STRATEGIC RESPONSES BY GENERAL INSURANCE AGENCIES TO ADOPTION OF BANCASSURANCE IN KISUMU CITY

BY

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DECLARATION

I declare that this research project report is my original work and has never been submitted anywhere for a degree or qualification of the same in any other university or institute of higher learning.

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This research paper has been submitted for examination with my approval as the University supervisor.

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DEDICATION

I most sincerely dedicate the work to our creator, who determines our destiny, to my parents, brothers and sisters and lecturers who motivated me to knowledge exploration and discovery.

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ABSTRACT

The desire to place in the hands of managers instruction bearing specifically upon the need, importance, methods and reward earnest consecrated endeavor, has led to a comprehensive study of the situation in the insurance agencies. Hence the work is a compilation of counsel on how to implement the strategic management decisions in a world side-tracked by competition and mesmerized by change in the environment.

Bancassurance, a method of distributing insurance products through the bank network is a global movement that is gradually breaking down the traditional barriers between the various businesses of supplying financial products and services. The aim is to provide banking and insurance products through a common distribution channel and/or to the same client base. As a result of adoption of Bancassurance, insurance companies and intermediaries in many countries have begun implementing changes to help them mitigate the impact of the turbulent business environment. These changes have required significant buy-in at high levels of the organization, analysis of the institution and its clients, and the foresight and strategic planning to implement new activities that will strengthen the intermediary's performance in this difficult environment.

This study sought to establish the strategic responses which have been employed by insurance Agents in Kisumu to cope with the adoption of Bancassurance. The study was guided by the following specific objectives: (i) to establish the strategic responses which have been employed by insurance Agencies in Kisumu to cope with the adoption of Bancassurance; and (ii) to identify the challenges faced by the Agencies in implementing the strategic responses to Bancassurance.

On the basis of the findings of study, the insurance agents need to continuously scan the environment in order to identify and address all challenges posed by changes in the environment. In addition, the agents need to put in place strategic plans and strictly adhere to them.

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ABBREVIATIONS AND ACCRONYMS

AHP	Analytical hierarchy process
AKI	Kenya Association of Insurers
IMF	International Monetary Fund
IRA	Insurance Regulatory Authority
IT	Information Technology
OECD	Organization for Economic Co-operation and Development
R & D	Research and Development
RBV	Resource-Based View
SSF	Strategic Success Formula
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Strategic response

Over the past few years, insurance companies and intermediaries in many countries have begun implementing changes to help them mitigate the impact of the turbulent business environment. These changes have required significant buy-in at high levels of the organization, analysis of the institution and its clients, and the foresight and strategic planning to implement new activities that will strengthen the intermediary's performance in this difficult environment. Institutions have had to look critically at their client base, their external environment, their risk management strategies, their trends in financial performance, the appropriateness of their products and services, and their staff and the trends related to staff productivity and expense.

Berger *et al.* (1999) analyzed the potential benefits and synergies from an expansion of banking business into non-banking activities both from the cost perspective as a result of economies of scale and from the revenue perspective, due to the ability of banks to raise revenues from complementarities in financial services consumption. The result did not show that such synergies exist. However, De Young and Roland (2001) argue that banks may benefit from their operational expansion either in the form of lower costs of producing the current financial services or in the form of higher revenues from providing a new bundle of services to customers.

Understanding the impact of environmental changes on the organizations could help practitioners in the field ensure that corporations, insurance companies and agencies develop rational strategies to effectively respond. This research project will look at the process resulting in the decision to pro-actively respond to the changes in the business environment, occasioned by the advent of bancassurance, the strategies that have been developed by the insurance intermediaries, ethical and legal dilemmas faced. This study seeks to gain a better understanding of the ways in which insurance agencies have responded to challenges emanating from the adoption of bancassurance in Kenya that affect the agencies, both positively and negatively and the factors which influence these responses.

1.1.2 Organization, Strategy and Environment

Issues related to environmental changes tend to evoke an image of concern for organizations that would wish to be ahead of competition. Yet, with the turbulent business environment in which they have to operate, it is given that the changes have serious economic effects among the general population as well (Wright, 2000). This includes staff as well as (potential) clients of organizations. The changes affect all people and all businesses and can seriously hamper the operations of many businesses, even those with substantial resources.

The changes have an influence on the staff, clients, and the institutions' portfolio, and can create numerous pressures on an institution trying to maintain or achieve financial and operational self-sufficiency. If ignored, the changes in the environment can ultimately compromise an insurance agency's operations, profitability, and long-term viability. Thus, insurance agencies, like other types of businesses, must perform some critical analysis and planning to mitigate the impact that the changes have both on the intermediary's target market and on its own operations.

Glendey (2000) asserts that organization's microenvironment consists of nonspecific aspects in the organization's surroundings that have the potential to affect the organization's strategies. When compared to a firm's task environment, the impact of macro environmental variables is less direct and the organization has a more limited impact on these elements of the environment. Macro environmental variables include Political-Legal, Economic, Socio-Cultural, and Technological. A firm considers these variables as part of its environmental scanning to better understand the threats and opportunities created by the variables and how strategic plans need to be adjusted so the firm can obtain and retain competitive advantage.

The changes themselves are a result of both natural occurrences and human action, the latter being, in turn, humankind's response to its vision/dreams and aspirations or response to the external environment (both proximate and global). Therefore, change is inevitable and the need to respond to the changes in the national and global environment derives from this inevitability. The inevitability is also derived from the fundamental process of enhancement of humankind's and organizational capacity for survival, that has recently been compounded by an unstoppable process called globalization – "a process of rapid global economic integration driven by liberalization of trade, investment and capital flows, as well as by rapid technological change and the information revolution (Oxfam 2000). Governments of developing countries have no control on global governance.

1.1.3 Bancassurance

Bancassurance is a method of distributing insurance products through the bank network. It is a global movement that is gradually breaking down the traditional barriers between the various businesses of supplying financial products and services. The aim is to provide banking and insurance products through a common distribution channel and/or to the same client base. Bancassurance has enjoyed considerable success, especially in Europe (Lin et al., 2006) (Benoist, 2002). The aim is to provide banking and insurance products through a common distribution channel and/or to the same client base. According to Wever (2000), Bancassurance is the distribution of insurance products through banking networks; the collaboration between banks and insurers to distribute insurance products to bank customers. Often, banks calculated that creating a subsidiary engaging in insurance services, or perhaps both a life and a non-life subsidiary, would create good synergy, as they could market the insurance products via branch unit locations (Voutilainen, 2005).

In present global economy, integration and strategic alliance are omnipresent. Lin et al. (2006) examines that the integration relationship between securities firms and financial holding companies. The literature examining the most suitable models of such Bancassurance alliance models is limited. Staikouras (2006) and Staikouras and Nurullah (2007) find that banking and insurance entities have more similarities than differences, characteristics that may favor joint production and business synergies. Through diversification, the Bancassurance approach reduces the resources required to manage risk, which in turn results in lower costs (Hughes *et al.*, 1999). Korhonen and Voutilainen (2006), Korhonen *et al*. (2006) and Korhonen *et al*. (2005) applied the expert panels and the AHP to explore the most suitable alternative alliances between banks and insurance companies from executive management perspectives, supervisory authorities, and customers, respectively.

