

**DETERMINANTS OF ADOPTION OF BANC-ASSURANCE BY COMMERCIAL  
BANKS IN KENYA**

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**D61/68371/2011**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTER IN BUSINESS  
ADMINISTRATION, SCHOOL OF BUSSINESS UNIVERSITY OF NAIROBI.**

**NOVEMBER 2013**

## DECLARATION

This Research Project is my original work and has not been submitted to any other University for academic award.

Sign.....

Date.....

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This Research Project has been submitted for examination with my approval as the University supervisor.

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## **DEDICATION**

This project work is dedicated to my family members for their support when I was writing this project.

## **ACKNOWLEDGEMENTS**

This project would not have been successful without the invaluable contributions and support of people who I owe gratitude. Though I will not be able to list all those who were of help to me during the process of my studies and research, I would like to acknowledge with appreciation, the following people who made this research possible, but above all, I thank the Almighty God for His favour and blessings throughout my studies and my entire life. Thank you Lord.

My sincere thanks go to my supervisor, Dr. J. Aduda, Head of Department Accounting and Finance and my research supervisor whose invaluable contribution and guidance helped develop the simple idea I had into a researchable topic and finally to this completed project. It was a great learning experience.

Above all I owe a lot to my classmates, Vincent, Ronald, Kevin and Morris. They deserve special recognition. We burnt the midnight oil together; they nursed my frustrations and offered company on weekends and holidays as we struggled to beat deadlines.

I am indebted to my Mother Ms. Veronica Adhiambo You taught me that I have to be a master of my destiny. Thank you for your love and prayers.

I acknowledge those words of support from my colleagues at work Benson, Slifanos and Richard.

God bless you all.

## **ABSTRACT**

The study examined the determinants of adoption of Banc assurance by Commercial Banks in Kenya. The specific objective was guided by the influence of new revenue flow on adoption of Banc-assurance; the influence of business diversification on adoption of Banc-assurance; the effects of economies of scope on adoption of Banc-assurance by Commercial Banks in Kenya.

The target population drawn from the 43 licensed commercial banks which comprise of 6 large banks, 15 medium sized banks and 22 small banks (Central Bank of Kenya Supervision Report, 2011). There is a significant relationship between adoption of Banc assurance by commercial Banks and Bank profitability, market share, bank sales and effective utilization of available resources. On the relationship between adoption of Banc assurance by commercial and determinants of adoption of Banc assurance, the study established that adoption of Banc assurance by commercial banks is influenced by need for new revenue stream, business diversification and economies of scope and that there is a significant positive relationship between need for new revenue stream, business diversification and economies of scope and adoption of Banc assurance by commercial banks.

The determinant factor of the banc-assurance concept is to in the need of the banks and insurance companies to optimize its structure and the efficiency of the channels of distribution. If financial institutions are looking for additional income through turning to good account the potential of the territorial network, based on their own marketing policy, the insurance companies are interested in diversifying the possibilities of the traditional distribution, with no significant capital investment, thus a larger number of potential clients access the offered products and services

An important influence on the adoption and implementation of the Banc assurance business is the tight integration of the sales force into the branch network so as to effectively sell a broad range of products hence banks need to invest in training in banking, insurance and investment product knowledge so as to enhance the sales process.

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## **LIST OF ABBREVIATIONS**

Banc-assurance - Banc-assurance.

RBV- Resource based view

# CHAPTER ONE

## 1.0 INTRODUCTION

### 1.1 Background

This chapter examines the background information to the study, the statement of the research problem and the purpose of the study. The research objectives, research questions, and value of the study and scope are also discussed.

### 1.1 Adoption of Banc-assurance by Banks

Banc-assurance is a French word meaning the selling of insurance products by banks through their own distribution channels. The word is a combination of "banque or bank" and "assurance" signifying that both banking and insurance is provided by the same corporate entity (Florido 2002) Banc-assurance is can be defined as, any level of cooperation between banks and life insurance companies in selling their products to their target customers. Bancassurance is the evolution of the traditional financial sector by utilizing alternative distribution channels to push a particular financial product onto customers

Munich Re (2001) points out that Banc-assurance is the provision of insurance and banking products and services through a common distribution channel and/ or to the same client base. Naturally, as the financial sector has struggled globally to sustain any real growth, corporations have not only looked into alternative distribution channels but also developed new, or bundled, financial products leading to the innovation of Banc-assurance which is a unique financial product. Banks have added insurance to its range of services to make the bank a one-stop financial shop.

According to Focus (2005), the first countries to venture into the field were Spain and France. In the early 70s, ACM (Assurances du Crédit Mutuel) Vie et IARD (life and general insurance) were officially authorized to start operations, a watershed event in the history of insurance. It was their idea to bypass the middleman for loan protection insurance and to insure their own banking customers themselves. They thus became the precursors of what – 15 years later – would become “Banc-assurance”.

