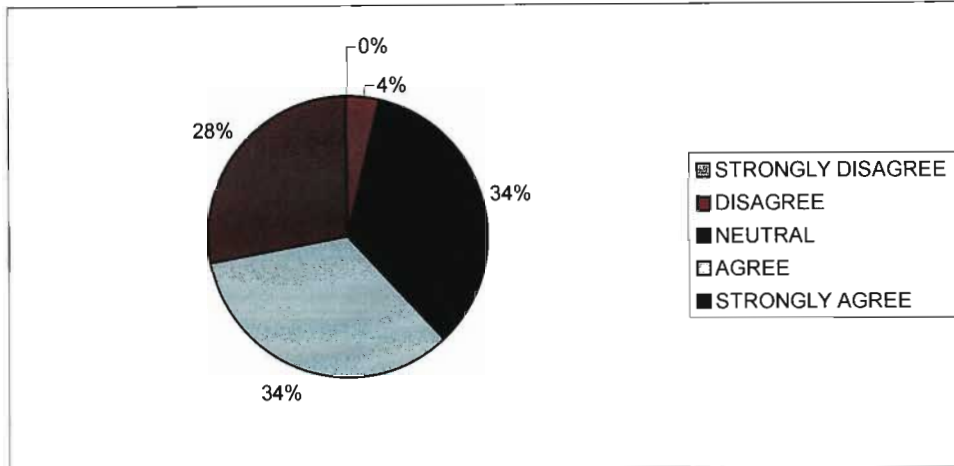


Figure 4.24 - General-products.

The Sage Life range of products is arguably one of the finest in the industry. Sage is competitive in risk and risk benefit products with a wide array of investment products for all requirements. Sage is only not operating in the health market. Therefore, it comes as no surprise that 62% of the population is happy and only 4% disagree.

Question 25 – SL discloses all costs upfront!

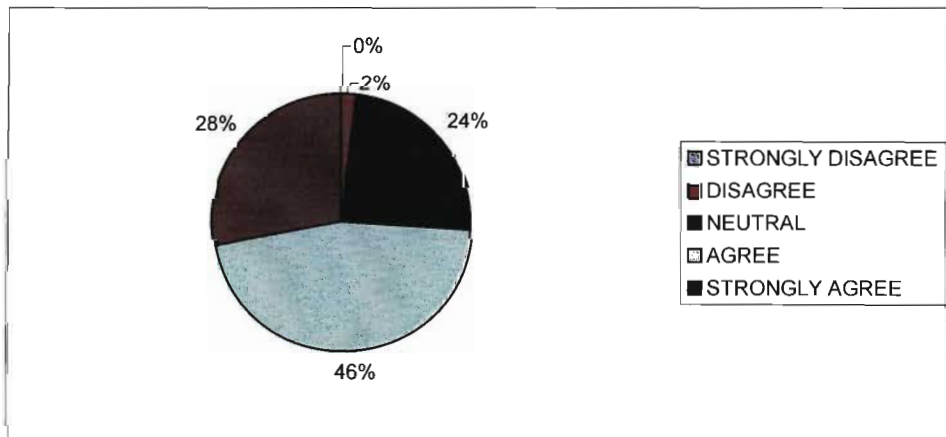


Figure 4.25 – General-costs.

FSB requires the disclosure of all costs upfront. Sage has been implementing this law well before it became legislated. A Sage Life quotation displays administration and commission costs. It is no surprise that only 2% are not aware of this fact.

Question 26 – SL offers guaranteed products!

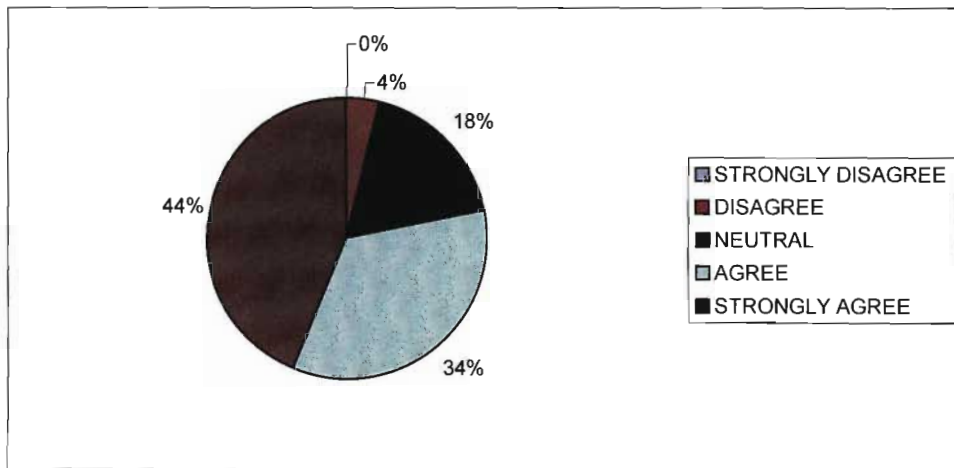


Figure 4.26 – General-guarantees.

Sage Life offers guarantees on risk and investment products. It is reassuring to find that 78% of the clients are aware of these guarantees. This chart reaffirms the perception of clients at Sage, only 4% are not aware of the guarantees.

Question 27 – SL is my insurance company of first choice!

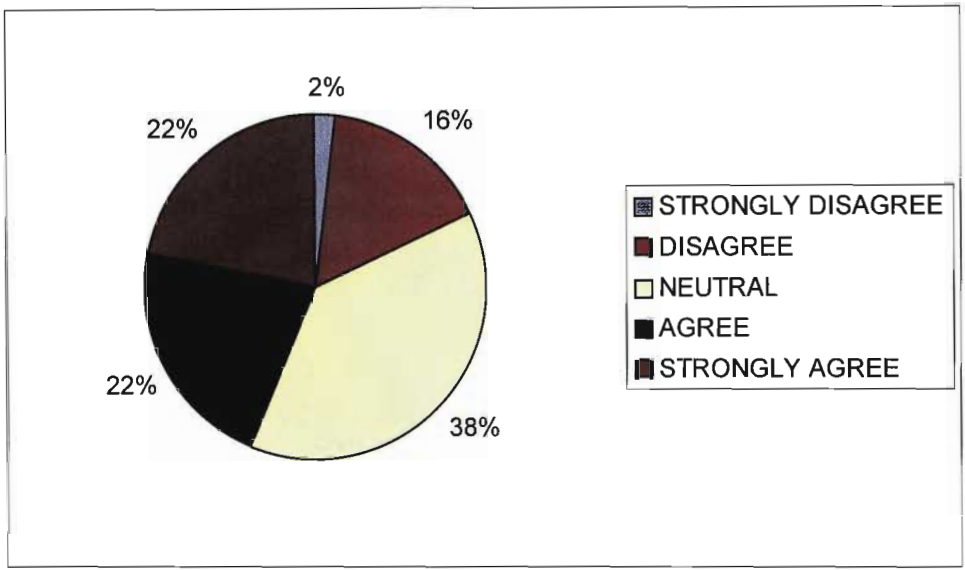


Figure 4.27 – General-choice.

The Sage brand is obviously quite strong with existing clients. Only 18% disagree with this statement. This is not unusual as most clients have a diversified portfolio and probably deal with more than one advisor.

Question 28 – I will always deal with a Sage Life Agent!