According to United Nations Conference on Trade and Development (UNCTAD) (2005), insurance intermediation comes under a range of headings: (i) Tied agents, who normally represent only one insurer for each class of insurance; (ii) General agents, which may have agency arrangements with a number of insurers for a given class, and which employ sub agents. This category is banned in many countries because of the confusion it can cause for consumers; (iii) Brokers, who represent the insured and who can deal with any insurer. Brokers can accept commission from the insurer in most countries and ideally they should be required to disclose this to their client; (iv) Insurers own staff selling from the insurers own premises; (v) Bancassurance, where a bank either acts directly for an insurer or provides space for an insurer's representative in its retail outlets. This channel has become very successful in such countries as France and Italy and is being implemented in many countries around the world as high initial costs can be offset by lower distribution costs in the long run; (vi) Call centers have had mixed success but can be very effective for highly specialized markets and when linked with radio and Internet advertising. Like Bancassurance initial costs can be very high; and (vii) other businesses where insurance is ancillary to a main business, such as travel agents.

According to Arena (2006), the prime reasons for a company to consider a new model like Bancassurance are; to the banks- an additional fee based income as commission, improved resource utilization, additional cash-flow through premium deposits, and potential for getting new customers by offering special deals, to insurance companies- greater geographical reach through bank's network, financial gain through bank's database, gaining credibility in customers, introduction of co-branded products and ease of operations

As observed by Arena. (2006), it is no body but the customer who is going to benefit in the range of products, price of product, and cost of servicing. The benefits to customer range from one stop shop with single window service, quality of service, advice on financial planning, credibility, transparency dealing, ease of renewals, e-banking, to the demand of special product on the financial and personal relationship with the banker (Organization for Economic Co-operation and Development (OECD), 2003). The aim of this paper is to identify the strategic responses employed by insurance intermediaries in Kisumu to respond to the adoption of Bancassurance in Kenya.

1.1.4 Insurance Industry in Kisumu

In law and economics, insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; an insured or policyholder is the person or entity buying the insurance policy. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.(Erick Alan Anderson, 2006).

According to Kenya Association of Insurers (AKI) (2009), there are 46 insurance companies in Kenya chasing an insuring public of about 17 million people. Of this segment of the population that ideally ought to enjoy insurance cover, only a pitiable 3 million that have some form of insurance or other. There are over 200 insurance brokers and over 1000 insurance agents who operate as intermediaries for the customers seeking to get insurance covers. They typically have access to dozens of carriers, and can quickly find several policies for a customer to consider.

There are 19 branches of insurance companies in Kisumu doing general insurance business which is our main concern; the market is endowed with very good business potential for the 42 general insurance agencies which operate in this very competitive environment.

Insurance agents have a thorough knowledge and extensive experience in the insurance sector and are quite conversant with the contingent risks of products and their possible risk-management. They actually broker the insurance deal between the insurance company and the consumer and in lieu for this, extract a commission. The agencies are involved in these responsibilities; Acquisition of clients in need of insurance ,Giving proper and adequate service to the client, Constantly remaining in touch with the clients and catering to their problems by gathering proper information and assessing their risk profile and requirements, Renewing the policies of the existing clients in a hassle-free manner and with appropriate judgment and guidance, Giving proper advice to clients in a customized way by gauging their risk profile coupled with extensive research, Keeping abreast with new policies and schemes of the insurance companies so that they can choose the right policy for their client's personal needs, Collecting regular premiums paid by the clients and Processing the accounts of the clients.

As far as Kenya is concerned, the wave of diversification became apparent in the banking sector in the 1990s. The reforms in this sector allowed the banks to undertake activities like investment banking, leasing, merchant banking, factoring, hire purchase and mutual funds, through separate subsidiaries. The industry too has been seen steadily shifting away from traditional sources of revenue like loan-making and leaning towards nontraditional activities that generate fee income, service charges, trading revenue, and other types of noninterest income. It is not only the banks in the private sector that are making a headway into diversifying their operations, but also the public sector banks which are aggressively looking for expansions in advanced opportunities. Further, mergers, amalgamations and acquisitions have been undertaken on a large scale in order to gain size and to focus more sharply on competitive strengths.

In this study, the focus will be narrowed to the Kisumu section of Kenyan insurance industry, whose players like their counterparts elsewhere, are constantly put to task of strategizing against banks' uncontrolled diversification into their traditional business territory. Within the identified scope, there are a total of 42 registered general insurance agencies that will be indispensable in the study's information dissemination.

1.2 Statement of the Problem

During the last 20 years, financial services industry has experienced a general trend of integration and consolidation: in Europe the combination between the banking and the insurance activities, named “Bancassurance”, has become particularly successful catching the attention of managers and academia (Hughes *et al*., 1999). Wever (2000) refers to Bancassurance as the distribution of insurance products through banking networks; in other words, as the collaboration between banks and insurers to distribute insurance products to bank customers. Staikouras (2006) and Staikouras and Nurullah (2008) find that banking and insurance entities have more similarities than differences, characteristics that may favor joint production and business synergies. Through diversification, the Bancassurance approach reduces the resources required to manage risk, which in turn results in lower costs (Hughes *et al*., 1999). Korhonen and Voutilainen (2006) and Korhonen *et al*. (2006, 2005) applied the expert panels and the analytical hierarchy process (AHP) to explore the most preferred alternative alliances between banks and insurance companies from executive management perspectives, supervisory authorities, and customers, respectively.

With the adoption of Bancassurance concept in Kenya, the market for insurance services is oversupplied and margins for the companies are being depressed in a highly competitive market place. Profitability will be determined by the extent to which organizations develop appropriate strategies to ‘combat’ the growing competitive forces. Driven by the need to grow market share, provide services, expand distribution capabilities and improve operational efficiency, many insurance intermediaries are continuously pressured to look for synergetic acquisitions and shed unprofitable or non-core business.

As outlined in Chen *et al*. (2008), most studies dealing with Bancassurance have only been descriptive in nature, providing a broad insight into economic rationales, advantages and drawbacks for all the institutions involved. A study by Prowse (2003) shows that research on the strategic responses to environmental changes is indeed scarce. This shortage is confirmed by Oman (2004) who holds a consensus that although the subject of organizational transformation in developed economies has recently received a lot of attention, the literature in developing economies has been almost ignored by researchers, an idea shared by Stanger, (2004). Whereas the study by Wairegi (2004) focused on the strategic response by life insurance companies in Kenya to changes in their environment. The one by Salesio (2006) focused on Risk mitigation strategies adopted by insurers in Kenya. And Mwarania (2003) focused on responses by reinsurance companies in Kenya to changes in the environment. The case of Kenya Re. There is thus no known study that focused on the strategic responses adopted by insurance agents.

Understanding the strategic responses adopted by insurance intermediaries in view of the increasing adoption of Bancassurance in Kenya could help the implementers of organization transformation develop rational strategies to effectively respond. This research project will look at the strategic responses adopted by insurance intermediaries in Kenya and the challenges faced in implementation of the strategic responses, with a view to helping them improve their own strategic planning process.

The study will, therefore, seek answers to the following research questions: (i) What strategic responses have been employed by insurance agencies in Kisumu? and (ii) What challenges have the agencies faced in implementing the strategies?

1.3 Objectives of the Study

The study will be guided by the following specific objectives:

(i) To establish the strategic responses which have been employed by insurance Agencies in Kisumu to cope with the adoption of Bancassurance in Kisumu.