For their part, the Spanish banks began adopting banc-assurance in the early 1980s, when the Banco De Bilbao Group acquired a majority stake in Euroseguros SA (originally La Vasca Aseguradora SA, incorporated in 1968). Today, the top five Spanish banc-assurance

companies control one third of the market (Vida Caixa, BBVA, SHC Seguros, Aseval, Mapfre Vida). In 1989, AG – Belgium’s leading insurance company – and Générale de Banque, created Alpha Life. One year later, the big Dutch insurance company AMEV N.V., and VSB, a Dutch bank, went into business together. In the same year, they were joined in the first cross-border merger by AG Group, thereby creating the Fortis Group. In Europe, Germany and Italy took much longer to get involved, as did Asia, where bancassurance only really began to attract existing Korean banks after government authorization in 2003 (Fiordelisi & Ricci, 2009). In 2004, Fortis signed a contract in Thailand with Muang Thai Group for life and non-life policies, in the process taking a 25% stake in Muang Thai Life Insurance. Fortis, which was seeking to extend the bancassurance model to Asia, already had partnerships in Malaysia and China (Florido, 2002).

The bancassurance concept has now attracted more bank and the big financial players who have begun to set up subsidiaries or joint ventures, thereby introducing the model into their respective countries (Karunakaran, 2006). However, exporting the banc-assurance concept is no easy matter. Setting up in places where markets are already fairly mature and highly competitive calls for significant competitive advantage. Apart from this difficulty, potential exporters will need to be highly adaptable to adjust to local regulatory conditions and consumer habits (Capgemini, 2006).

### **1.1.2 Determinants of Banc-assurance Adoption**

Banks have a problem of rejuvenating their dwindling revenues, which have been stalled for several years, held back by financial crisis, massive credit losses, and restrictive new regulations (Karunakaran, 2006). The usual initiatives to boost revenue that have worked for banks in the past which include raising fees and raising fees are unable to provide sustainable growth and profitability in the face of disruptive environment. Across the banking industry, in every asset category, net interest margins have been sliding consistently downward. Although net interest margins remain the single largest contributor to revenue in banks, this dramatic slide has taken a big portion out of their revenue stream. Non-interest income, the other large element of banking revenue, has likewise stalled. As margins have dropped, banks have increasingly relied upon non-interest income to supplement their revenue, but here, too, revenue has hit a plateau. In seeking for new revenue streams banks have adopted Banc-assurance as a way of creating a new revenue streams (Nazeer, 2006)

Banks have sought to diversify their product portfolio in the face of increased competition, dwindling revenues and a dynamic business environment so as to: reduce risk of relying on only one or few income sources, avoiding cyclical or seasonal fluctuations by producing goods or services with different demand cycles, achieving a higher growth rate, and countering a competitor by innovating through adoption of related product portfolio. Banking institutions and insurance companies have found bancassurance to be an attractive- and often profitable complement to their existing activities (El pash, 2012). By entering insurance and expanding non-interest-income (fee income), banks can diversify some of their net interest rate margin risk without sacrificing profitability. The perceived benefits of diversification include synergies from scope economies, efficiency gains and profit-enhancing cross-selling opportunities. Furthermore diversification may allow financial services firms to decrease insolvency risk due to the lower correlation of profits arising from a more diverse range of financial activities (Smit & van der Lugt, 2000).

Bancassurance rose out of the realization that joint bank and insurance products can be better for the customer as they provide more complete solutions than traditional standalone banking or insurance products (Benoist, 2002),. According to Donne (2003), the marriage between banks and insurers has the effect of expanding the scope of economies of both parties , that is : ability to tap into banks' extensive customer base; reduced reliance on traditional insurance agents by making use of the various channels owned by banks; shared services with banks; development of new financial products more efficiently; establishing market presence rapidly without the need to build up a network and access to additional capital to improve their solvency and expand business.

### **1.1.3 Relationship between Determinants of Adoption and Banc-assurance**

According to Genetay and Molyneux (1998) the emergence of Banc-assurance was determined by the need to increase the economies of scope arising from gains through concentration of risk management, administration functions, and integrated product development; marketing economies in the common delivery of different services; better information access and sharing of information across different product groups; reputational and pecuniary capital to be shared across different products and services; and enhanced potential for risk management through diversification gains. On the consumption side,

economies of scope may derive from: the potential for lower search, information, monitoring and transaction costs; negotiating better deals because of increased leverage; and lower product prices in a more competitive environment.

