

# The Internationalization of a South African Insurance Broking Firm into Africa: Opportunities and Benefits

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**ABSTRACT:** This paper aims to garner an understanding of the opportunities and benefits that a South African insurance broking firm can realize by internationalizing into other African countries. This exploratory study utilizes a qualitative research approach. A case study was undertaken at a South African insurance broking firm, involving a sample of 20 employees who participated in the firm's internationalization efforts in Africa. Data were collected through semi-structured online and face-to-face interviews. A qualitative content analysis method was used to analyze the data, which resulted in the creation of codes, categories, and themes. Ethical clearance was obtained for the study. The findings indicate that South African firms that internationalize into African countries have the opportunity to establish a first-mover advantage, develop organizational competencies and operational excellence, improve internal capabilities, and promote organizational learning. Other opportunities include expanding and diversifying business operations to increase profits while developing new markets and increasing the firm's market share and income streams. This study is limited to one firm located in Gauteng, South Africa, and is based on one industry. Further research may be undertaken using other methodologies with larger sample sizes and additional geographic areas. Firms and managers from South Africa who have a desire to internationalize into Africa should conduct thorough research regarding the business environment and entry strategies into African countries. This research contributes to the limited literature concerning Africa-to-Africa internationalization by firms.

**KEYWORDS:** African countries, economic globalization, internationalization, international expansion opportunities, South African insurance firms

## Introduction

For the past fifty years, there have been significant changes and shifts in the global economy, resulting in countries and firms becoming integrated and interconnected in terms of international business, foreign direct investment, and international trade (Hill and Hult 2019). Moreover, a major portion of this global integration and interconnectedness can be attributed to globalization. The term globalization is defined as "the close integration of countries and peoples of the world" (Peng 2018, 10). Some positive outcomes of globalization include the following: deepening cultural integration; increased economic development and growth for countries; more collaboration regarding technology; and improved living standards (Peng 2018). Hence, firms around the world engage in international business activities to reap the benefits of globalization.

African firms are increasingly participating in cross-border international business activity and expansion into other African countries. Many African firms are competing on the African continent, along with multinational enterprises from other countries. Boso, Adeleye, Ibeh, and Chizema (2019) claimed that there has been an increase in international business activity in Africa over the last 20 years. More specifically, South African firms are strongly represented in Africa. For example, over 80 South African firms listed on the Johannesburg Stock Exchange have undertaken internationalization activities in Africa (Adeleye, White, and Boso 2016). South African firms such as MTN, Standard Bank, Shoprite, and Pick n Pay have also internationalized their business operations into other African countries (Boso et al. 2019).

Ernst and Young (2016) asserted that the African continent is full of promise, opportunities, and potential for Africa-to-Africa internationalization by African firms in various sectors. However, Barnard, Amaeshi, and Vaaler (2023) cautioned that, due to Africa's colonial

past, late entry to internationalization compared to other regions in the global economy, along with an interest exhibited by countries because of its natural resources, international business in Africa is not a straightforward issue.

To date, few researchers have explored the issue of Africa-to-Africa internationalization and, therefore, the literature regarding this topic remains limited (Adeleye et al. 2016). White, Kitimbo, and Rees (2019) posited that location strategies of African firms internationalizing into African countries are insufficiently explored and understood. Furthermore, Signé and Johnson (2020) highlighted that the African insurance industry remains on the fringes of the global financial services industry.

This study addresses the following research question: 1) What opportunities and benefits can a South African insurance broking firm realize by internationalizing into other African countries? The aim of this study is to explore and understand the opportunities and benefits of a South African insurance broking firm internationalizing into Africa. Moreover, this study contributes to the literature on Africa-to-Africa internationalization within the context of the African insurance industry. This paper is divided into five sections. The first section provides a brief overview of the reasons why firms internationalize. The second section discusses the benefits and opportunities of Africa-to-Africa internationalization, while the research design and method are described in the third section. In the fourth section, the findings and discussion are presented. The final section of this paper is devoted to the conclusion and implications of the study.