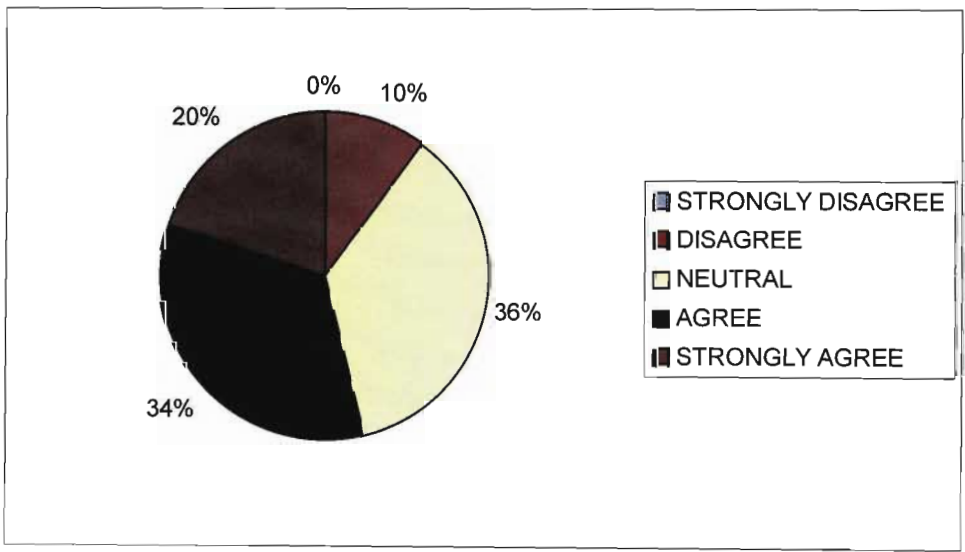


Figure 4.28 – General-agents.

This chart shows the level of confidence and trust clients have when dealing with a Sage Life representative. The fact that only 10% are negative in their sentiment is reassuring. The question is raised as to why are 36% not sure or neutral on this issue.

Question 29 – SL agents are well qualified and professional in their presentation!

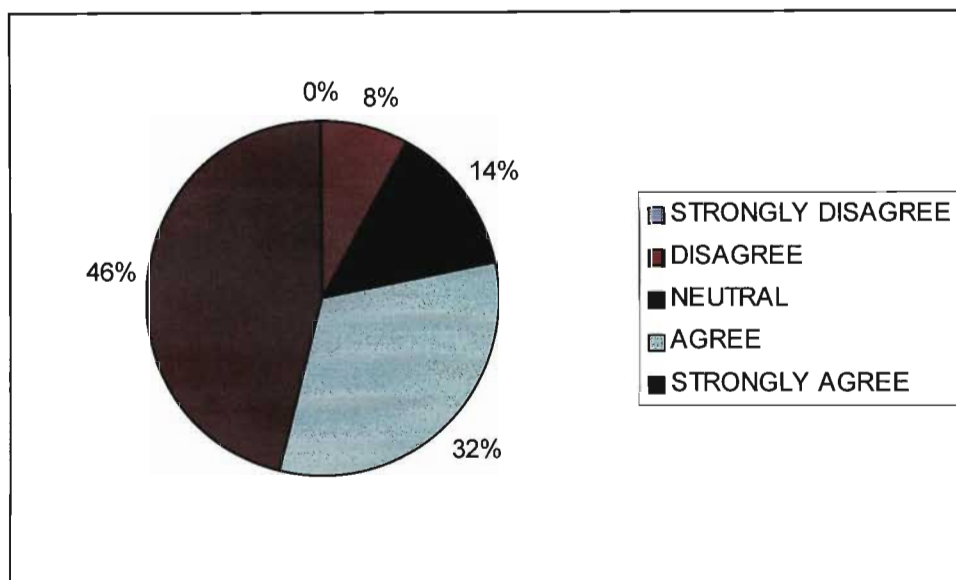


Figure 4.29 – General-qualifications.

The training and accreditation program at Sage is quite intense. It follows that Agents who have passed the various levels of accreditation will be well-qualified and compliant in terms of legislation. Most agents have their personal computers and follow a structured presentation plan. This chart shows that only 8% of the respondents do not agree.

Question 30 – SL investment returns are satisfactory!

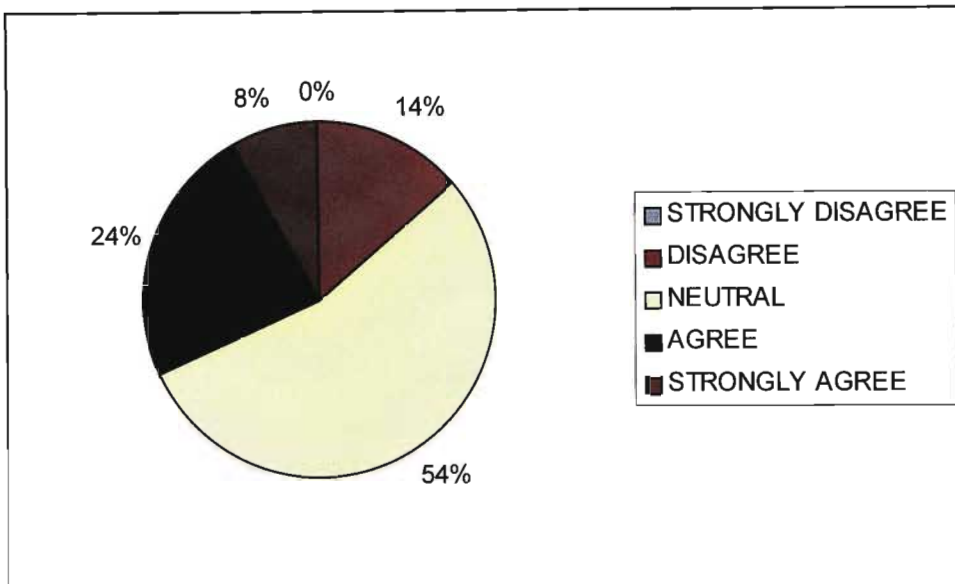


Figure 4.30 – General-returns.

Short-term investment returns are generally unpredictable and volatile. Investment returns are underpinned by economic factors such as interest rates and exchange rates. These economic indicators vary in the short-term and generally smooth out in the long term. Sage Life’s investment returns in the long-term have proved to be stable and in line with market expectations. The chart illustrates a positive response to this statement by 32% of the sample and negative response of 14%.

Question 31 – I prefer dealing with a broker!

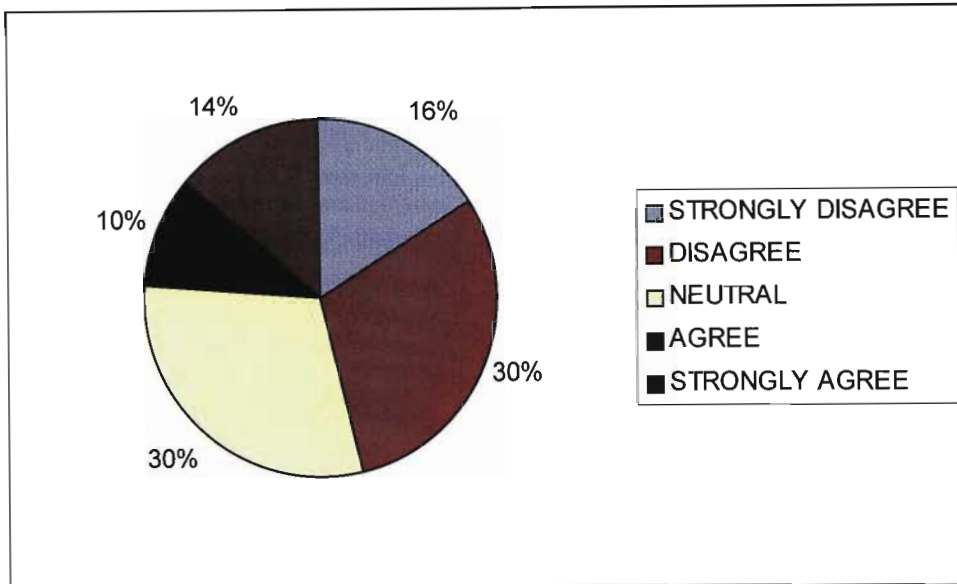


Figure 4.31 – General-broker.

A general insurance broker is able to offer more products and company choices. By contrast, Sage agents specialize in Sage products only and may well fall short in servicing clients with a diversified portfolio. Many clients with large portfolios prefer dealing with brokers for convenience and full servicing. It is not uncommon for some clients to engage with more than one financial advisor. After all, there is no harm in getting a second opinion where your money is concerned. This chart shows that only 24% prefer dealing with a broker as opposed to specialist Sage Life agent. It stands to reason that the remaining 76% are receiving good service.

**4.4 Conclusion**

The key to closing the gap between customer's expectations and management's perception of customers' expectations is to identify the low levels of perception that appear in the underlying dimensions of service quality.