(ii) To identify the challenges faced by the Agencies in implementing the strategic responses to Bancassurance.

1.4 Importance of the study

The current study seeks to raise ideas and issues in the hope that the various stakeholders and persons directly addressing issues related to strategic responses by financial intermediaries to the adoption of Bancassurance will continue the discussion. It does not presume to offer a prescription for the ideal measures to be employed by the stakeholders so as to reverse the trends.

(i) The management of insurance Agencies in Kenya.

The management of insurance agencies in Kenya will gain a better understanding of the strategic responses adopted by similar organizations in Kisumu, and on the basis of the findings of the study, the management of the insurance agencies will implement responsive strategies from an informed position.

(ii) The Government

The Government is charged with the responsibility of ensuring that the citizens access insurance services cost-effectively. On the basis of the findings of this study, the Government will make informed decisions when formulating policies and investing in the insurance sector.

(iii) Insurance Regulatory Authority

Insurance Regulatory Authority (IRA) is charged with the responsibility of regulating the insurance sector and enforcing the relevant government policies. IRA will acquire insight into the involvement of insurance service providers in competitive strategies and accommodate it in their policies where applicable.

(iv) Academics and researchers

The strategic responses of financial intermediaries to adoption of Bancassurance in Kenya will have been an explored concept. The academic world should definitely consider the enormous potential of this strategic intersection. The study will make a significant contribution to the growing body of research on strategic responses to Bancassurance. The findings may also be used as a source of reference for other researchers. In addition, academic researchers may need the study findings to stimulate further research in this area and as such form a basis of good background for further researches.

CHAPTER TWO: LITERATURE REVIEW

2.1 Theoretical Framework

A combination of strategy and intellectual capital Strategy research has been informed by various strategic perspectives (Hoskisson *et al.*, 2000). Two such perspectives are considered: (i) institutional theory; and (ii) the resource-based view. Institutional theory suggests that in the absence of well-developed institutions, growth may be inhibited (Peng and Heath, 1996), unless firms with adaptive abilities that allow them to move beyond institutional constraints play a more active role within such an environment (Oliver, 1991). In times of change, firms may be subject to isomorphic forces that make them adopt strategies that lead to them resembling each other (DiMaggio and Powell, 1983).

The resource-based view (RBV) that suggests firms are heterogeneous in terms of their resources and capabilities (Penrose, 1959), and that studying such heterogeneity in resources at the firm level could provide potentially different insights (Wernerfelt, 1984). Barney (1991, 2001) suggested that firms can attain a sustainable competitive advantage over others if they possess resources that are valuable, rare, inimitable and non-substitutable. Such resources take time to accumulate (Dierickx and Cool, 1989) and quite often, firms need to keep reinventing their capabilities dynamically (Eisenhardt and Martin, 2000; Teece *et al.*, 1997). Oliver (1997) synthesized the resource-based view with institutional theory, and suggested that firms can build upon their resource capital and their institutional capital for developing a sustainable competitive advantage. Eisenhardt and Martin (2000) suggest that in high velocity markets, dynamic capabilities consist mostly of simple rules and real-time knowledge creation.

A sustainable competitive advantage may be reflected in higher growth, better operational efficiency, or in superior market valuation (Edvinsson and Malone, 1997; Stewart, 1997). Competitive advantage may be derived from a strong brand name (Guilding and Pike, 1990), intensive Research and Development (R&D), and superior structural capital (Lev, 2001), human capital (Abeysekera and Guthrie, 2004) and relational capital (Bontis, 1998), or an interaction of these elements (Bontis and Fitz-enz, 2002). The literature on intellectual capital has grown sufficiently to allow researchers to dispense with a need for having to define each of these constructs. Comprehensive treatises are also available elsewhere (Andriessen, 2004; Bontis, 1998).

2.2 The concept of strategy

Johnson and Scholes (1999) defined strategy as "the directions and scope of an organization over a long term, which achieves advantage for the organization through its configuration of the resources within a changing environment, to meet the needs of the markets and fulfill stake holders' expectations". Strategy is described as creating a fit between the external characteristics and internal organization conditions to solve a strategic problem. The problem occurs when there is a mismatch between internal characteristics of the organization and the opportunity existing in the external organization. Quinn (1980) describes strategy as a plan and pattern that integrates an organization's major goals, policies or patterns and helps marshal and allocates resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by the intelligent opponents. This leads to the attainment of Strategic Success formula (SSF)

2.3 Environmental changes

Aosa (1998) notes that as the organization environment changes, it is necessary that the firm continuously adopts its activities and internal configurations to reflect the new external situations; failure to do this endangers the future success of the organization. (Kiptugen, 2003) further noted that strategic responses that are well developed and appropriately adopted are powerful tools for acquiring and sustaining a competitive advantage. Such weapons have to be constantly adopted or even transformed to achieve the desired advantage. Jones and Scholes (1999) note that environment encapsulates different influences. It is quite difficult to make sense of this diversity. They view future environment as likely to be different from the past. Having scenarios of possible futures would in turn help managers to consider the different ways in which strategies might need to change depending on how the environment behaves.

As the environment changes, firms must change strategies to survive. With each new strategy, new capabilities are developed. The adoption of dynamic perspective on strategy alignment necessitates a shift in emphasis towards dynamic capabilities. Dynamic capabilities describe an approach to strategy that tries to identify the dimensions of firm specific capabilities that can be sources of advantage and to explain how competencies and resources can be developed, deployed and protected. The operating environment involves factors in immediate situations that may provide many of the challenges a particular firm faces in attempting to acquire needed resources or in striving to profitably market its goods and services. Among the most prominent of these factors are a firm's competitive position, customer profile, reputation among suppliers and creditors. The operating environment differs from remote environment in that the businesses can be much more proactive in strategic planning than is the case with remote factors.

2.4 Responses to changes in the environment

After identifying and analyzing business risks associated with changes in the business environment, management decides how these risks should be managed. This requires comparing the costs of reducing business risks against the costs of potential loss from risks. Hofer and Schendel (1978) argue that there are four categories of possible responses to business risks—accept, transfer, avoid, and reduce. The first three are passive responses to risk while the last response is active. The four categories may be defined as follows: (i) **Accept:** Accepting a business risk means doing nothing to avoid it. This response is based on a conscious decision that the costs of other responses outweigh the potential benefits or that the risk is acceptable; (ii) **Transfer:** Transferring the business risk to another party alleviates management's responsibility for managing it. Examples of this response are buying insurance and outsourcing; (iii) **Avoid:** Avoiding the business risk is a decision to change a business objective because no other response can reduce the business risks to an acceptable level in a cost-effective manner**;** and (iv) **Reduce:** Reducing the business risk means reducing either the likelihood of its occurrence or the magnitude of its impact. Management usually establishes an effective control environment to reduce business risks.

2.4.1 Strategic responses

Pearce and Robinson (1999) argue that strategic responses are a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Strategic responses are part of competitive strategies that organizations develop in defining their goals and policies. They are reactions to what is happening on the environment of the organization. Strategic responses are concerned with the long-term strategy of an organization involving high investments and embracing the organization as a whole that's from corporate, business and functional levels.