### **Reasons Why Firms Internationalize**

Firms create value through internationalization (Daniels, Radebaugh, and Sullivan 2019). Ochieng, Thornton, and Owusu (2024) posited that when firms undertake foreign expansion activities such as foreign direct investment and international trade, the timing, speed, and scope of such activities are vital. According to the Uppsala model of internationalization (Johanson and Vahlne 1977), firms must first establish their business locally and then internationalize gradually, in stages. Accordingly, this has been the internationalization pattern of many South African firms, where they first establish a presence and business operations in South Africa before venturing into Africa and other continents. This view is supported by Otomo, Ishida, and Yang-Yoshihara (2023), who explained that internationalization is risky for a firm because it is costly and involves uncertainty. Therefore, firms will take time to perform the necessary due diligence and familiarize themselves with the targeted business environment prior to engaging in internationalization activities.

Firms undertake internationalization to achieve strategic and financial objectives such as increasing profits, sales, market share, and new product offerings while developing technological expertise, accessing resources and skills, and achieving other business goals. Shenkar, Luo, and Chi (2022) explained that firms undertake internationalization for a variety of reasons:

- Market-seeking motives—this is when the firm explores and seeks new markets to sell their products and services. Firms engage in offensive or defensive actions in overseas markets. An offensive action is when a firm undertakes international trade or investment in a host country to capitalize on benefits offered in the foreign market. A firm undertakes defensive action in order to protect its competitive position, market share, revenues, and profits when under threat from a new rival or in response to unfavorable government legislation;
- Economic motives—firms undertake internationalization to achieve economic goals such as pursuing international sales, increased profits, and revenue; achieve economies of scale and economies of scope while reducing costs through outsourcing; and
- Strategic motives—firms undertake internationalization when they follow key customers abroad, improve operating knowledge, seek rare resources and components, want to develop capabilities and competencies that are required, pursue new ideas regarding products, services and markets, along with a desire to improve innovation.

### **Africa-to-Africa Internationalization: Benefits and Opportunities**

Signé and Johnson (2020) stated that, in Africa, the insurance market comprises life insurance, non-life insurance, and reinsurance. The African insurance market is largely an untapped, unsaturated market with very low levels of insurance penetration and a rising demand for insurance by individuals and businesses (Signé and Johnson 2020). Currently, South Africa has the highest insurance penetration rate in Africa at 13.40%. By comparison, many African countries have an insurance penetration rate of less than 2% (Signé and Johnson 2020). This offers numerous untapped market opportunities to African insurance firms regarding the financial and market growth benefits of Africa-to-Africa internationalization within the insurance sector.

Ernst and Young (2016) reported that the following factors make Sub-Saharan Africa an attractive location for insurance opportunities:

- positive economic growth and increasing GDP in several countries;
- extremely low market penetration regarding insurance;
- explosive growth in population and demographic shifts;
- increased demand for insurance by consumers;
- access to new and advanced technology; and
- foreign market entry opportunities through mergers and acquisitions.

Similarly, the McKinsey Global Institute report that analyzed economic opportunities in Africa in a research paper, *“Reimagining economic growth in Africa: Turning diversity into opportunity”*, affirmed that the continent offers a plethora of opportunities for international firms, as Africa has the fastest rate of urbanization in the world as well as the world’s youngest and most rapidly growing population (Kuyoro et al. 2023). Moreover, by 2050, 796 million Africans will enter Africa’s labor market, which means that the workforce on the African continent will be larger than that of India or China (Kuyoro et al. 2023). However, it is essential to note that South African insurance firms should not pursue a single undifferentiated strategy in the African continent since African countries are divergent in their cultural, political, economic, business, technological, and social environments (Kuyoro et al. 2023).

Africa’s economic growth has been on the rise. For example, from 2000 to 2015, GDP growth reached 5.3% per annum (Luthans and Doh 2018), which is a substantial improvement when compared to much lower GDP levels in previous years. Ernst and Young’s (2023) report, *“A Pivot to Growth: EY Africa Attractiveness Report 2023”*, provides insights into the economic and growth potential of the continent. It further states that improved GDP growth rates in the continent, the rising use of technology and digitalization, as well as the African Continental Free Trade Area (AfCFTA) are attractive to foreign firms interested in undertaking foreign direct investment in the continent (Ernst & Young 2023).