According to Munich (2001) intense competition between banks, against a background of shrinking interest margins, has led to an increase in the administrative and marketing costs and limited the profit margins of the traditional banking products. These factors encompass crucial elements of change in the competitive environment of banks. In fact the general changing economic situation has reduced bank net interest margins and forced banks to depend more on noninterest income as a source of income. For the banks, income from bancassurance provides a viable non interest based income (Carow, 2001). Banks have come to view Bancassurance as providing them with an alternative source of revenue stream. By selling the insurance product by their own channel the banker can increase their revenues (Fiordelisi & Ricci, 2009)

According to Capita (2006), Banks achieve economies scope in the provision of insurance products. First, they have much better information on individual consumers seen as key to pricing risk effectively. Secondly, banks may be able to bring enormous economies of scale, particularly if they have a major network. According to Benoist (2002), insurance products can bring immediate added value to a retail bank's customer service process and the bank sales force can sell them effectively; Analysis of available information on the customer's financial and social situation can be of great help in discovering customer needs and promoting or manufacturing new products or services; The realization that joint bank and insurance products can be better for the customer as they provide more complete solutions than traditional standalone banking or insurance products; Banks are used to having long-term relationships with their customers as this allows similar skills to be practised and the bancassurer can make use of the best that each partner has to offer (Focus, 2005).

### **1.1.1 Banc-assurance and Banking Environment in Kenya**

The banking environment in Kenya is comprised of 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 5 representative offices of foreign banks, 115 foreign exchange bureaus and 2 credit reference bureaus.

Banc-assurance has been embraced by Most commercial banks in Kenya such as Equity Bank, National bank and Family Bank .These banks have added insurance to its range of

services to make the bank a one-stop financial shop. Insurance is an obvious diversification for banks to enhance revenues and profitability. The close relationship with customers will make it easy for the bank staff to present insurance as part of the financial planning and wealth management strategies of customers. The marginal cost of using bank personnel to promote insurance products may be much less than the costs of having agents prospecting for new clients. Additionally the banks can then earn commission from insurance sales and this can provide a good return for a relatively low amount of additional work.

In Kenya the banc-assurance in Kenya is subset of the banking industry, most banks in Kenya has adopted the banc-assurance model through creation of subsidiaries or departments to drive the uptake this innovation. Conversely, to exploit their strong customer base, banks have created counters within their halls where they cross-sell insurance products besides other banking products to their customers who are devoid of such essential plans or are willing to set up their own insurance plans. In Kenya, banc-assurance is governed by the Prudential Guideline on Banking issued by the Central Bank and which became operational on 1st May 2010, and partially by Insurance Act.

## **1.2 Research Problem**

Relative to banking services which has recorded high absorption rate, the penetration of other financial services, especially insurance has been dismal. Subsequently, insurance companies in arrangement with commercial banks have rolled out a revolutionary concept: banc-assurance. This has offered opportunity to the banking sector which has hitherto been struggling to sustain real growth, to take on alternative distribution channels or develop new, or bundled, financial products. The adoption of bancassurance innovation by some banks in Kenya is based on issues which must be known so that they can best leverage on the same to secure profits

According to Carow (2002) mergers between banks and insurance companies resulted in a positive wealth effect for institutions there likely to increase stock price, while the returns of small banks, will also significantly increase, Munich Re (2001) indicated that the reasons why banks have decided to enter the insurance include: intense competition; customer preferences and need for more efficient utilization of branches and bank employees. Benoist (2002), argue that life insurance products can bring immediate added value to a retail bank's customer service process and the bank sales force can sell them effectively;

Related studies done in the past have focused on various aspects of Banc-assurance for example according to Nazeer, (2006) Banc-assurance shows a mutual relationship between the banks and insurance companies in which the relationship can be amazingly complemented to each other's strength and weakness. Staikouras (2006) acknowledges that, Banc-assurance has been growing more rapidly in Europe than banking-securities combinations however Gakure and Ngumi (2013) observe that even though the number of banc-assurance is increasing rapidly over these past few years, but relatively its adoption rate is still low. Limited studies have been done in Kenya to examine the determinants of adoption of Banc-assurance innovation by Commercial Banks. This study therefore seeks to answer the question: How does new revenue stream business diversification and economies of scope influence the adoption of Banc-assurance innovation by Commercial Banks?

### **1.3 Objectives of the Study**

The objective of this study was to examine the determinants of adoption of Bancassurance by Commercial Banks in Kenya

#### **1.3.1 Specific Objectives**

The following specific objectives that guided the study:

- i) To examine the influence of new revenue flow on adoption of Banc-assurance by Commercial Banks in Kenya
- ii) To investigate the influence of business diversification on adoption of Banc-assurance by Commercial Banks in Kenya
- iii) To establish the effects of economies of scope on adoption of Banc-assurance by Commercial Banks in Kenya

### **1.4 Value of the Study**

In theory the study will add and enrich the existing body of knowledge on adoption and performance of Banc-assurance innovation by commercial banks not only in Kenya but other regions in the face of increased competition, assertive customers and new regulatory environment. The study will further provide the background information to research organizations and scholars and identify gaps in the current research for further research.