The chart below was extrapolated by summarizing the responses of the five dimensions of service quality. This graph maps the five dimensions against the five levels of responses.

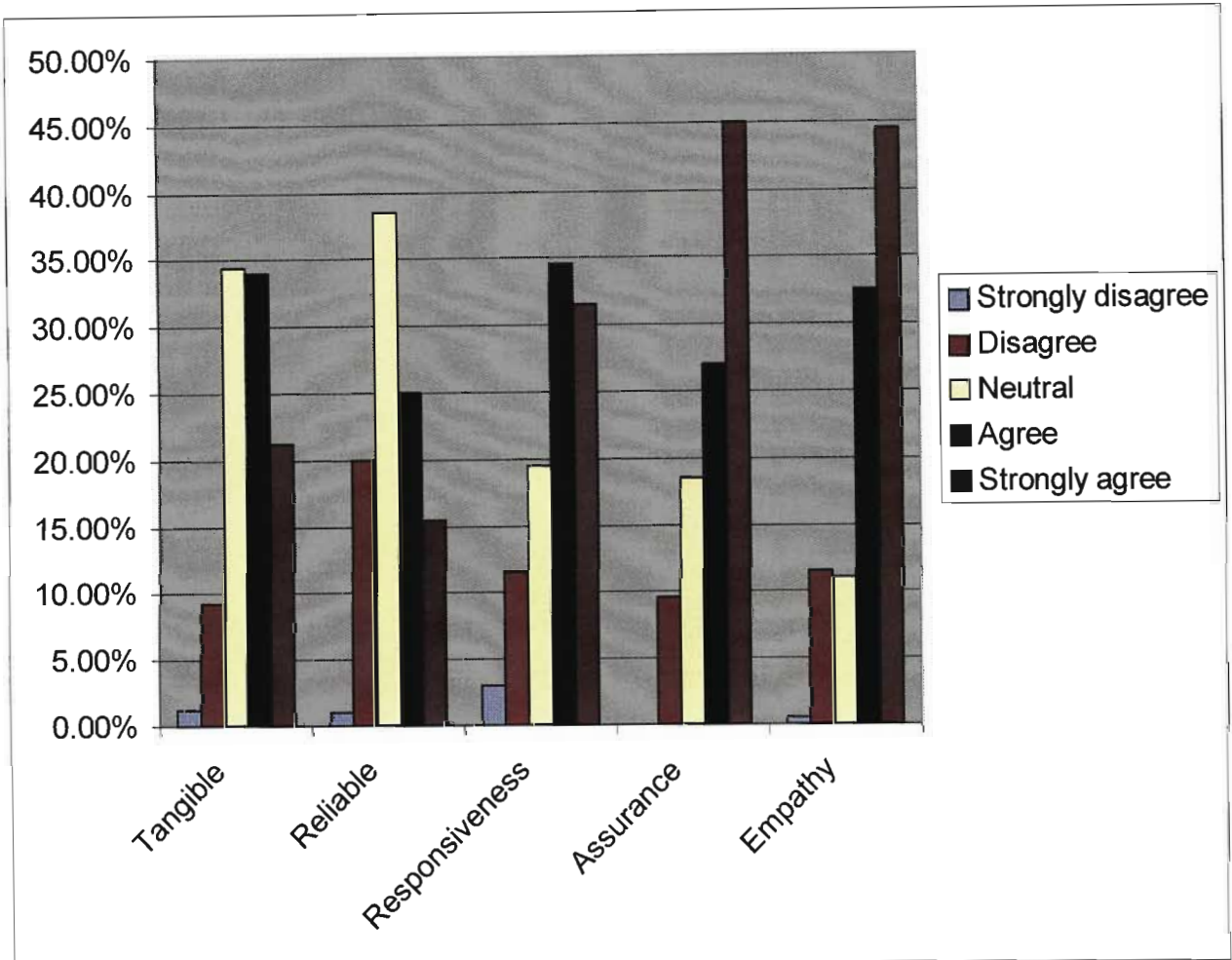


Figure 4.32 – Dimensions

The general observation is that clients’ perceive Sage Life service quality in a favorable light. In all dimensions, more respondents favor service quality than those against. A valuable observation is that less than 5% strongly disagree in all dimensions. By contrast, 21.2% strongly agree on tangibles, 15.5% strongly agree on reliability, 31.5% strongly agree on responsiveness, 45% strongly agree on assurance and 44.5% strongly agree on the empathy dimension. In summing up strongly disagree with disagree, 10.4% on tangibles, 21% on reliability, 14.5% on responsiveness, 9.5% on assurance, 12% on

empathy. By contrast, in summing up strongly agree with agree, 55.2% on tangibles, 40.5% on reliability, 66% on responsiveness, 72% on assurance and 77% on empathy.

The comparatively low scores on reliability could be attributed to many reasons. The ‘back office’ work in the insurance industry is quite involved, and as such requires good communications channels. Due to the several stages of paper processing, information can be mislaid, misfiled or sent to the wrong departments especially during times of high activity. These breakdowns can lead to poor response times and lower levels of accuracy.

Sage Life has recently moved the sales division at head office into a very plush building environment in the heart of popular Sandton, Johannesburg. Many clients are aware of this move, and some may have visited these premises. Whilst the Durban office is not quite in keeping with head office, the environment is neat, comfortable, easily accessible and well equipped to handle all clients’ needs. This might explain the low scores on tangibles.

The general comments alluded to by some clients referred mainly to feedback time, response times and low returns on investments. Sage is currently restructuring its operations, and because of its multi-manager approach to investments, it has been able to stabilize its portfolio returns.

The following chapter will recommend the way forward for Sage Life.

## CHAPTER 5 – RECOMMENDATIONS AND CONCLUSION

**“Service with a Smile? Not by a Mile, The Message of the commercials is ‘We want you!’ The Message of the service is ‘we want you unless we have to be creative or courteous or better than barely adequate. In that case get lost’” (Written by Jim Mitchell, 1984, Wall Street Journal).**

### 5.1. Introduction

Although the above statement appeared in an article in 1984, Jim Mitchell’s words are still pertinent today. Presently many companies are still struggling to get out of first gear on the service quality journey. From our analysis in chapter 4, the case for improving service at Sage Life is strong, and the basis for outstanding service should be more the exception than the rule.

The underlying questions, which should be nagging management at Sage Life, are: How do we get started on service improvement? How do we move beyond the sterile hype, the start-stop program mentality, the organisational nay Sayers and doubters, and the constant pressure for short-term earnings growth?

In this chapter, based on the analysis of the customer’s perceptions of service quality at Sage Life, the question of how service improvements can be made to enhance service delivery to customers is explored. Changing the mindsets, habits, skills and knowledge of human beings is no easy task. According to Zeithaml, Parasuraman and Berry (1990) this usually involves undoing what exists – clearing out impediments to change – not only creating what does not exist. They believe that there are no magic formulas, simple solutions, or quick fixes, which exist to get started and make headway. Overnight service quality miracles are more a figment of the lecture-circuit rhetoric than organisational reality. Therefore, the aim of this chapter is to discuss some practical necessities for giving Sage Life a decent chance to move forward on quality. What will follow are guidelines on which to build a foundation for change.

## **5.2. Recommendations Based on the Five Dimensions of Service Quality**

Studies have shown that customers are dissatisfied with one out of every four purchases, however less than five percent of dissatisfied customers complain. Complaint levels therefore are not always a good measure of customer satisfaction. Periodic surveys and good research can help to identify gaps and market segments.

### **5.2.1. Sage Life Customer Profile**

The survey revealed 30% as female respondents. Women are evolving strongly into careers and high profile jobs as professionals and businesswoman. Married women are sensitive to savings for education and retirement. Sage needs to create awareness to its brokers to target and attract more career women as clients.

The age analysis shows that 84% of the clients are over the age of 30. The number of young professionals in IT and commerce under the age of thirty is on the increase. Further, corporates are employing younger people because they are hungry for work and challenges. Also, young unmarried people have no qualms about working hard and longer hours. Young professionals reach high-income brackets within the first three years of their career. Sage is currently undervalued in this age segment and need to implement marketing strategies to attract more young clients into their fold.