Adeleye et al. (2016) posited that, in terms of Africa-to-Africa internationalization within the service sector, firms prefer to internationalize into banking, retail, and telecommunications in Africa. The African insurance market is very attractive to firms from the perspective of profit-making and untapped opportunities, as well as demographic, economic and market growth (Ernst & Young 2016). Boso, Adeleye, Ibeh, and Chizema (2019) stated that one of the primary reasons for the increase in internationalization by African firms is that the African private sector has been growing and prospering. The rising incomes of consumers in Africa make the insurance market in the continent more attractive to South African insurance companies who have internationalized into other African countries (Ernst & Young 2016). This also means that more African people will be able to access and use insurance services.

Amankwah-Amoah, Osabutey, and Egbetojun (2018) indicated that digitalization and technological advancements are driving business opportunities and growth worldwide and in Africa. Moreover, access to Internet connectivity, mobile phones, and the use of social media by business owners have increased in Africa (Amankwah-Amoah et al. 2018).

## Research Design and Method

A qualitative research approach was used in this study to better understand the opportunities and benefits to a South African insurance broking firm when undertaking Africa-to-Africa internationalization. Qualitative research is interpretive and allows the researcher to understand a particular context and develop an in-depth knowledge and understanding of a social phenomenon (Marshall, Rossman, and Blanco 2022). The sampling method used in this study was a non-probability, purposive sampling method. The sample comprised 20 employees at a South African insurance broking firm based in Johannesburg, South Africa, who were involved in the firm's internationalization activities in Africa. The 20 employees included senior managers, middle managers, and support employees.

The researcher obtained ethical clearance for this study from the University of Johannesburg. Data were collected by undertaking in-depth interviews with each participant. As explained by Jentoft and Olsen (2019), interviews allow participants to share their views, opinions, beliefs, and attitudes regarding an issue or topic. The 20 interviews were completed online and in person. Also, an open-ended interview schedule was developed and used to conduct the interviews. Open-ended interviews allowed the researcher to discuss and share participants' views regarding the benefits and opportunities their firm derived by undertaking Africa-to-Africa internationalization.

In terms of the biographical information pertaining to the 20 participants, all participants had over three years of experience working in the insurance broking firm. Positions that the research participants held in their insurance broking firm included the following: managing director; line manager; senior account executive; account executives; and account handlers.

This study utilized a qualitative content analysis method to evaluate the data. According to Saldaña (2013), qualitative content analysis involves developing codes or short description words derived from the interview data. Thereafter, categories were developed from the codes, after which themes were created from the categories. Such themes describe the key findings from the data. Ethical considerations such as informed consent, anonymity, and privacy were upheld. In terms of the research findings, three themes emerged regarding the research question in this study, which will be clarified in the next section.

## Findings and Discussion

This qualitative study explored the opportunities that a South African insurance broking firm could realize when internationalizing into other African countries. Three themes emerged from the findings of this study.

### *Theme 1*

Firms that internationalize early into other African countries will benefit from first-mover advantage and will most likely develop internal capabilities and competencies to undertake cross-border business. The two categories associated with this theme are as follows:

- ⇒ Category 1: Many aspiring South African insurance broking firms find the African markets to be a challenging environment, and, as such, the firm stands to enjoy early mover advantages.
- ⇒ Category 2: The firm can avail its network to other international insurance broking firms seeking to expand into African markets, which will provide the firm with a competitive edge.

All participants (20 out of 20) were of the view that early internationalization by the South African insurance firm in comparison to its competitors would allow the firm to become a market leader within the insurance industry. This view is also supported in the literature. When South African insurance firms pursue the first-mover advantage strategy in Africa-to-Africa internationalization, it enables them to gain benefits that late entrants cannot receive, such as proprietary technology,

access to scarce resources, and developing partnerships with host country firms, governments, and other stakeholders (Peng and Meyer 2019). White and van Dongen (2017, 281) asserted that South African retail firms, for example, internationalize to “exploit their capabilities and resources”. Moreover, firms develop core competencies to create a competitive advantage. Thus, early internationalization by South African insurance firms facilitates the creation of core competencies, which, in turn, makes it easier for firms to create a competitive advantage (Daniels et al. 2019).

Participants remarked that the most significant opportunity for Africa-to-Africa internationalization is growth in the firm’s turnover due to new business opportunities the firm will acquire from internationalizing into other African countries. This finding is consistent with the literature, which states that firms create economic value by engaging in internationalization (Daniels et al. 2019).