In practice the study will be significant to both the banking and insurance sector because they will be able to understand the determinants of adoption of Banc-assurance innovation by commercial banks in this way they can be able to leverage on them to improve their profitability while addressing effectively the negative aspects. The findings of the study will assist central bank of Kenya in formulating regulations, guidelines and policies to facilitate conducive environment in which banks can adopt the Banc-assurance innovation so as to increase financial products within the sector. The finds of the study will provide information and advise on the possible information and advise on the possible opportunities that commercial banks can use to expand, reach and availability of banc-assurance.

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

In this chapter, literature, which is related to and consistent with the objectives of the study, is reviewed. Important theoretical and practical problems are brought out; relevant literature on the aspects pertaining to determinants of adoption of Banc-assurance innovation by Commercial Banks in Kenya

#### **2.2 Theoretical Framework**

##### **2.2.1 Banc-assurance Model**

The Banc-assurance model shows the ways in which the banks and insurance companies enter into Banc-assurance. It refers to the operating structures for the banks to market insurance products (Smit and Lugt 2000; Swiss Re No.7/2002; Florido 2002; Nigh and Saunders 2003). The choice of a suitable model depends on the related laws of nations and the objective conditions of both players. However, the simplest structure of Banc-assurance is through a distribution agreement. Integrated Banc-assurance has developed in parallel to the dramatic expansion of the European life insurance market since the mid-1980s. This expansion has relied mostly on savings-type insurance products, a significant portion of which are very close to traditional banking products such as fixed-income securities or mutual funds. Europewide, Banc-assurance has been far more successful selling savings-type products than risky products such as those relating to longevity or disability.

There is no single way of entering into Banc-assurance which is “best” for every insurer and every bank, Munich Re (2001). The choice of a suitable Banc-assurance model depends on the particular cultural and regulatory environment of the host country. As in all business situations, a proper strategic plan drafted according to the company’s internal and external environmental analysis and the objectives of the organization is necessary before any decision is taken. There are many ways of entering into Banc-assurance. The best way of entering Banc-assurance depends on the strengths and weaknesses of the organization and on the availability of a suitable partner if the organization decides to involve a partner.

## **2.3 Theories of Banc-assurance.**

### **2.3.1 Merger Model**

Several theories have been put forward to explain merger waves. lambrecht (2004) examines mergers motivated by operational synergies and predicts pro-cyclical mergers in his model, mergers are likely to happen in periods of economic expansion. maksimovic and phillips (2001) show that mergers and asset sales are more likely following positive demand shocks, causing pro-cyclical merger and acquisition waves in perfectly competitive industries. Higher quality firms buy lower quality ones when the marginal returns from adding capacity are great enough to outweigh decreasing returns to managerial skill.

In lambrecht and myers (2006), takeovers serve as a mechanism to force disinvestment in declining industries. Their arguments lead to takeover transactions occurring mostly in industries that have experienced negative economic shocks. In shleifer and vishny (2003), rational managers exploit the misvaluation of less-than-rational investors. rhodes-kropf and viswanathan (2004) and rhodes-kropf, robinson and viswanathan (2006) show theoretically and empirically that merger activity is correlated with high market valuations, causing overvalued bidders to make stock bids that are more likely to be accepted by targets.

According to coase (1937) a firm must decide between internal or external production. Transaction costs within and outside firm determine decision on firm size and merger. williamson (1985) goes a step further by defining the transaction cost as a function of “transaction frequency” and “asset specificity. vertical integration is only optimal when “asset specificity” and “transaction frequency” are high market structure is the best alternative when “asset specificity” is low

### **2.3.2 The efficiency Theory**

The emergence of Banc-assurance contributed to overall efficiency, an increase in economies of scope and an increase in productivity of both banks and insurance companies in some of the European countries. Swiss Re, (No.7/2002) reported, that Banc-assurance has led to lower, or stable distribution cost compared with agents in Asia. Economies of scope may arise from both the production and consumption of financial services (Saunders and Walter, 1994). A larger scale production of elements common to these various financial services can lead to cost advantages through economies of scale. Several specific cost advantages which have been identified include: gains through concentration of risk management, administration

functions, and integrated product development; marketing economies in the common delivery of different services; better information access and sharing of information across different product groups; reputational and pecuniary capital to be shared across different products and services; and enhanced potential for risk management through diversification gains

### **2.3.3 The Resource-Based View**

The resource-based view (RBV) emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analyzing sources of competitive advantage (Barney, 1991; Peteraf & Barney, 2003). First, this model assumes that firms within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control. Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms (i.e., some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate).