The findings on income correlate with Sage's niche market strategy. The competitors however are targeting 80% of the population that earn less than R5000 per month. For Sage to achieve its future goal of 10% market share, exposure in this market is necessary. This may require product innovation and a review of its minimum premium policy.

The disparity on race is probably unique to this study and highly unintentional. The variances in other studies and other provinces will most likely differ. However, the findings correlate with the racial distribution in the agency force and perhaps an area for further investigation.

### 5.2.2. Tangible Dimension

Financial planning as a service on the goods-service continuum is intangible dominant. Clients are led by hope and promises we make. Clients' perception of service quality is often measured by what they see. Sampling is difficult, resulting in consumer perceived risk. Consequently, consumers are influenced by the credibility of the broker and greater personal information sources such as word of mouth rather than advertising messages. They also seek clues such as appearance of facilities, presentation and prices and appearance of staff to judge the quality of the service. Management can pursue strategies that include:

- Stimulating personal influence sources such as word of mouth. For example, encourage satisfied customers to recommend the service to their friends. Opinion leaders can be targeted and incentivised to try the service.
- Developing tangible cues that suggest high quality service. These can include appearance of the place, staff, equipment, advertising and the symbols used to brand the service.

### 5.2.3. Reliability Dimension

If you aim to do it right, do it right the first time. It is no secret that the insurance business is a 'hard-sell' industry. Consumers are weary to part with their hard earned money and depend on the credibility of their advisors when investing. The gaps in this dimension of service quality result due to inconsistencies. Even when managers recognize the problems and put in the resources, service quality may still be substandard because customer contact staff is inadequately motivated or incapable of consistently achieving service targets. Advertising that over promises will lower perception of quality if performance fails to reach the hyped-up expectations. The drivers of consistency and reliability are:

- Well trained and knowledgeable customer-contact staff, indoctrination of new staff to get a sense of the company's mission and special tradition.
- Measuring performance and rewarding appropriately, example, employee-of-the-month award.
- Under promising and overachieving- promise less and achieve more.

#### 5.2.4. Responsiveness Dimension

Time wasted is time lost. Clients are annoyed if they have to wait longer than usual for replies. Every query and enquiry should be treated with urgency. The surest way to delight clients is to respond promptly to their queries. As above, this is a customer-contact issue. Response times are also dependant on employees having the up-to-date, modern equipment to facilitate speedy responses and satisfy customers.

#### 5.2.5. Assurance Dimension

Developing a client's confidence and trust should be the foremost objective for any financial planner. Agents need to be honest, know ledged and compliant in all aspects of financial planning. The following suggestions will help to increase client loyalty:

- Be abreast of current economic affairs.
- Keep records of all communications with your client to avoid disputes.
- Regularly review your client's financial needs, plans and expectations.
- Practice with integrity; satisfy your client's needs before your own.
- Benchmark standards set by governing bodies and financial institutes.

#### 5.2.6. Empathy Dimension

There can be no compromise on the topic of attitude towards customers. A satisfied customer is far better to have than the five or six that you don't. Keep them and weep with them, or abuse and lose them. A client-advisor relationship is a long-term one, which needs to be nurtured and shaped. Employ the latest tools:

- The Astute software program allows instant portfolio updates, use it.
- Agents should conduct a risk profile preceding all investment proposals.
- Investigate and familiarize yourself with competitor products.
- Design an investment strategy that includes real estate, stocks and bonds and other income/interest bearing assets.
- Get close to your client; understand his needs and more importantly his family's needs. Adopt a holistic view of his financial status.

In light of the above recommendations on service quality at Sage Life based on the five dimensions, the illustration below summarises the way in which service delivery should be carried out at Sage Life.

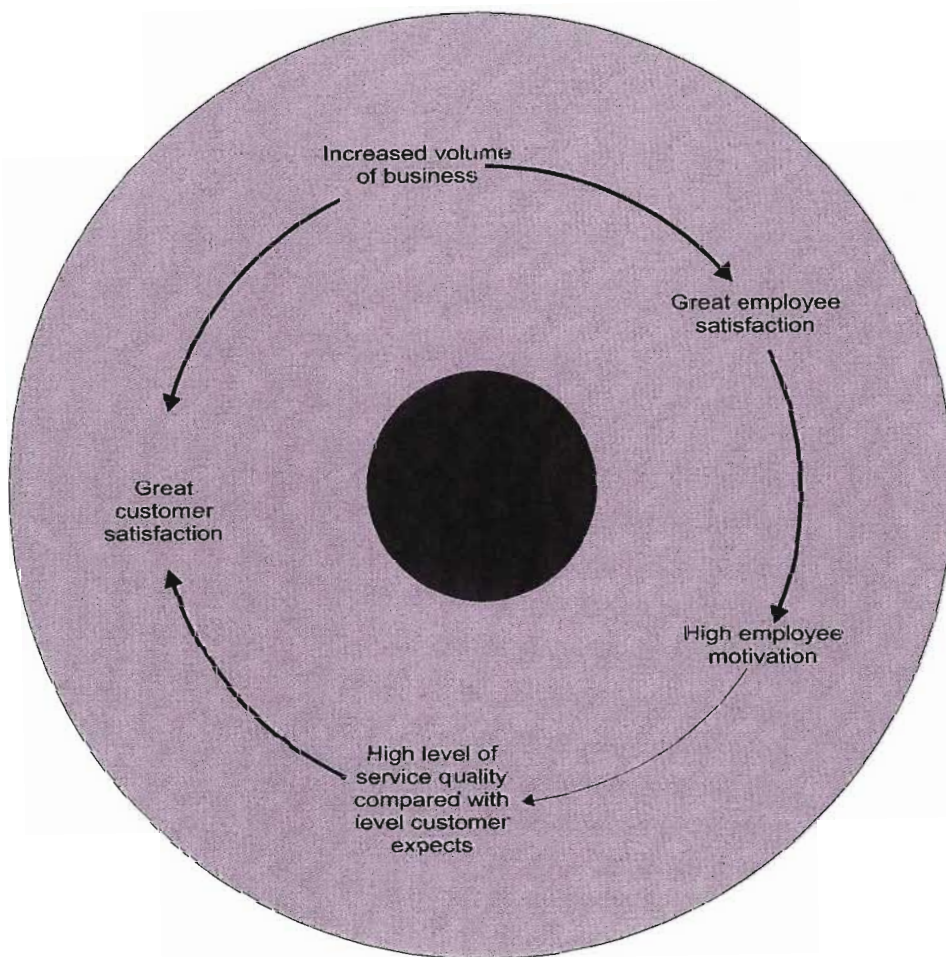


Figure 5.1 – Service Quality Wheel for Sage Life

### 5.3. Closing the Gaps on Service Delivery at Sage Life

The potential causes of failure in service delivery at Sage Life are a result of the difference between management’s perception of service delivery and client’s expectations resulting in service delivery gaps. The recommendations below are ways in which to close these gaps.

### 5.3.1. Constantly Researching Customer Expectations

Finding out what customers expect is essential to providing service quality.

#### ➤ Using Complaints Strategically

The brokers usually handle customer complaints individually and in most situations not communicated to management. Based on industry statistics, more than 96% of dissatisfied customers do not complain. It is important that a feedback channel on customer complaints is developed as this offers opportunities for management and contact personnel as they provide relevant information on about the failures or breakdowns in the service system. If compiled, analysed, and fed back to employees who can correct the problems, complaints can become an inexpensive and continuous source of information for the service process.

#### ➤ Researching What Customers Want Generally in the Industry

Research has shown that service deliveries across the five dimensions are similar across many industries. Therefore, management at Sage Life may find it useful to seek knowledge from executives and through researching other industries.

#### ➤ Researching Intermediate Customers

Intermediate customers, such as contact employees, dealers, distributors, agents or brokers, are people the company serves who serve the end customers. Management at Sage life needs to effectively use their agents and brokers by providing a service to them, such as education or training, and feedback forums in order to learn more about their customers and will in turn provide greater opportunities for understanding customer's expectations and problems. This will also provide a dual service in understanding some of the problems encountered by agents and brokers themselves.