Participants commented:

| Participant   | Comment   |
|---------------|---|
| Participant 1 | “There is an abundance of opportunities that we have identified that are major pull factors for us. Examples of benefits I can mention to you are number 1, accessing an untapped insurance market; this is because a lot of insurance brokers do not have a risk appetite for internationalizing into Africa.” |
| Participant 9 | “There is an additional stream of income for us through collaborating with other international players that have clients operating in our territories but don’t have their own networks. We bridge that gap, and we charge fees for the use of our facility.”   |

The findings reveal the importance of the early internationalization of South African firms into African countries in the insurance sector. Early Africa-to-Africa internationalization by South African insurance firms would effectively allow these firms to establish a foothold in the host country and advance their value chain efficiencies.

### ***Theme 2***

Internationalization will provide the firm with an opportunity to expand its operations into other African countries and diversify its product range, thereby introducing new revenue streams and increasing profitability.

The vast majority of participants (18 out of 20) emphasized that the internationalization of South African insurance firms will result in increased profits and revenue. The two categories linked to this theme are Category 1: There is an opportunity for the firm to expand its operations in Africa; and Category 2: The firm will diversify its product range in Africa-to-Africa internationalization. This finding is consistent with Cavusgil, Knight, and Riesenberger (2020), who explained that firms internationalize because they pursue new markets and opportunities so they can earn more and higher profits than in their home markets, which are often saturated.

Participants said:

| Participant    | Comment   |
|----------------|---|
| Participant 3  | “We have been doing international business and are gaining increasing knowledge of markets and their respective environments. This is...my view is preparing the firm for more opportunities to engage in FDI.” |
| Participant 10 | “There is a definite demand for the firm to innovate and develop new products. Our clients in other African countries operate in diverse conditions...”   |

According to the findings, internationalization is advantageous to South African insurance firms because they can enhance profits, sales, and revenues. The insurance market in Africa is largely untapped and underinsured. This means that there are numerous opportunities for South African insurance firms to diversify their insurance product range into Africa, earn profits, and increase their market share.

### ***Theme 3***

Organizational learning and developing operational excellence will contribute towards the firm developing a competitive advantage. As stated by Cavusgil et al. (2020), international markets often differ from the firm's home market; also, the needs of consumers in international markets may be diverse from the home market. This provides the internationalizing firm with the opportunity to acquire new business methods and develop innovative ways of generating value for their customers in terms of their product and service offerings (Cavusgil et al. 2020).

Participants remarked:

| Participant    | Comment  |
|----------------|--|
| Participant 2  | "The firm is acquiring knowledge and experience in doing international business in other African countries, and I am sure that we are on the right course to lead..."  |
| Participant 13 | "Another opportunity is that our careful implementation of the firm's strategy equips us with the all-important knowledge of different markets. I believe this is very crucial before we can venture into any territory with incremental commitment of resources." |
| Participant 14 | "As a South African firm, we are creating a wealth of knowledge and experience in internationalizing into other African insurance markets. We anticipate being the go-to firm when it comes to African markets."   |

The findings indicate that South African insurance firms can create and realize efficiencies while developing operational excellence in their value chain operations through organizational learning and excellence. The African business environment is diverse and challenging; however, there are many organizational learning opportunities for South African insurance firms when they undertake Africa-to-Africa internationalization. Moreover, South African insurance firms can apply their internationalization experiences in Africa to enhance their organizational learning and expand their knowledge base on internationalization.

### **Conclusions and Implications**

Internationalization by South African firms from the insurance industry into other African countries presents a myriad of financial, economic, strategic, technological, and growth opportunities and benefits. For South African insurance firms to create economic and financial value through internationalization into African countries, it is imperative that the required due diligence, environmental analysis, and risk assessment are conducted timeously and comprehensively.

Furthermore, the implications for firms and managers from South Africa who want to internationalize into Africa is that they should do thorough research and garner a complete understanding of the business environment in African countries. Hence, South African insurance firms should not develop a 'one-size-fits-all' internationalization strategy when expanding to African countries, as these countries are quite diverse.

Further research involving Africa-to-Africa internationalization by South African firms from other economic sectors should also be conducted. Surveys, focus groups, and multiple case studies could also be used to expand knowledge pertinent to Africa-to-Africa internationalization.

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