Resource heterogeneity (or uniqueness) is considered a necessary condition for a resource bundle to contribute to a competitive advantage. The argument goes "If all firms in a market have the same stock of resources, no strategy is available to one firm that would not also be available to all other firms in the market" (Cool, Almeida Costa & Dierickx, 2002). Like the Chicago School tradition, the RBV is an efficiency-based explanation of performance differences (Peteraf and Barney, 2003). "Performance differentials are viewed as derived from rent differentials, attributable to resources having intrinsically different levels of efficiency in the sense that they enable the firms to deliver greater benefits to their customers for a given cost (or can deliver the same benefit levels for a lower cost). The assumed heterogeneity and immobility are not, however, sufficient conditions for sustained competitive advantage. According to Barney (1991), a firm resource must, in addition, be valuable, rare, and imperfectly imitable and substitutable in order to be source of a sustained competitive advantage. In her 1993's paper, Peteraf presents four conditions underlying sustained competitive advantage: superior resources (heterogeneity within an industry), ex post limit to competition, imperfect resource mobility and ex ante limits to competition.

### **2.3.4 Diffusion Innovation Theory**

This framework is adopted from the 'innovation diffusion' model by Roger (1995). Rogers developed the off-cited "diffusion of innovation theory. Rogers (1995) defined diffusion as

the adoption of an innovation ‘over time’ by the given social system as a consequence of diffusion processes, which result in the acceptance or penetration of a new idea, behaviour, or physical innovation. Innovation diffusion theory suggests that the level of the individual user is also important. Therefore, Roger (1995) divided technology or innovation adopter into five groups according to their speed of uptake, which are innovators, early adopters, early majority, late majority, and laggards (Pahnila, S., 2006). Rogers (1995) estimate that early adopter and innovator are more likely to manifest risk- taking as well as being wealthier and more educated than the norm (Adrew Dillion, 2001).

### **2.3.5 Taxation Theory**

Tax legislation can favour banc-assurance development. There are notable country examples in Europe where banc-assurance took off as a consequence. They are mostly characterized by certain favourable tax regimes. These are respectively; France, Italy and Spain. Together with Portugal they form part of the so-called ‘Latin-Europe’ region in which banc-assurance prospers. Tax incentives appeared to be stimulating the development of banc-assurance amidst a low level of regulation. France, for instance left life insurance products eligible for tax deductibility up till 1995. The tax advantages, comprised; exemption from inheritance tax, absence of tax from capital gains after eight years and deductibility of taxes up to 25 per cent of life insurance premiums. Italy and Spain showed similar tax benefits.

### **2.4 Empirical Review**

Gakure and Ngumi (2013) in their study whose objective was to determine the influence of bank innovations on the income of commercial banks in Kenya, used descriptive survey research design. The target population comprised forty four commercial banks in Kenya. The accessible population was twenty banks which were conveniently sampled. The sampling frame for this study was derived from the list all the licensed commercial banks and mortgage finance institutions in operation in Kenya as at December, 2011 as they appear in the Central Bank of Kenya website database. The respondents were stratified into senior and middle management employees and stratified random sampling was conducted in identifying the respondents. Questionnaires were used to obtain qualitative data for analysis. Primary data was collected through the administration of questionnaires to senior and middle management employees. Secondary data was obtained from the Central Bank of Kenya.

The study used multiple linear regression analysis to test the statistical significance of the various independent variables (automated teller machines, debit and credit cards, point of sale terminals, mobile banking, internet banking and electronic funds transfer) on the dependent variable of total income. The findings reveal that bank innovations have a moderate influence on the income of commercial banks in Kenya. Since technological innovation is aggressively and continuously adopted in Kenya, the government should continue to provide more incentives for research and development to researchers to continue investing their time and skills in discovering more bank innovations. It is recommended that the government also pursues a strategy to provide incentives for technology transfer from more developed economies in order to promote the adoption of world class innovations. More incomes for the banks due to adoption of innovations translates to more jobs and improvement of the country's gross domestic product and therefore contributing to the overall macroeconomic goals of the government. A further study can therefore be conducted on the contribution of bank innovations to the macro targets of the government.

In his study on whether Banc-assurance add value to banks and Insurers in Saudi Arabia; El pash (2012) focused on specific areas of Banc-assurance business model, which are the Driving Factors of Banc-assurance, Banc-assurance Model, Banc-assurance Disadvantages, and The Banc-assurance Success Factors with the aim of understanding how a Bank and an Insurer under the partnership business model in KSA are viewing these areas. The study attempted to answer four questions related to Driving Factors of Banc-assurance, Banc-assurance Model, Banc-assurance Disadvantages, and The Banc-assurance Success Factors. A number of Banc-assurance managers from a Bank and an Insurance company, who adopted the Banc-assurance partnership business model, were interviewed to understand their views to the specific areas of this research project.