#### ➤ Conducting Key Client Studies

Sage life sells their products to businesses, intermediate customers such as franchises and to individual customers. Some of these clients are large and important enough to study individually and in depth. In essence, sales strategies have to be customized for specialized business units.



### 5.3.2. How To Use Marketing Research Findings Effectively

Good research information and insight into customer needs must be converted into action. Sage Life can employ creative methods to extract comments and information from clients and employees. The use of ‘suggestion boxes’ and regular telephone interviews can bridge the communication gap between clients, intermediaries and management.

### 5.3.3. Increasing Interaction Between Managers, Brokers and Customers

There is no substitute for getting close to your customers and intermediaries than ‘getting down into the trenches’. Management must confront the realities of the marketplace daily by interacting actively with the shop floor.

### 5.3.4. Improving Upward Communication From Contact Personnel to Management

Some of the best ideas on improvement emanate from the ‘blue collar’ staff. Upward communication provides information about activities and performances throughout the organization. Sage Life’s business is about interacting with people. Regular social events such as football games, banquets, outings, braais, etc, help to create the right environment for staff to express themselves and reduce the artificial barriers that exist in most organizations.

### 5.3.5. Commitment to Quality

Quality service simply does not happen. Contact employees and middle management do not and cannot improve quality without strong leadership from management. Nobody ever wins an argument with a customer. Sage can expand on this philosophy by ensuring that needs analyses are conducted accurately and efficiently. An idea here might be to get a client’s declaration on every deal expressing his satisfaction on the service, and advise provided.

## **5.4. A Vision of Customer Service Delivery at Sage Life**

The way forward to harnessing good customer relations is dependant on Sage’s ability to retain and delight its existing customers.

#### 5.4.1. Sage Life's Definition of Customer Relationship Management (CRM)

CRM is a key business philosophy, supported by an overall strategic intent, to mobilize the entire business around building and maintaining mutually beneficial and long term relationships with our existing and potential clients to ensure continued profitable growth.

CRM is not a “nice to have” project or simply an IT tool or suite of IT tools. It is the transformation of the entire organization of an enterprise to become client centered, thus ensuring more profitable client relationships.

The adoption of CRM is being fuelled by the recognition that existing clients are an organization's most important asset and the future of the organization depends largely on the retention and development of its existing clients and not only of the acquisition of the right clients.”

#### 5.4.2. Sage Life's CRM Vision

To be a company that:

- Has “client relationship building” as its core business philosophy.
- Is organized and mobilized entirely around understanding, servicing, retaining and developing clients in order to achieve long term individualized relationships, maximise client life time value and ensure profitable growth.
- Host a formal, ongoing, ever evolving “value-based CRM strategy” that ensure integration and collaboration and dictates total company behavior towards existing clients in terms of service, process, communication, channels, pricing, and rewards.
- Understands the strategic need for value based client differentiation.

#### 5.4.3. Sage Life's CRM Objectives

The overall objectives are to increase profitability and to improve market share. The strategic objectives are:

- Co-ordination and integration around the client (“one face to the client”)
- To increase premium income and continuations and reinvestments on maturity
- Value based differentiation

- Mass customization of products
- Multi channel sale and servicing
- More effective client interactions
- Increased client access
- Improve client insight
- Improve overall level of service
- Improve client loyalty and retention
- Increased number of products per client
- Improved share of wallet
- To reduce lapses
- To reduce surrenders

In order for Sage to achieve its client relationship management (CRM) objectives and vision, there has to be a strategy in place. Sage CRM strategy consists of four key focus areas:

- Client Knowledge
- Client Experience
- Enterprise Integration
- High Performance Culture

#### 5.4.4. CRM Comment

“Customer relationship management (CRM) is one of the hottest tools in business today. But like total quality management and re-engineering before it, CRM has not always lived up to its hype. Still, companies ignore it at the risk of being left behind. Simply, CRM is a high-tech way of gathering mountains of data about customers, the using it to make them happy – or at least a source of more business.

Whilst CRM is here to stay, perhaps it might be wise to learn from corporate colleagues and hope to avoid those very pitfalls. Every situation is unique and what might have worked successfully or failed miserably in the United States could very well have the reverse results here.

## 5.5. Steps Necessary For Getting Service Quality Improvements off the Ground

### 5.5.1. Model For Sage Life

Sage Life could be struggling to get started in service improvement because they lack a foundation for service oriented cultural change and the old culture refuses to die. To improve service, three levels of employees – top managers, middle managers and first-line service providers – have to be willing and able to improve the services they provide. In order to build a foundation for change, top management needs to provide a strong internal leadership service. If top management is willing and able to do this, then the other pieces of the puzzle start to fall into place; if top management is unwilling and/or unable to lead the charge, then it is unlikely that the attitudes and behavior at the middle-management first-line levels will change materially. The figure below provides the framework on how to get started on delivering service improvement at Sage Life.

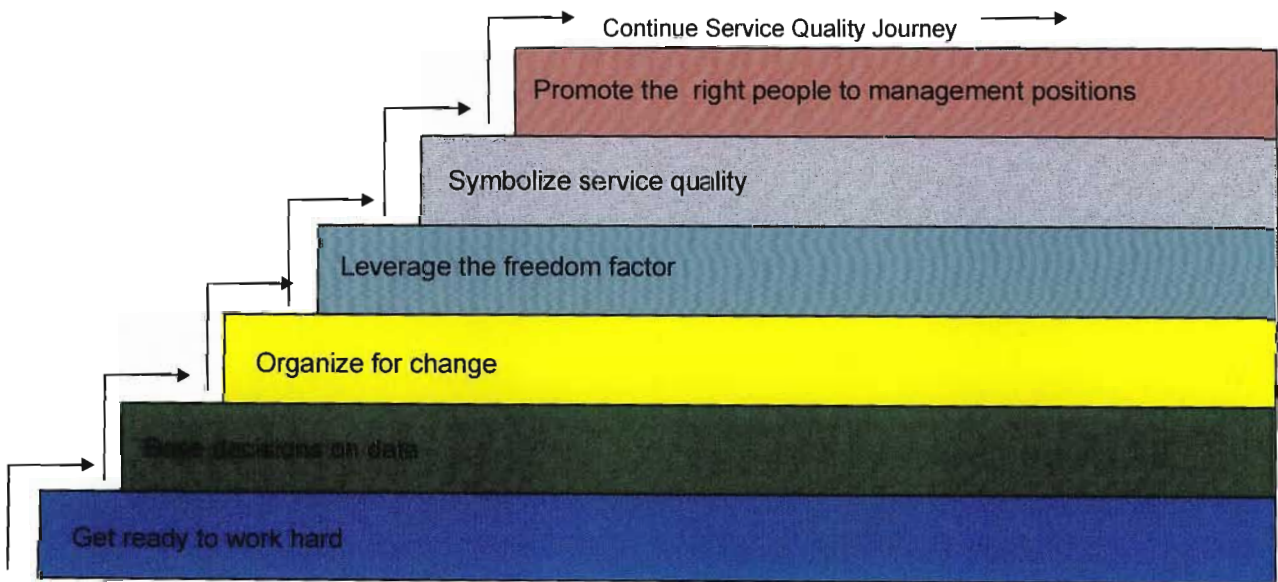


Figure 5.2 – Guidelines on preparing for Service Delivery

### 5.5.2. Get Ready To Work Hard

Redirecting Sage Life's paths of habit and convenience will be very hard work. Senior management who will assume the mantle of service leadership must be prepared to work

at it. Senior management cannot delegate the responsibility for service quality improvement; they themselves must lead the charge or else nothing will happen.

### 5.5.3. Base Decisions on Data

Service delivery depends on decision makers knowing what customers expect from the service, what customers perceive the service to be, and what is getting in the way of the organization meeting customer's expectations. Without empirically based answers to these questions, the likelihood of wrong decisions and wasted resources is very great. The following guidelines are useful when implementing a data-before-decision approach to service quality:

- Use a portfolio of research methods.
- Conduct ongoing research.
- Conduct employee research.
- Share research with employees.