Ansoff and Mc Donnel (1990) note that strategic responses may take many forms depending on the organization's capability and the environment in which it operates. Well-developed and targeted strategic responses are formidable weapons for the firm in acquiring and sustaining a competitive edge. These strategic responses include restructuring, marketing, information technology, and culture change etc, Kiptugen (2003). Ansoff (1965) proposed four strategies for growth which can be neatly summarized in the matrix below: To portray alternative corporate growth strategies, Ansoff (1965) presented a matrix that focused on the firm's present and potential products and markets (customers). By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations. Ansoff's matrix is shown in figure 2.1 below.

Product

New	Market Development	Diversification	**Market**
Existing	Market Penetration	Product Development	
	Existing	**New**	

Figure 2.1: The Ansoff matrix **Products and Services**

Source: Ansoff HI, Sullivan PA. (1993) Optimizing profitability in turbulent environments: A formula for strategic success for Long Range Planning 26(5): 11.

The Matrix essentially shows the risk that a particular strategy will expose you to, the idea being that each time you move into a new quadrant (horizontally or vertically) you increase risk. The market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. However, market penetration has limits, and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow. Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy.

A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share. Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. In fact, some as the “suicide cell” has referred to this quadrant of the matrix. However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk.

2.5 Bancassurance

2.5.1 Evolution of Bancassurance

For the first time, the term “Bancassurance” was used in France, where cooperation between banks and insurance companies started earlier than in other European countries. This word was originally coined to indicate simple distribution of insurance products by bank branches, while at present it is used to describe all kinds of relationship between the banking and the insurance industries (Quagliarello, 2004). According to Battese and Coelli (1993), the convergence between different sectors of financial intermediation (conglomeration) has been encouraged by the deregulation process started at the end of the Eighties. In Europe the 1989 Second Banking Directive allowed universal banking and unlimited reciprocal participations with investment and insurance firms. In USA regulatory hedges between financial institutions have been removed later, by the 1999 Gramm-Leach-Bliley Act: nowadays financial conglomerates are present in all developed countries. Bancassurance, however, cannot be viewed simply as a result of the deregulation process: as pointed out by Laderman (2000), changes in financial services needs have been particularly determinant.

Bikker and Van Leuvensteijn (2008) observed that household saving has moved from deposits to more remunerative investments determining a dramatic drop in traditional banking profitability. Banks have tried to compensate the decrease in their interest margin by entering investment banking or insurance. Life business has appeared as a particularly interesting opportunity for various reasons as the progressive ageing of population in all developed countries and the decrease in welfare state protection offered by governments, other than the existence of some similarities and complementaries between the banking and the insurance activities, especially for life products (Bos *et al*. (2008). The cooperation between banks and insurance companies, initially limited to the distribution of life products through bank branches, has gradually become a more strict relationship aiming to operate the financial market in a more integrated way; despite the existence of some differences between countries, it is possible to sustain that simple distribution agreements during the Seventies and the Eighties became a mix of partnerships and share exchanges in the early Nineties (Coelli *et al.*, 1999).

2.5.2 Forms of bancassurance

There are several forms of Bancassurance, more or less successful depending on institutional and economic framework, type of business mix and objectives of the firms involved. Following existing literature (Genetay and Molyneux, 1998; Van der Berghe and Verweire, 2001; Voutilainen, 2005; Staikouras, 2006) we can distinguish between various models as follows:

The first model is the cross selling agreement: this takes the form of a simple partnership; banks sell insurance products through their branches, on behalf of a single company or several companies. This kind of agreement has many advantages: it is simple and reversible, not implying any change in the ownership structure or in the organizational model of the firms involved that remain absolutely independent. On the other hand, we have to consider the existence of some drawbacks: for example, conflicts of interest between banking and insurance products sharing the same distribution channel are more likely in absence of coordination between two different managements. It is also important to notice that banks can only offer simple and standardized insurance products, not requiring consulting services by highly specialized resources (Genetay and Molyneux, 1998; Van der Berghe and Verweire, 2001).

The second model is the cooperation between two independent partners, realized through strategic alliances (often reinforced by cross ownerships in the form of minority stakes) or joint ventures. Surely, a joint venture is a stronger form of cooperation, aiming to exploit in the best way the skills of every participant, enforcing their specializations: generally insurance companies take care of product design, while banks realize distribution. These alliances can reach significant synergies concerning know how, human capital, cross selling and scope (Voutilainen, 2005; Staikouras, 2006).

2.5.3 Benefits derived from bancassurance

Banks have an important incentive to market insurance products through their branches. Such sales increase income, particularly in environments where competitive pressures continue to erode margins from spread income on interest. Furthermore, the advantages that bank distribution of insurance products offer over more traditional distribution methods can lead to increased productivity. Insurers have an incentive to distribute their products through banks. The banks provide a wider client base than is normally available to insurance companies. According to Nicholson (1990), for Bancassurance to work, the key parties to the transaction - the insurer, the bank and the customer - must obtain certain benefits. For example, the *insurer* often seeks to: align itself with the public image of the bank using the bank's reputation; establish a relationship sooner in a customer's life (e.g., individuals open bank accounts at a much earlier age than they purchase insurance); gain access to a client base that is normally not available to it through other means; and obtain business at a lower acquisition cost than usual, thanks to the bank's easy access to its client base and the strong relationships it normally maintains with its clients.

The *bank* often expects to: increase the overall productivity of its client relationship, including its branch network profitability; better leverage its positive image *financial services;* position itself as a one-stop purchasing source for the client, increasing customer loyalty and retention; and diversify its product base by making insurance products available to its client base (OECD, 1993). According to Nicholson (1990), the *customer* hopes to: pay a lower price because acquisition costs are lower; have the convenience of one-stop shopping for financial services products and an easier way to make payments (through the bank); and enjoy better client services because of the bank's expanded relationship with the customer.

2.6 Conclusion

Banks and insurers worldwide have rushed into mergers with one another, hoping to reap economies of scale and boost revenues by cross-selling. From the insurers' point of view, Bancassurance offers the prospect of reduced distribution costs compared to the traditional agent channel. Insurers are also strategically aiming to seize the opportunity of reaching new customers not easily accessed by their agent network. At the same time, bankers see their profit margins being squeezed, and additional fee-income sources emerge as a solution to stabilize profitability and increase the range of their financial services. It is therefore theoretically justified for the bank-insurance trend to emerge, without ignoring the pertinent obstacles and opportunities (Staikouras, 2006b) that can threaten/sustain its existence.

It is almost certain that changes in global markets will force customers, new and existing, into becoming more insurance conscious and understanding the risk and benefits of Bancassurance. The "revolutionary" shift in the insurance industry is caused by many complementary structural changes taking place both at an institutional and global market level (van den Berghe, 1998).

Our research is geared towards non-life insurance provisions where bancassurers can successfully engulf, such as residential fire policies tied up with mortgage loans, and/or motor policies associated with car loans. Moreover, the motives behind managers' decisions are worth exploring especially when they consciously decided to invest and subsequently sell a particular business. A few other fertile research fields are asset management, pensions/saving provisions, the non-existent regulatory frame, and the capital that bankers/insurers should have. Thus, it would be worth looking at these issues as a number of intuitive thoughts can be put forward, which could enhance our understanding and judgment about the Bancassurance phenomenon.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research design

A descriptive survey was undertaken. Descriptive designs result in a description of the data, whether in words, pictures, charts, or tables, and whether the data analysis shows statistical relationships or is merely descriptive. Census surveys based on the whole population in Kisumu can produce results that are broad, credible and generalisable to the whole population in Kenya; It is preferred to draw findings from the analysis of numerical data, in which case a survey becomes handy. Survey is preferred as a result of financial constraints; and Surveys focus on data rather than theory. In this case, it was possible to administer the data collection tools to the respondents in their workstations, which will be relatively easy, and will play a great role in increasing the response rate.