The findings of the study indicated that there is a lack of understanding for the definition of the Banc-assurance, a limited knowledge for the driving factors of Banc-assurance, short term vision for the strategic relation and unclear awareness of the key success factors. Banks and Insurance companies in KSA need to move beyond the early stage toward a more integrated business model. To have a successful implementation of the Banc-assurance strategic relation, both parties need to have a clear understanding of the definition of Banc-assurance. After that, they both need to identify their driving factors for forming this strategic relation.

Chein, Boon and Yittjia (2012) in their study on user acceptance of Banc-assurance in Malaysia, they examined the effects of innovation attributes on bancassurance products and determined the factors that influence customers' acceptance towards the new products. Rogers' Five Factors have been adopted to measure the user acceptance of banc-assurance. The target population was 450 respondents from three states of Malaysia who participated in the study by answering a structural questionnaire. The analysis of the result revealed that only three of the Roger's five factors emerged to be of significance to the user acceptance, namely relative advantage, trial ability and observability.

Loechel and Brost (2010) in their study on the benefits and costs of integrated financial services providers aimed at reviewing the theoretical findings and empirical evidence of the benefits and costs of integrated financial services providers (IFSP) and draw inferences of developing IFSP in emerging markets with special consideration on China. Managers in insurance companies and banks were interviewed on the subject matter. The target population w The study concluded that the evaluation of the integration or segregation of financial institutions should always be embedded in the regulatory and managerial context. The existing dominance of banking institutions in emerging national economies with the co-existence of underdeveloped capital markets can be leveraged for capital market innovation if lending, underwriting and brokerage services are available under one roof for the current client base. Cross-selling of banking and insurance products through banc-assurance can better serve retail clients with comprehensive advisory for sophisticated life-time financial planning and can better complement the undeveloped social security system in emerging countries.

In their study on Banc-assurance efficiency gains in the insurance industry, Fiordelisi and Ricci (2009) focused on the efficiency in the Italian life insurance industry aiming to assess if banc-assurance firms outperform other companies. The study provided a comprehensive view of the phenomenon adopting both an ownership and a distributional perspective. Stochastic Frontier Analysis is applied including some firm specific factors to avoid possible estimation bias deriving from sample heterogeneity. Evidences in favour of banc-assurance are significant only from the cost side; furthermore, high financial content products appear less profitable than traditional insurance. As a consequence, subjects involved should carefully adjust the product mix and choose the organisational model, considering also flexible and reversible forms of cooperation.

In an empirical study on the existence of economies of scope between banking and insurance service Carow (2002) analyzed the Citicorp - Travelers Group merger that increased the prospects for new legislation removing the barriers between banking and insurance. He found that the merger resulted in a positive wealth effect for institutions and that life insurance companies and large banks had significant stock price increases, while the returns of small banks, health insurers, and property/casualty insurers were insignificantly different from zero.

In a study conducted by Estrella (2001) examined direct measures of potential diversification gains from consolidation of financial firms. The study population was drawn from financial firms and the study used regression statistics to analyse data. His results indicate that there may be bilateral diversification gains from mergers involving the banking and insurance industries. Estrella (2001) points out that these gains are not limited to life insurance as suggested by the previous authors, but extend to nonlife insurance companies, which actually lead to larger diversification gains than with life insurance companies. He also shows that life insurance and nonlife insurance have relatively large correlations with regard to each other, but also with regard to large banks. One of the main reasons that banking-insurance combinations enhance diversification is not lack of commonality, but that the insurance industries are already highly diversified compared to other financial sectors.

## **2.6 Determinants of Adoption of Banc-assurance Innovation**

### **2.6.1 New Revenue Flow**

According to Munich (2001) intense competition between banks, against a background of shrinking interest margins, has led to an increase in the administrative and marketing costs and limited the profit margins of the traditional banking products. These factors encompass crucial elements of change in the competitive environment of banks. In fact the general changing economic situation has reduced bank net interest margins and forced banks to depend more on noninterest income as a source of income. For the banks, income from banc-assurance provides a viable non interest based income (Carow, 2001).

Banks have come to view Banc-assurance as providing them with an alternative source of some profit (Fiordelisi & Ricci, 2009). By selling the insurance product by their own channel the banker can increase their income. Banks the selling of insurance within the banks lead to

the development of sales culture in the banks. This helps bank in improving its own sale of financial products (Jackson, 2010). Banks also see value in insurance business due to complementarity of products, fee income derived from the distribution of insurance and ease of recovery of advances in case of death of the borrower or destruction of properties (Donne, 2003).