### 5.5.4. Organise For Change

A structure that can harness energy and facilitate change is critical to implementing service delivery at Sage Life. Knowing what to do and being ready to do it are insufficient in and of themselves; organising systems for replacing inertia with action must also be created. If well conceived, these organising systems enhance both the willingness and the ability of managerial and first-line service employees to improve service. Organising can be done in the following ways:

- Create service improvement roles.
- Create integrative mechanisms.
- Develop a statement of direction.
- Involve many and emphasise teamwork.
- Think evolution rather than revolution.

### 5.5.5. Leverage the Freedom Factor

Many service organisations operate with thick policy and procedure manuals that have the effect of strangling service initiative and judgment. These thick manuals benefit

neither the customer nor the service provider, producing a regimented service when a flexible one is needed, and a by the book service when a by the customer one is required.

To jumpstart quality improvement, management at Sage Life have to give back to service providers or brokers the freedom to serve that they have unnecessarily and unproductively taken away from them. Management need to select their people well, provide them with a strong foundational culture in which to work, offer them strategic direction, and equip them with the company specific skills and knowledge they need to perform their roles. And then the managers need to get out of the way, so people can get the job done. The concept of ‘empowering’ brokers is crucial for ongoing gap management. According to Bell and Zemke (1988), empowerment simply means removing barriers that prevent workers from exercising judgment and creativity in performing their work.

#### 5.5.6. Symbolise Service Quality

The use of symbols such as sayings, objects, behaviors, stories that convey management’s commitment to quality are useful to getting started on the quality journey. Although symbols alone will not change a Sage Life’s culture, they can reinforce shifts in organizational structure, operating policies, and performance measurement and reward systems, collectively signaling to employees that what is occurring is real.

#### 5.5.7. Promote the Right People To Management Positions

Leadership is the only factor that can transform organizations from service mediocrity to service excellence. It then follows that one of the surest ways to nurture service improvement is to identify those individuals with the strongest service leadership potential for promotion opportunities. When individuals with service leadership values and capability advance in the organization, three good things occur. First, these people have more of a chance to help the firm improve service by virtue of their greater responsibilities. Second, they are able to improve their leadership capabilities further. And, thirdly, as they progress through the organization others are able to appreciate the service delivery enhancements.

## **5.6. Conclusion**

Changing the mindsets, habits, skills, and knowledge of human beings, which is what most organisations must do to materially improve service, is no small challenge. It involves undoing what exists, clearing out impediments to change, and creating what does not exist. No magic formulas, simple solutions, or quick fixes exist to get started and make headway. Overnight service delivery miracles are more a figment of lecture circuit rhetoric than organizational reality. The truth is that it usually takes longer to materially improve service than the sponsors of this anticipate, and then it takes longer still for customers to notice. Quality service is a “fix” but it almost always is a ‘slow fix”.

Therefore, the implementation of the recommendations in this chapter on how to improve service delivery at Sage Life will be an incremental process.

The best way to cope with the overwhelming part of getting started is to be selective in what is done rather than try to do everything all at once. And this requires information concerning, (1) what target markets desire most from service; (2) how well the firm serves these wants compared to competitors; and (3) the causes of service weaknesses that need to be corrected. This type of information will give executives at Sage Life a basis for prioritizing and sequencing service improvement actions. And in doing so, the information contributes to executives’ willingness and ability to provide service leadership.

Sage Life as a highly successful company needs to focus on things that are important to their customers, and they need to do it better than their competitors. The way forward on service design is a form of architecture that involves processes rather than bricks and mortar. The idea is to design high quality into the service system from the outset, to consider and respond to customers’ expectations in designing each element of the dimensions of service quality.

The study of consumer behaviour is a science on its own. Habits, tastes, attitudes, expectations and perceptions are sensitive to advertising stimuli and competitive products. The challenge facing Sage is how to satisfy all the people all the time! Strong

leadership on service quality and consumer friendly processes is the starting block. Continuous product innovation combined with ongoing customer needs research will lay the foundation for exponential growth. Changing consumer trends pose a great challenge for policymakers in all industries. It is the captains of industries that stay abreast of consumer and market trends that will develop sustainable competitive advantage.

Doyle (2002) describes loyal customers as assets that will be profitable and most likely to repurchase. Brand loyalty can only be deepened by providing customers with products and services that satisfy their needs better than competitors. Sage's branding is underpinned by its commitment to customers and business purpose, which is dedicated to helping people achieve financial security. Whilst this philosophy will attract many clients to the company, there is no guarantee that Sage will keep them loyal. Sage should benchmark against the Coke's of the soft drink industry and McDonald's of the food industry to design a brand strategy that will achieve deepening client loyalty. Discovery's vitality program is a good example of keeping client's loyal to the brand through non-core activities

Many ships are lost at sea due to breakdown in communication, poor captaincy, untrained sailors, and lack of direction. Disasters can be avoided by constantly revisiting the parts that make up the whole. On that note, I wish the management at Sage, 'Happy sailing into the future'.

Good luck and bon voyage!



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Internet 2 - [www.fsb.co.za](http://www.fsb.co.za)

Internet 3 - [www.discoverylife.co.za](http://www.discoverylife.co.za)

Internet 4 - [www.liberty.co.za](http://www.liberty.co.za)

Internet 5 - [www.sage.co.za](http://www.sage.co.za)

Internet 6 - [www.sanlam.co.za](http://www.sanlam.co.za)

## **APPENDIX 1 - QUESTIONNAIRE ON SERVICE DELIVERY**

The following questionnaire is designed to measure the five dimensions of service quality. This questionnaire forms part of a MBA research programme. Your assistance in filling out this questionnaire is greatly appreciated.

### **How to complete the questionnaire:**

- Please answer all the statements (it will take approximately 5-10 minutes to complete)
- Respond to each of the statements by circling the appropriate number on a scale of **1 (you strongly disagree with the statement)** in relation to Sage Life to **5 (you strongly agree with the statement)** in relation to Sage Life.
- SL denotes Sage Life
- Employees include managers, financial advisors and administration staff

**Personal Details**

**Name:** \_\_\_\_\_

**Gender:**            **MALE**                **FEMALE**   

**Marital status:**    **SINGLE**                **MARRIED**   

**Age category:**

|       |                          |
|-------|--------------------------|
| <20   | <input type="checkbox"/> |
| 20-25 | <input type="checkbox"/> |
| 25-30 | <input type="checkbox"/> |
| 30-35 | <input type="checkbox"/> |
| 35-40 | <input type="checkbox"/> |
| 40-45 | <input type="checkbox"/> |
| 45-50 | <input type="checkbox"/> |
| 50>   | <input type="checkbox"/> |

**Income category:**

|         |                          |
|---------|--------------------------|
| <R3500  | <input type="checkbox"/> |
| <R5000  | <input type="checkbox"/> |
| <R10000 | <input type="checkbox"/> |
| <R15000 | <input type="checkbox"/> |
| <R30000 | <input type="checkbox"/> |

**Race group (for statistical purposes):**

**Asian**        **White**        **African**        **Coloured**

## SAGE LIFE SERVICE DELIVERY

| 1                    | 2        | 3       | 4     | 5                 |
|----------------------|----------|---------|-------|-------------------|
| STRONGLY<br>DISAGREE | DISAGREE | NEUTRAL | AGREE | STRONGLY<br>AGREE |

**The following questions measure the tangible dimension of service quality.**

- |    |  |   |   |   |   |   |
|----|--|---|---|---|---|---|
| 1. | SL has modern looking equipment!   | 1 | 2 | 3 | 4 | 5 |
| 2. | SL offices are visually appealing!                                       | 1 | 2 | 3 | 4 | 5 |
| 3. | SL employees appear to be well groomed<br>and well dressed at all times! | 1 | 2 | 3 | 4 | 5 |
| 4. | SL marketing brochures are visually attractive!                          | 1 | 2 | 3 | 4 | 5 |
| 5. | SL policy documents are well presented<br>and easy to read!              | 1 | 2 | 3 | 4 | 5 |