3.2 Population

The population of this study was all insurance agencies in Kisumu quoted at the IRA directory as at 30th June, 2010. This is a total of 42 General Insurance Agencies. A census of all these organizations was conducted and they were interviewed.

3.3 Data collection

Primary data was collected from the Chief Executive Officers and senior managers of the insurance agencies with the aid of semi-structured questionnaires. The questionnaires were structured in two main parts. Part 1 captured the background information of the respondents and their respective organizations whereas part 2 captured information on pertinent issues touching on the strategic responses to adoption of Bancassurance in Kenya and the challenges faced in implementation of the strategic responses. The questionnaires were administered by drop-and-pick method. Self-addressed envelopes were enclosed in letters to the respondents. A letter of introduction and questionnaire were enclosed in each envelope. Telephone calls were made to the respective respondents to further explain the purpose of the study and set a time frame for the completion of the questionnaires.

3.4 Data Analysis and presentation

The collected data from the questionnaire and secondary sources was systematically organized in a manner to facilitate analysis. Data analysis involved preparation of the collected data - coding, editing and cleaning of data so that it may be processed using Statistical Package for Social Sciences (SPSS) package. The coded data was keyed into the SPSS program where it was developed into a database and hence analyzed. SPSS was preferred because it is very systematic and covers a wide range of the most common statistical and graphical data analysis.

The data pertaining to profile of the respondents and their respective organizations was analyzed using content analysis. Data analysis was conducted using descriptive statistics, which includes measures of central tendency, measures of variability and measures of frequency among others. According to Mugenda and Mugenda (1999) descriptive statistics enable meaningful description of a distribution of scores or measurements using a few indices or statistics. Measures of central tendency gave the expected score or measure from a group of scores in a study. Measures of variability, such as standard deviation, inform the analyst about the distribution of scores around the mean of the distribution. Frequency distribution shows a record of the number of times a score or record appears.

Factor analysis was performed by examining the pattern of correlations (or covariance's) between the observed measures. Measures that were highly correlated (either positively or negatively) are likely influenced by the same factors, while those that are relatively uncorrelated were likely influenced by different factors. Confirmatory Factor Analyses was used to determine the ability of the adopted conceptual model in fitting the observed set of data.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This study sought to establish the strategic responses which have been employed by insurance Agencies in Kisumu to cope with the adoption of Bancassurance. The study employed a combination of both quantitative and qualitative techniques which were used in data collection. The study had targeted 42 respondents but the questionnaires that were returned and completed were 34 representing 81% of the population. The data pertaining to the profile of respondents was analyzed by employing content analysis while descriptive statistics were used in analysis of data pertaining to the second objective of the study. Computation of frequencies and percentages, standard deviations and mean scores were used in data presentation. The information is presented and discussed as per the objectives and research objectives of the study.

4.2 Background information

This section presents a summary of responses with respect to the background information of respondents.

Products and services on offer

The respondents were asked to indicate the products and services they offered to their clients. The products and services offered by the respondent insurance agents can be categorized as follows: Motor vehicle insurance, personal accident insurance, domestic insurance, medical insurance, fire and burglary, group personal accident insurance, cash-on-transit, professional indemnity, P.S.V insurance, fidelity assurance, public liability and goods in transit.

4.3 Strategic responses employed by insurance agencies to cope with the adoption of bancassurance

This section presents responses pertaining to the objectives of the study.

Effects of Bancassurance adoption in Kenya

Respondents were asked to indicate the extent to which the adoption of Bancassurance in Kenya has affected operations of their organizations. The responses are summarized and presented in table 4.1 below.

Table 4.1: Effects of Bancassurance adoption in Kenya

Reponses	Frequency	Valid Percent	Cumulative Percent	Mean	Standard deviation
Very much	19	55.9	55.9		
Much	6	17.6	73.5		
Somehow	3	8.8	82.4		
Slightly	6	17.6	**100.0**		
Total	**100.0**	**55.9**		**1.88**	**1.17**

The findings in table 4.1 above shows that majority of the respondents (55.9%) indicated "very much", (17.6%) of the respondents indicated "much", another (17.6%) of the respondents indicated "slightly" and (8.8%) of the respondents indicated "somehow". The findings show that adoption of bancassurance affected operations of the respondent insurance agents, as indicated by all the respondents.

Further, the respondents were asked to indicate the extent to which they agree/disagree with the statement, "the adoption of Bancassurance in Kenya has led to the market for insurance services to be oversupplied and margins for the companies are being depressed in a highly competitive market place." Reponses are summarized and presented in table 4.2 below

Table 4.2: Adoption of Bancassurance leading to market saturation and lower margins

Reponses	Frequency	Valid Percent	Cumulative Percent	Mean	Standard deviation
Strongly agree	20	58.8	58.8		
Agree	6	17.6	76.5		
Somehow agree	3	8.8	85.3		

Disagree	2	5.9	91.2		
Strongly disagree	3	8.8	**100.0**		
Total	**34**	**100.0**		**1.88**	**1.32**

The findings in table 4.2 above shows that majority of the respondents (58.8%) "strongly agreed", (17.6%) of the respondents "agreed", (8.8%) of the respondents "somehow agreed", another (8.8%) of the respondents "strongly disagreed" and (5.9%)of the respondents "disagreed". Findings of the study show that the adoption of Bancassurance had led to the market for insurance services to be oversupplied and margins for the companies are being depressed in a highly competitive market place, as indicated by 85.3% of the respondents.

4.3.2 Possible strategies that have been implemented by insurance agencies in response to Bancassurance in Kenya

In order to meet the first objective of the study, "to establish the strategic responses which have been employed by insurance Agencies in Kisumu to cope with the adoption of Bancassurance in Kisumu" the respondents were asked to indicate the extent to which their organization has used each of the listed strategies to help them mitigate the impact of adoption of Bancassurance in Kenya. The responses are summarized and presented in table 4.3 below.

Table 4.3: Strategies to help mitigate the impact of adoption of Bancassurance

Strategies to help mitigate the impact of adoption of Bancassurance		**Strongly agree**	**Agree**	**Somehow agree**	**Disagree**	**Strongly disagree**	**Mean**	**Standard deviation**
Accept	Percentage	23.5	20.6	5.9	26.5	23.5	3.06	1.56
	Frequency	8	7	2	9	8		
Transfer	Percentage	35.3	26.5	17.6	8.8	11.8	2.35	1.37
	Frequency	12	9	6	3	4		
Avoid	Percentage	38.2	32.4	17.6	2.9	8.8	2.12	1.23
	Frequency	13	11	6	1	3		

Reduce	Percentage	67.6	17.6	8.8	5.9	0	1.53	.90
	Frequency	23	6	3	2	0		

Summarized responses from the table

With respect to accept, 26.5% of the respondents "disagreed", (23.5%) of the respondents "strongly disagreed", another (23.5%) of the respondents "strongly agreed", (20.6%) of the respondents "agreed" and (5.9%) of the respondents "somehow agreed". Findings of the study show that "Accept" is one of the strategies adopted by insurance agencies in Kisumu to cope with the adoption of Bancassurance, as indicated by 50% of the respondents.