Banc-assurance provides banks with increased return on assets (ROA). One of the best ways to increase ROA, assuming a constant asset base, is through fee income. Banks that build fee income can cover more of their operating expenses, and one way to build fee income is through the sale of insurance products. Several banks being promoters of the insurance companies also gain when valuation of those companies goes up due to synergies derived from banc-assurance (Karunagaran, 2006).

Increased competition and changing customer needs and preferences makes it difficult for banks to retain their customers. Indeed Porter's industry analysis (1985) identifies five main competitive forces, namely; Rivalry among firms, threat of new entrants, threat of substitutes, bargaining power of suppliers and bargaining power of customers. Banks have been threatened in their traditional business by new entrants from abroad and across industry boundaries, by substitute savings and credit services. At the same time, the bargaining power of both their suppliers of funds and their customers improved, as they showed more awareness of alternative sources and uses of funds. These combined factors increasingly put banks under considerable competitive pressures, thereby reducing profits (Loechel & Brost 2010). In parallel, the insurance industry experienced substantial growth rates and developed a range of products that included savings instruments that competed head-on with banks' traditional products. This has made the insurance industry an attractive alternative for banks seeking to diversify their earnings and make a more efficient use of their branch networks (Nigh, Mark & Saunders (2003).

Banks have face-to-face contract with their customers hence they need not to go any where for customers. They can directly ask them to take a policy. The Bankers have extensive experience in marketing and can easily attract customers & non-customers because the customer & non-customers also bank with the banks (Smit & van der Lugt, 2000).

### **2.6.2 Business Diversification**

Banking institutions and insurance companies have found banc-assurance to be an attractive- and often profitable complement to their existing activities (El pash, 2012). The perceived benefits of diversification include synergies from scope economies, efficiency gains and profit-enhancing cross-selling opportunities. Furthermore diversification may allow financial services firms to decrease insolvency risk due to the lower correlation of profits arising from a more diverse range of financial activities (Smit & van der Lugt, 2000).

Banks can differ markedly in their sources of income. Some focus on business lending, some on household lending and some on fee-earning activities. Increasingly, however most banks are diversifying into fee-earning activities and this diversification across various sources of earning is welcomed as it reduces risk, depending on how independent of each other the various earnings sources are (Fiordelisi & Ricci, 2009).

In the face of declining net interest margin banks have entered new product areas over the past two decades, moving from traditional lending to areas that generate non-interest revenues. The change is of importance for financial stability. The more unstable is a bank's earnings stream, the more risky the institution is. The conventional wisdom in the banking industry is that earnings from fee-based products are more stable than loan fee-based activities reduce bank risk via diversification (Jackson, 2010).

The banking sector apart from the relying on traditional sources of revenue like, loan making are also focusing on the activities that generate fee income service charges, trading revenue and other types of non-interest income. Now-a-days non-interest income plays an important role in banking revenue in the development world (Huizinga, 1993).

For medium-term and long-term investments there is a trend away from deposits and toward insurance products and mutual funds where the return is usually higher than the return on traditional deposit accounts (Jackson, 2010). Banc-assurers have understood that off-the-shelf insurance products would not be successful with their mass-market customers. Banc-assurers customize policies not only to meet the basic needs of their customers, but also to standardize the sales process by making products easy for both customers and salespeople to understand (Karunagaran, 2006).

The bank and insurance combination provides significant benefits in terms of risk diversification and mitigation (Nigh, Mark & Saunders, 2003). Pure insurance risks (such as frequency and claim risks in non-life; longevity, mortality, and morbidity in life insurance) are not correlated with typical banking risks (credit, market). Operational risk and legal risk may not be of the same nature either. Some view banks' exposure to capital markets' upheavals, asset quality and concentration risks as high. They also estimate that banks' profitability is highly geared to the situation of interest rate curves (Robert, 2003).

However others positively point to the fact that: banks as having established, sophisticated risk-management techniques or increasingly use credit-transfer techniques; much better than insurance groups, as they display far less (equity) market risks (including on segregated accounts through guarantees linked to equity markets); capital markets activities of large banks are now so broad-based, diversified, and managed by state-of-the art risk-management principles that they tend to prove much more resilient than in the past. Banks in general show improved underwriting discipline (underscored by Basel II requirements). They can also rely on higher pre-provision profitability to absorb credit losses (Swiss Re, 2006).

The market decline in long-term interest rates has put extreme pressures on a number of insurers' balance sheets, as guarantees and options granted on some contracts have started to be in the money and significant provisions had to be accrued (Benoist, 2002). Comparatively, banks tend to have a much shorter duration of assets and liabilities (except for mortgages and some long-term saving plans), allowing them to re-price their assets and obligations more quickly than insurers. Synergies can be quite significant – in terms of profitability and economic capital adequacy – in asset and liabilities management. the negative exposure of the insurance industry's long-term business to a decline in interest rates can be mitigated by the lower interest rate sensitivity of a banking business (Capgemini, 2006).