**The following questions measure the reliability dimension of service quality.**

- |    |  |   |   |   |   |   |
|----|--|---|---|---|---|---|
| 6. | Problems concerning your policies<br>are expeditiously resolved!       | 1 | 2 | 3 | 4 | 5 |
| 7. | SL always perform and or resolve<br>your queries right the first time! | 1 | 2 | 3 | 4 | 5 |
| 8. | SL always delivers their promises on time!                             | 1 | 2 | 3 | 4 | 5 |
| 9. | SL information and documentation<br>is always error-free!              | 1 | 2 | 3 | 4 | 5 |

**The following questions measure the responsiveness dimension of service quality.**

- |     |   |   |   |   |   |   |
|-----|---|---|---|---|---|---|
| 10. | SL informs you exactly when your policy will be approved/ accepted! | 1 | 2 | 3 | 4 | 5 |
| 11. | Enquiries are attended to promptly!                                 | 1 | 2 | 3 | 4 | 5 |
| 12. | SL employees are always willing to help!                            | 1 | 2 | 3 | 4 | 5 |
| 13. | SL employees are never too busy to respond to your requests!        | 1 | 2 | 3 | 4 | 5 |

**The following questions measure the assurance dimension of service quality.**

- |     |  |   |   |   |   |   |
|-----|--|---|---|---|---|---|
| 14. | The attitude and behaviour of employees at SL is always reassuring!            | 1 | 2 | 3 | 4 | 5 |
| 15. | You feel safe when transacting with a SL employee!                             | 1 | 2 | 3 | 4 | 5 |
| 16. | SL employees are consistently courteous!                                       | 1 | 2 | 3 | 4 | 5 |
| 17. | SL employees have the necessary skills and knowledge to answer your questions! | 1 | 2 | 3 | 4 | 5 |

**The following questions measure the empathy dimension of service quality.**

- |     |   |   |   |   |   |   |
|-----|---|---|---|---|---|---|
| 18. | SL employees offer personalised service!                  | 1 | 2 | 3 | 4 | 5 |
| 19. | SL employees are available at hours convenient to you!    | 1 | 2 | 3 | 4 | 5 |
| 20. | SL employees always have your personal interest at heart! | 1 | 2 | 3 | 4 | 5 |
| 21. | SL employees understand your specific needs!              | 1 | 2 | 3 | 4 | 5 |



**General questions on Sage Life.**

- |     |   |   |   |   |   |   |
|-----|---|---|---|---|---|---|
| 22. | SL is the largest insurance company<br>in South Africa!                 | 1 | 2 | 3 | 4 | 5 |
| 23. | SL is a popular insurance company!                                      | 1 | 2 | 3 | 4 | 5 |
| 24. | SL products adequately satisfy my needs!                                | 1 | 2 | 3 | 4 | 5 |
| 25. | SL discloses all costs upfront!   | 1 | 2 | 3 | 4 | 5 |
| 26. | SL offers guaranteed products!  | 1 | 2 | 3 | 4 | 5 |
| 27. | SL is my insurance company of first choice!                             | 1 | 2 | 3 | 4 | 5 |
| 28. | I will always deal with a Sage Life agent!                              | 1 | 2 | 3 | 4 | 5 |
| 29. | SL agents are well qualified and<br>professional in their presentation! | 1 | 2 | 3 | 4 | 5 |
| 30. | SL investment returns are satisfactory!                                 | 1 | 2 | 3 | 4 | 5 |
| 31. | I prefer dealing with a broker!   | 1 | 2 | 3 | 4 | 5 |

**Additional comments on how service delivery can be improved at Sage Life.**

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**Thank you for your time and patience in completing this questionnaire.**

**Yours truly,  
Sunil Modi**

## APPENDIX 2

### APPENDIX 2 - QUESTIONNAIRE EVALUATION TABLES PERSONAL DETAILS

| GENDER | FREQUENCY | SAMPLE SIZE | PERCENTAGE | CUM PERCENT |
|--------|-----------|-------------|------------|-------------|
| MALE   | 35        | 50          | 70         | 70          |
| FEMALE | 15        | 50          | 30         | 100         |

| AGE   | FREQUENCY | SAMPLE | PRECENTAGE | CUM PERCENT |
|-------|-----------|--------|------------|-------------|
| <20   | 0         | 50     | 0          | 0           |
| 20-25 | 2         | 50     | 4          | 4           |
| 25-30 | 6         | 50     | 12         | 16          |
| 30-35 | 12        | 50     | 24         | 40          |
| 35-40 | 8         | 50     | 16         | 56          |
| 40-45 | 9         | 50     | 18         | 74          |
| 45-50 | 6         | 50     | 12         | 86          |
| 50>   | 7         | 50     | 14         | 100         |

| INCOME CATEGORY | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-----------------|-----------|--------|------------|-------------|
| <R3500          | 4         | 50     | 8          | 8           |
| <R5000          | 12        | 50     | 24         | 32          |
| <R10000         | 8         | 50     | 16         | 48          |
| <R15000         | 13        | 50     | 26         | 74          |
| <R30000         | 13        | 50     | 26         | 100         |

| RACE GROUP | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|------------|-----------|--------|------------|-------------|
| ASIAN      | 41        | 50     | 82         | 82          |
| WHITE      | 6         | 50     | 12         | 94          |
| AFRICAN    | 1         | 50     | 2          | 96          |
| COLOURED   | 2         | 50     | 4          | 100         |

#### QUESTION-1 SL HAS MODERN LOOKING EQUIPMENT

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 2         | 50     | 4          | 4           |
| DISAGREE          | 7         | 50     | 14         | 18          |
| NEUTRAL           | 26        | 50     | 52         | 70          |
| AGREE             | 12        | 50     | 24         | 94          |
| STRONGLY AGREE    | 3         | 50     | 6          | 100         |

QUESTION-2 SL offices are visually appealing!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 7         | 50     | 14         | 14          |
| NEUTRAL           | 25        | 50     | 50         | 64          |
| AGREE             | 15        | 50     | 30         | 94          |
| STRONGLY AGREE    | 3         | 50     | 6          | 100         |

QUESTION-3 SL employees appear to be well groomed and well dressed at all times!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 2         | 50     | 4          | 4           |
| NEUTRAL           | 4         | 50     | 8          | 12          |
| AGREE             | 18        | 50     | 36         | 48          |
| STRONGLY AGREE    | 26        | 50     | 52         | 100         |

QUESTION-4 SL marketing brochures are visually attractive!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 1         | 50     | 2          | 2           |
| DISAGREE          | 7         | 50     | 14         | 16          |
| NEUTRAL           | 16        | 50     | 32         | 48          |
| AGREE             | 17        | 50     | 34         | 82          |
| STRONGLY AGREE    | 9         | 50     | 18         | 100         |

QUESTION-5 SL policy documents are well presented and easy to read!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 0         | 50     | 0          | 0           |
| NEUTRAL           | 15        | 50     | 30         | 30          |
| AGREE             | 23        | 50     | 46         | 76          |
| STRONGLY AGREE    | 12        | 50     | 24         | 100         |

QUESTION-6 Problems concerning your policies are expeditiously resolved!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 1         | 50     | 2          | 2           |
| DISAGREE          | 8         | 50     | 16         | 18          |
| NEUTRAL           | 14        | 50     | 28         | 46          |
| AGREE             | 20        | 50     | 40         | 86          |
| STRONGLY AGREE    | 7         | 50     | 14         | 100         |

QUESTION-7 SL always perform and or resolve your queries right the first time!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 11        | 50     | 22         | 22          |
| NEUTRAL           | 19        | 50     | 38         | 60          |
| AGREE             | 10        | 50     | 20         | 80          |
| STRONGLY AGREE    | 10        | 50     | 20         | 100         |

QUESTION-8 SL always delivers their promises on time!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 9         | 50     | 18         | 18          |
| NEUTRAL           | 21        | 50     | 42         | 60          |
| AGREE             | 11        | 50     | 22         | 82          |
| STRONGLY AGREE    | 9         | 50     | 18         | 100         |

QUESTION-9 SL information and documentation is always error free!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 1         | 50     | 2          | 2           |
| DISAGREE          | 12        | 50     | 24         | 26          |
| NEUTRAL           | 23        | 50     | 46         | 72          |
| AGREE             | 9         | 50     | 18         | 90          |
| STRONGLY AGREE    | 5         | 50     | 10         | 100         |