On the other hand, with respect to transfer, (35.3%) of the respondents "strongly agreed", (26.5%) of the respondents "agreed", (17.6%) of the respondents "somehow agreed", (11.8%) of the respondents "strongly disagreed" and (8.8%) of the respondents "disagreed." The findings show that "Transfer" is one of the strategies adopted by insurance agencies in Kisumu to mitigate the impact of adoption of Bancassurance, as indicated by 79.4% of the respondents.Moreover,with respect to avoid, (38.2%) of the respondents "strongly agreed", (32.4%) of the respondents "agreed", (17.6%) of the respondents "somehow agreed", (8.8%) of the respondents "strongly disagreed" and (2.9%) of the respondents "disagreed." The findings show that "Avoid" is one of the strategies adopted by insurance agencies in Kisumu to mitigate the impact of adoption of Bancassurance, as indicated by 88.3% of the respondents. In addition to that, with respect to reduce, (67.6%) of the respondents "strongly agreed", (17.6%) of the respondents "agreed", (8.8%) of the respondents "somehow agreed" and (5.9%) of the respondents "disagreed". The findings show that "Reduce" is one of the strategies adopted by insurance agencies in Kisumu to mitigate the impact of adoption of Bancassurance, as indicated by 85.3% of the respondents.

The responses were further asked to indicate the extent to which they agreed or disagreed each of the responses listed in table 4.6 below were used by their respective agents to mitigate the impact of adoption of Bancassurance by ticking as appropriate. The responses are as summarized in the table below.

Table 4.4: Other responses used by insurance agencies in Kisumu to mitigate the impact of adoption of Bancassurance

Other responses		**Strongly agree**	**Agree**	**Somehow agree**	**Disagree**	**Strongly disagree**	**Mean**	**Std. dev.**
Analysis of the institutions and its clients	Percentage	47.1	35.3	14.7	2.9	0	1.74	0.83
	Frequency	16	12	5	1	0		
Mergers, amalgamations and acquisitions	Percentage	50	32.4	5.9	8.8	2.9	1.82	1.09
	Frequency	17	11	2	3	1		
Insurance intermediaries	Percentage	26.5	26.5	11.8	23.5	11.8	2.68	1.41
	Frequency	9	9	4	8	4		
Continuous investment in new equipment and system upgrade	Percentage	67.6	23.5	5.9	0	2.9	1.47	0.86
	Frequency	23	8	2	0	1		
Continuous capacity building of staff	Percentage	47.1	29.4	5.9	8.8	8.8	2.03	1.31
	Frequency	16	10	2	3	3		
Clients education on dealing with insurance agents	Percentage	52.9	23.5	11.8	2.9	8.8	1.91	1.26
	Frequency	18	8	4	1	3		
Networking and collaboration with other insurance agents	Percentage	64.7	29.4	0	5.9	0	1.47	0.79
	Frequency	22	10	0	2	0		

Investment in marketing activities	Percentage	85.3	8.8	0	2.9	2.9	1.29	0.87
	Frequency	29	3	0	1	1		
Development of new markets	Percentage	79.4	14.7	0	2.9	0	1.24	0.61
	Frequency	27	5	0	1	0		

Analysis from the table showed that;

With respect to analysis of the institutions and its clients, (47.1%) of the respondents "strongly agreed", (35.3%) of the respondents "agreed", (14.7%) of the respondents "somehow agreed" and (2.9%) of the respondents "disagreed". The findings show that "Analysis of the institutions and its clients" is one of the strategies adopted by insurance agencies in Kisumu to mitigate the impact of adoption of Bancassurance, as indicated by 82.4% of the respondents. However with respect to mergers, amalgamations and acquisitions, (50%) of the respondents "strongly agreed", (32.4%) of the respondents "agreed", (5.9%) of the respondents "somehow agreed", (8.8%) of the respondents "disagreed" and (2.9%) of the respondents "strongly disagreed". The findings show that "Mergers, amalgamations and acquisitions" is one of the strategies adopted by insurance agencies in Kisumu to mitigate the impact of adoption of Bancassurance, as indicated by 88.3% of the respondents. On the other hand, with respect to insurance intermediaries, (26.5%) of the respondents "strongly agreed", another (26.5%) of the respondents "agreed", (23.5%) of the respondents "disagreed" (11.8%) of the respondents "somehow agreed", and another (11.8%) of the respondents "strongly disagreed". The findings show that "Insurance intermediaries" is one of the strategies adopted by insurance agencies in Kisumu to mitigate the impact of adoption of Bancassurance, as indicated by 64.7% of the respondents.

Moreover with respect to continuous investment in new equipment and system upgrade, (67.6%) of the respondents "strongly agreed", (23.5%) of the respondents "agreed", (5.9%) of the respondents "somehow agreed" and (2.9%) of the respondents "strongly disagreed". The findings show that "Continuous investment in new equipment and system upgrade" is one of the strategies adopted by insurance agencies in Kisumu to mitigate the impact of adoption of Bancassurance, as indicated by 97.1% of the respondents. With respect to continuous capacity building of staff, (47.1%) of the respondents “strongly agreed”, (29.4%) of the respondents “agreed”, (5.9%) of the respondents “somehow agreed”, (8.8%) of the respondents “disagreed” and another (8.8%) of the respondents “strongly disagreed”. The findings show that “Continuous capacity building of staff” is one of the strategies adopted by insurance agencies in Kisumu to mitigate the impact of adoption of Bancassurance, as indicated by 82.4% of the respondents. In addition to that, with respect to clients education on dealing with insurance agents, (52.9%) of the respondents “strongly agreed”, (23.5%) of the respondents “agreed”, (11.8%) of the respondents “somehow agreed”, (8.8%) of the respondents “strongly disagreed” and (2.9%) of the respondents “disagreed”. The findings show that “Clients education on dealing with insurance agents” is one of the strategies adopted by insurance agencies in Kisumu to mitigate the impact of adoption of Bancassurance, as indicated by 88.3% of the respondents.

With respect to networking and collaboration with other insurance agencies, (64.7%) of the respondents “strongly agreed”, (29.4%) of the respondents “agreed”, and (5.9%) of the respondents “disagreed”. The findings show that “Networking and collaboration with other insurance agents” is one of the strategies adopted by insurance agents in Kisumu to mitigate the impact of adoption of Bancassurance, as indicated by 94.1% of the respondents. With respect to investment in marketing activities (85.3%) of the respondents “strongly agreed”, (8.8%) of the respondents “agreed”, (2.9%) of the respondents “disagreed” and another (2.9%) of the respondents “strongly disagreed”. The findings show that “Investment in marketing activities” is one of the strategies adopted by insurance agents in Kisumu to mitigate the impact of adoption of Bancassurance, as indicated by 94.2% of the respondents. With respect to development of new markets, (81.8%) of the respondents “strongly agreed”, (15.2%) of the respondents “agreed”, and (3%) of the respondents “disagreed”. The findings show that “Development of new markets” is one of the strategies adopted by insurance agents in Kisumu to mitigate the impact of adoption of Bancassurance, as indicated by 97.1% of the respondents.