QUESTION-10 SL informs you exactly when your policy will be approved/accepted!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 4         | 50     | 8          | 8           |
| DISAGREE          | 9         | 50     | 18         | 26          |
| NEUTRAL           | 10        | 50     | 20         | 46          |
| AGREE             | 15        | 50     | 30         | 76          |
| STRONGLY AGREE    | 12        | 50     | 24         | 100         |

QUESTION-11 Enquiries are attended to promptly!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 2         | 50     | 4          | 4           |
| DISAGREE          | 7         | 50     | 14         | 18          |
| NEUTRAL           | 13        | 50     | 26         | 44          |
| AGREE             | 15        | 50     | 30         | 74          |
| STRONGLY AGREE    | 13        | 50     | 26         | 100         |

QUESTION-12 SL employees are always willing to help!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 2         | 50     | 4          | 4           |
| NEUTRAL           | 7         | 50     | 14         | 18          |
| AGREE             | 18        | 50     | 36         | 54          |
| STRONGLY AGREE    | 23        | 50     | 46         | 100         |

QUESTION-13 SL employees are never too busy to respond to your requests!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 5         | 50     | 10         | 10          |
| NEUTRAL           | 9         | 50     | 18         | 28          |
| AGREE             | 21        | 50     | 42         | 70          |
| STRONGLY AGREE    | 15        | 50     | 30         | 100         |

QUESTION-14 The attitude and behaviour of employees at SL is always reassuring!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 7         | 50     | 14         | 14          |
| NEUTRAL           | 9         | 50     | 18         | 32          |
| AGREE             | 13        | 50     | 26         | 58          |
| STRONGLY AGREE    | 21        | 50     | 42         | 100         |

QUESTION-15 You feel safe when transacting with a SL employee!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 3         | 50     | 6          | 6           |
| NEUTRAL           | 9         | 50     | 18         | 24          |
| AGREE             | 15        | 50     | 30         | 54          |
| STRONGLY AGREE    | 23        | 50     | 46         | 100         |

QUESTION-16 SL employees are consistently courteous!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 4         | 50     | 8          | 8           |
| NEUTRAL           | 10        | 50     | 20         | 28          |
| AGREE             | 13        | 50     | 26         | 54          |
| STRONGLY AGREE    | 23        | 50     | 46         | 100         |

QUESTION-17 SL employees have the necessary skills to answer your questions!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 5         | 50     | 10         | 10          |
| NEUTRAL           | 9         | 50     | 18         | 28          |
| AGREE             | 13        | 50     | 26         | 54          |
| STRONGLY AGREE    | 23        | 50     | 46         | 100         |

QUESTION-18 SL employees offer personalised service!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 5         | 50     | 10         | 10          |
| NEUTRAL           | 5         | 50     | 10         | 20          |
| AGREE             | 13        | 50     | 26         | 46          |
| STRONGLY AGREE    | 27        | 50     | 54         | 100         |

QUESTION-19 SL employees are available at hours convenient to you!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 1         | 50     | 2          | 2           |
| DISAGREE          | 7         | 50     | 14         | 16          |
| NEUTRAL           | 1         | 50     | 2          | 18          |
| AGREE             | 17        | 50     | 34         | 52          |
| STRONGLY AGREE    | 24        | 50     | 48         | 100         |

QUESTION-20 SL employees always have your personal interest at heart!

|                | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|----------------|-----------|--------|------------|-------------|
|                | 0         | 50     | 0          | 0           |
| DISAGREE       | 6         | 50     | 12         | 12          |
| NEUTRAL        | 8         | 50     | 16         | 28          |
| AGREE          | 17        | 50     | 34         | 62          |
| STRONGLY AGREE | 19        | 50     | 38         | 100         |

QUESTION-21 SL employees understand your specific needs!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 5         | 50     | 10         | 10          |
| NEUTRAL           | 8         | 50     | 16         | 26          |
| AGREE             | 18        | 50     | 36         | 62          |
| STRONGLY AGREE    | 19        | 50     | 38         | 100         |

QUESTION-22 SL is the largest insurance company in South Africa!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 24        | 50     | 48         | 48          |
| DISAGREE          | 10        | 50     | 20         | 68          |
| NEUTRAL           | 12        | 50     | 24         | 92          |
| AGREE             | 4         | 50     | 8          | 100         |
| STRONGLY AGREE    | 0         | 50     | 0          | 100         |

QUESTION-23 SL is apopular insurance company!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 5         | 50     | 10         | 10          |
| DISAGREE          | 13        | 50     | 26         | 36          |
| NEUTRAL           | 13        | 50     | 26         | 62          |
| AGREE             | 16        | 50     | 32         | 94          |
| STRONGLY AGREE    | 3         | 50     | 6          | 100         |

QUESTION-24 SL products adequately satisfy my needs!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 2         | 50     | 4          | 4           |
| NEUTRAL           | 17        | 50     | 34         | 38          |
| AGREE             | 17        | 50     | 34         | 72          |
| STRONGLY AGREE    | 14        | 50     | 28         | 100         |

QUESTION-25 SL discloses all costs upfront!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 1         | 50     | 2          | 2           |
| NEUTRAL           | 12        | 50     | 24         | 26          |
| AGREE             | 23        | 50     | 46         | 72          |
| STRONGLY AGREE    | 14        | 50     | 28         | 100         |

QUESTION-26 SL offers guaranteed products!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 2         | 50     | 4          | 4           |
| NEUTRAL           | 9         | 50     | 18         | 22          |
| AGREE             | 17        | 50     | 34         | 56          |
| STRONGLY AGREE    | 22        | 50     | 44         | 100         |

QUESTION-27 SL is my insurance company of first choice!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 1         | 50     | 2          | 2           |
| DISAGREE          | 8         | 50     | 16         | 18          |
| NEUTRAL           | 19        | 50     | 38         | 56          |
| AGREE             | 11        | 50     | 22         | 78          |
| STRONGLY AGREE    | 11        | 50     | 22         | 100         |

QUESTION-28 I will always deal with a Sage Life agent!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 5         | 50     | 10         | 10          |
| NEUTRAL           | 18        | 50     | 36         | 46          |
| AGREE             | 17        | 50     | 34         | 80          |
| STRONGLY AGREE    | 10        | 50     | 20         | 100         |

QUESTION-29 SL agents are well qualified and professional in their presentation!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 4         | 50     | 8          | 8           |
| NEUTRAL           | 7         | 50     | 14         | 22          |
| AGREE             | 16        | 50     | 32         | 54          |
| STRONGLY AGREE    | 23        | 50     | 46         | 100         |

QUESTION-30 SL investment returns are satisfactory!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 0         | 50     | 0          | 0           |
| DISAGREE          | 7         | 50     | 14         | 14          |
| NEUTRAL           | 27        | 50     | 54         | 68          |
| AGREE             | 12        | 50     | 24         | 92          |
| STRONGLY AGREE    | 4         | 50     | 8          | 100         |

QUESTION-31 I prefer dealing with a broker!

|                   | FREQUENCY | SAMPLE | PERCENTAGE | CUM PERCENT |
|-------------------|-----------|--------|------------|-------------|
| STRONGLY DISAGREE | 8         | 50     | 16         | 16          |
| DISAGREE          | 15        | 50     | 30         | 46          |
| NEUTRAL           | 15        | 50     | 30         | 76          |
| AGREE             | 5         | 50     | 10         | 86          |
| STRONGLY AGREE    | 7         | 50     | 14         | 100         |



Comparison across five dimensions table!

|                   | Tangible | Reliable | Responsiveness | Assurance | Empathy |
|-------------------|----------|----------|----------------|-----------|---------|
| Strongly disagree | 1.20%    | 1%       | 3%             | 0%        | 0.50%   |
| Disagree          | 9.20%    | 20%      | 11.50%         | 9.50%     | 11.50%  |
| Neutral           | 34.40%   | 38.50%   | 19.50%         | 18.50%    | 11%     |
| Agree             | 34%      | 25%      | 34.50%         | 27%       | 32.50%  |
| Strongly agree    | 21.20%   | 15.50%   | 31.50%         | 45%       | 44.50%  |