4.4 The challenges faced by the Agencies in implementing the strategic responses to Bancassurance

In order to meet the second objective of the study, “to identify the challenges faced by the Agents in implementing the strategic responses to Bancassurance” the respondents were asked to list and briefly explain the challenges faced by their organizations in implementing the strategic responses to bancassurance. Multiple responses were allowed. The responses are summarized and presented in table 4.5 below.

Table 4.5: Challenges faced by the Agencies in implementing the strategic responses to Bancassurance

Challenges faced by the Agencies in implementing the strategic responses to Bancassurance	Responses	
	Frequency	Percentage
Banks give credit facilities to their clients as opposed to insurance companies and intermediaries thus having an upper hand	15	44.1
Banks have data base of clients whom they use to trap the potential clients	11	32.3
Bancassurance hinders most of the agents from getting business which have been financed by the banks hence making it difficult to get a huge a mount of commissions from the business transacted by the banks	9	26.5
Bancassurance has led to loss of business by insurance agencies leading to loss of employment opportunities	18	52.9
Marketing – most banks dealing in Bancassurance are those established and thus are able to penetrate the marketing by advertising	16	47.1
Financial constraints – Insurance agents are small and thus unable to employ more staff to expand	14	41.2
Increased competition for the already saturated market	21	61.8
Merging of insurance intermediaries – this has not been easy to achieve due to suspicions – one party may not	9	26.5

adhere to the terms of agreement		
High level of customer base network by banks	10	29.4
The banks are more advantaged because they offer credit facilities to their clients for insurance products	11	32.4
The banks deal with clients directly and so they educate the clients on the insurance before the clients decide where to get their insurance	13	38.2
Technological changes – intermediaries/marketers may not have an access to those changes due to finance and hence bancassurance takes centre stage due to the capital base	7	20.6
From their customer data base, the banks are able to select potential buyers of insurance. The fact being they easily accessible to these clients' accounts	12	35.3
Competition – Bancassurance is largely done by established banks that are able to use large resources in marketing as opposed to smaller institutions	9	26.5
Confidence – clients tend to develop a lot of confidence dealing with banks compared to when they deal with agents/intermediaries where some have a lot of suspicion.	12	35.3
Loss of clients to major banking institutions that offer bancassurance and other bank products i.e. school fees loan, salary advance and overdrafts	13	38.2
Loss of business to banks as agents tend to look for higher perks than insurance companies	8	23.5
Mode of payment – banks offer check-off system, the insurance companies use the cash and carry more of payment	15	44.1
Loss of business to major banks as they offer other	13	38.2

services e.g. loans to clients e.g. salary advance		
Reduction of profit margin of the company as most clients are serving their own banks	11	32.3
Bancassurance are more advantage because the very clients whose money they transact and bank for are just on their territory.	9	26.5
Easy payment- most banks offer premium payment schemes and charge interest as a way of convincing clients to take insurance through them	11	32.4

Findings of the study show that the major challenges faced by insurance agents due to the adoption of Bancassurance include the following: loss of business resulting to reduced profits, increased competition and suspicions amongst the agents them selves, which hinders mergers.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents conclusions drawn from the research findings and the recommendations for practice and for further studies.

5.2 Conclusions

Findings of the study indicate that the strategic responses which have been employed by insurance Agencies in Kisumu to cope with the adoption of Bancassurance include the following:

Acceptance of the changes occasioned by adoption of Bancassurance and doing nothing about it; transfer; avoid; and reduce. Others are: analysis of the institutions and its clients; mergers, amalgamations and acquisitions; insurance intermediaries; continuous investment in new equipment and system upgrade; continuous capacity building of staff; clients education on dealing with insurance agents; networking and collaboration with other insurance agents; investment in marketing activities; and development of new markets

The findings also indicate that the major challenges faced by the insurance agencies in Kisumu in implementing the strategic responses to Bancassurance include the following: loss of business resulting to reduced profits, increased competition and suspicions amongst the agents them selves, which hinders mergers.

Organizations and environments are considered not to be completely separated and independent from each other but, rather, to belong to the same continuum. This position, which contains a more complex representation of possible interactions between actors inside and outside the organization, introduces the idea of the construction of the environment. Meaningful environments are considered to be outputs of the process of organizing and not inputs to it: the process of organizing implies the creation of the environment (Weick, 1979). This interpretative perspective connects knowledge and conduct, in the sense that the environmental context is made up of cognition, experiences, thoughts and actions (Smircich and Stubbart, 1985).

Deep understanding of the external environment, clear definition of strategic options, good marketing research, and strong investments in R&D, lean production infrastructure, and consistent financial support are some of the prescriptions postulated by the specialized literature. It is fair to say that these precepts, to a higher or lower degree, still hold for some industries.

Environmental changes have serious economic effects and are of great concern for organizations that would wish to be ahead of competition. Environmental forces affect the types of products developed, the nature of positioning and market segmentation strategies, the types of services offered, and the choice of business to acquire or sell. Identifying and evaluating environmental opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives.

5.3 Limitations of the study

The focus on insurance agencies in Kisumu city only could be a limiting factor, and may thus not be representative of the whole population of insurance agents in Kenya. The findings may, therefore not be generalized. However, the sampling technique used ensured that each respondent had a non-zero chance of being selected to participate in the study. Though there was determination to undertake the study to completion within the given time frame, various constraints were encountered as earlier envisaged. The time allocated for data collection may not have been sufficient to enable the respondents to complete the questionnaires as accurately as possible, considering that they were at the same time carrying out their daily duties and priority is of essence. The preference was to administer the data collection tools to only the sampled respondents, however, this was practically not possible as some of them delegated this request since they were either too busy or were away on official duties.

5.4 Recommendations of the study

5.4.1 Recommendations for policy and practice

Based on findings of the study, it is expected that the stakeholders, who include insurance agents will gain a better understanding of the challenges emanating from changes in the business environment and possible responses to remain competitive. Well-developed and targeted responses are formidable weapons for the insurance in acquiring and sustaining a competitive edge following the adoption of Bancassurance in Kenya. Understanding the impact of environmental changes on the organizations could help practitioners in the field ensure that the insurance agents develop rational strategies to effectively respond to the changes in both internal and external environment. The following are measures are highly recommended:

Environmental scanning on a continuous basis: the acquisition and use of information about events, trends, and relationships in an organization's external environment, the knowledge of which would assist management in planning the organization's future course of action. The insurance agents ought to scan the environment in order to understand the external forces of change so that they may develop effective responses that secure or improve their position in the future. This will enable them to avoid surprises, identify threats and opportunities, gain competitive advantage, and improve long-term and short-term planning.

Strategic planning: Information derived from environmental scanning should be used to drive the strategic planning process by the insurance agents. There is research evidence to show that environmental scanning is linked with improved organizational performance. However, the practice of scanning by itself is insufficient to assure performance – scanning must be aligned with strategy, and scanning information must be effectively utilized in the strategic planning process. Coupled with the availability of information on external change, scanning can induce strategic, generative organizational learning.

5.4.2 Recommended areas of further research

The findings of this study, it is hoped, will contribute to the existing body of knowledge and form basis for future researchers. The following areas of further researcher are thus suggested: (i) whereas the current study focused on responses from the management of the insurance agents, future studies should focus on responses from the clients for insurance services. This will shed light on the kind of responses the clients employ when affected by changes in the business environment and (ii) Findings of the study should be replicated to other sectors of the economy. All sectors of the economy are affected by changes in the business environment. It would thus be important to know how they respond.

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APPENDIX I: QUESTIONNAIRE

This questionnaire has been designed to collect information from the Chief Executive Officers of selected insurance agents in Kisumu and is meant for academic purposes only. The questionnaire is divided into two sections. Please complete each section as instructed. Do not write your name or any other form of identification on the questionnaire. All the information in this questionnaire will be treated in confidence.

SECTION A: BACKGROUND INFORMATION

1. Please indicate the name of your organization (optional)____________________________

2. Please indicate the period of operation of the organization (Tick as appropriate)

(a) Less than 1 year ☐

(b) 1 to 5 years ☐

(c) 6 to 10 years ☐

(e) 16 years and above ☐

3. Please list the products/services you offer to the clients

____

____

____

4. How many full time employees does the organization have (Pleas tick as appropriate)?

(a) Less than 5 ☐

(b) 6 to 10 ☐

(c) 11 to 25 ☐

d) 26 to 30 ☐

(e) 30 and above ☐

SECTION II: STRATEGIC RESPONSES EMPLOYED BY INSURANCE AGENTS in KISUMU TO COPE WITH THE ADOPTION OF BANCASSURANCE

5. To what extent has the adoption of Bancassurance in Kenya affected operations of your organization? (Tick as appropriate).

Where (Very Much = 5; Much = 4; Somehow = 3; Slightly = 2; and Not at all = 1)

(a) Very Much ☐

(b) Much ☐

(c) Somehow ☐

d) Slightly ☐

e) Not at all ☐

6. Please indicate the extent to which you agree/disagree with the statement “the adoption of Bancassurance in Kenya has led to the market for insurance services to be

oversupplied and margins for the companies are being depressed in a highly competitive market place”. (Tick as appropriate).

Where (Strongly agree = 5; Agree = 4; Somehow agree= 3; Disagree = 2; and Strongly disagree = 1)

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

d) Disagree ☐

e) Strongly disagree ☐

7. Presented below are some of the possible strategies that have been implemented by insurance agents in response to banassurance. Please indicate the extent to which your organization has used each of the listed strategies to help them mitigate the impact of adoption of bancassurance in Kenya. (Please rate as appropriate)

Where (Strongly agree = 5; Agree = 4; Somehow agree= 3; Disagree = 2; and Strongly disagree = 1)

7.1 Active Strategic Responses

7.1.1 ***Accept:*** Accepting a business risk means doing nothing to avoid it. This response is based on a conscious decision that the costs of other responses outweigh the potential benefits or that the risk is acceptable

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

(d) Disagree ☐

(e) Strongly disagree ☐

7.1.2 ***Transfer:*** Transferring the business risk to another party alleviates management's responsibility for managing it. Examples of this response are buying insurance and outsourcing.

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

(d) Disagree ☐

(e) Strongly disagree ☐

7.1.3 ***Avoid:*** Avoiding the business risk is a decision to change a business objective because no other response can reduce the business risks to an acceptable level in a cost-effective manner.

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

(d) Disagree ☐

(e) Strongly disagree ☐

7.2 Passive Responses

7.2.1 ***Reduce:*** Reducing the business risk means reducing either the likelihood of its occurrence or the magnitude of its impact. Management usually establishes an effective control environment to reduce business risks.

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

(d) Disagree ☐

(e) Strongly disagree ☐

7.3 Other responses

7.3.1 Analysis of the institution and its clients, and the foresight and strategic planning to implement new activities that will strengthen the intermediary's performance in this difficult environment.

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

(d) Disagree ☐

(e) Strongly disagree ☐

7.3.2 Mergers, amalgamations and acquisitions have been undertaken on a large scale in order to gain size and to focus more sharply on competitive strengths.

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

(d) Disagree ☐

(e) Strongly disagree ☐

7.3.3 Insurance intermediaries have had to either merge or transform into insurance companies so as to effectively compete in the already crowded market.

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

(d) Disagree ☐

(e) Strongly disagree ☐

7.3.4 Continuous investment in new equipment and upgrade our systems in order to cope with technological changes.

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

(d) Disagree ☐

(e) Strongly disagree ☐

7.3.5 Continuous capacity building of staff to ensure that the organization is able to adapt to any changes occasioned by bancassurance.

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

(d) Disagree ☐

(e) Strongly disagree ☐

7.3.6 Enhanced clients education on the importance of dealing with insurance agents that operate legally so that they avoid being exploited by illegal operators.

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

(d) Disagree ☐

(e) Strongly disagree ☐

7.3.7 Enhanced networking and collaboration with other insurance agents to enjoy synergy instead of looking at them as enemies when there is competition.

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

(d) Disagree ☐

(e) Strongly disagree ☐

7.3.8 Continuous investment in marketing activities, which includes advertising, heavy personal selling, publicity, new product development so as to remain competitive.

(a) Strongly agree ☐

(b) Agree ☐

☐

(c) Somehow agree

(d) Disagree ☐

(e) Strongly disagree ☐

7.3.9 Development of new markets to expand reach and remain competitive.

(a) Strongly agree ☐

(b) Agree ☐

(c) Somehow agree ☐

(d) Disagree ☐

(e) Strongly disagree ☐

8. Please list and briefly explain the challenges faced by your organization in implementing the strategic responses to bancassurance.

____

____

____

____

____

____

____

THANK YOU!

APPENDIX II: LIST OF GENERAL INSURANCE AGENCIES IN KISUMU

1.	Abbas Gullab Insurance Agency
2.	Bellamy Insurance Agency
3.	Beyo Insurance Agency
4.	Bonsan Insurance Agency
5.	Celtic Africa Insurance Agency
6.	Chejipe Insurance Agency
7.	Colinet Insurance Agency
8.	Daiga Insurance Agency
9.	Daserwa Insurance Agency
10.	Deregs Insurance Agency
11.	Fedential Insurance Agency
12.	First Class Insurance Agency
13.	Gambogi Insurance Agency
14.	Geobridge Insurance Agency
15.	Gilmax Insurance Agency
16.	Goda Insurance Agency
17.	Greyhorn Insurance Agency
18.	G and B Insurance Agency
19.	Honsafe Insurance Agency
20.	Jimbo Insurance Agency
21.	Johncele Insurance Agency
22.	Jokanyanam Insurance Agency
23.	Jonya Insurance Agency
24.	Josam Prime Time Cosultants
25.	Kamina Insurance Agency
26.	Kossam Insurance Agency
27.	Momaci Insurance Agency
28.	Naricom Isurance Agency
29.	Nepstar Insurance Agency

30.	Nevic Insurance Agency
31.	Nickshield Insurance Agency
32.	Nyanam Insurance Agency
33.	Rangers Africa Ins. Agency
34.	Rarieda Insurance Agency
35.	Samjoy Insurance Agency
36.	Samsu Insurance Agency
37.	Sanviv Emporium Insurance Agency
38.	Top Up Insurance Agency
39.	Vinstar Insurance Agency
40.	Wema Insurance Agency
41.	Winam Insurance Agency
42.	Zefo Insurance Agency