### **2.6.3 Economies of Scope**

Banc-assurance has promised to combine insurance companies' competitive edge in the "production" of insurance products with banks' edge in their distribution, through their vast retail networks (Knight, 2006). Lewis (1990) explained that banks take advantage of economies of scale in portfolio management, which arises from the law of large numbers.

According to Benoist (2002), insurance products can bring immediate added value to a retail bank's customer service process and the bank sales force can sell them effectively; Analysis

of available information on the customer's financial and social situation can be of great help in discovering customer needs and promoting or manufacturing new products or services; The realization that joint bank and insurance products can be better for the customer as they provide more complete solutions than traditional standalone banking or insurance products; Banks are used to having long-term relationships with their customers as this allows similar skills to be practised and the banc-assurer can make use of the best that each partner has to offer; Banc-assurers can have a competitive advantage over traditional insurers (non-banc-assurers), derived from the provision of customer service through automated teller machines (ATMs). In particular the banc-assurer can provide its customers with an ATM card that can be used to gain access to any ATM and request information such as cash values, unit price, policy status, next premium due date, loan accounts and surrender values.

Donne (2003), elaborated on the advantages for the insurers in a Banc-assurance relationship on six aspects: ability to tap into banks' extensive customer base; reduced reliance on traditional agents by making use of the various channels owned by banks; shared services with banks; develop new financial products more efficiently in collaboration with their bank partners; establish market presence rapidly without the need to build up a network of agents and obtain additional capital from banks to improve their solvency and expand business.

However, Focus (2005) elaborated more two advantages for the insurance companies. Firstly, the insurance company often benefits from the trustworthy image and reliability that people are more likely to attribute to banks. Secandly, the insurance company also benefits from the reduction in distribution costs relative to the costs inherent in traditional sales representatives, since the sales network is generally the same for banking products and insurance products. Equally, Donne (2003) observed that banks have what insurers want: distribution, branch network, customer base, databases, regular contact

A close and strategic integration of the insurance business with the bank allows a bank to more fully control the design and development of both products and sales and administrative processes. Insurance and investment subsidiaries of successful Banc-assurers are not typically managed as separate, stand-alone businesses, but are managed as integral parts of the retail bank (Fiordelisi & Ricci, 2009).

The strength of the Banc-assurance model has been the tight integration of the sales force into the branches. sales professionals are trained to sell basic banking, insurance, and investment products (El pash, 2012). Experience from banks indicates that the best generalist salesperson can be as much as five times more productive than the average life insurance agent can. To prepare a generalist sales force to sell a broad range of products, successful Banc-assurers have invested in focused training in the sales process and insurance and investment product knowledge (Florido, 2002). Training also includes any necessary preparation for licensing examinations. Successful Banc-assurers set branch sales objectives that include both traditional and non-traditional bank products to encourage branch personnel to give the new products shelf space and to focus on those products that are the most profitable for the bank (Karunagaran, 2006).

Because of the close integration between their banking and insurance operations, Banc-assurers are able to reduce costs by sharing and leveraging resources across the two value chains (El pash, 2012). Banc-assurance operators have put the customer at the very heart of their thinking and development strategies. This means: Providing a full range of financial products and services (banking and insurance) through a single sales network; offering high-quality advice through readiness to listen and accurate information; and easy access to the service, sometimes 24/7, with telephone support centres or Internet platforms and providing know-how and follow-up as good as the best traditional insurance providers(Karunagaran, 2006).

According to El pash (2012) convenience is a major issue in managing a person's day to day activities. Customers prefer to have a consolidation and delivery of all financial services at his doorstep. He lays greater emphasis on convenience and single provider for his financial needs. Towards that end, banc-assurance offers the customer by providing comprehensive financial advisory services under one roof, (insurance services along with other financial services such as banking, personal loans, mutual funds, and the like). It relieves him from the painstaking efforts of searching for separate persons for each and every service or product (Donne, 2003).

Through banc-assurance, the customer can enjoy the benefits of choosing multiple products at one place. Along with the traditional whole life insurance, the customer also has the choice of term Benoist (2002). Further more, the customer can utilise the distribution channels of

banks to pay his insurance premiums which in turn reduces the number of policy lapse. The customer also has the satisfaction of the brand strength of the bank, his existing relationship and trust on the banks. In addition, the products sold through banc-assurance can give better value and offer cheaper premiums due to lower distribution costs. So, banc-assurance for the customer is a bonanza in terms of reduced premium charges, a high quality product and delivery at doorstep (El pash, 2012).

## **2.7 Adoption of Banc-assurance**

Banc-assurance has joined together the insurance companies' edge in the "production" of insurance products with banks' edge in their distribution, by using their vast retail networks (Karunagaran, A., 2006). Banc-assurance represents an innovation that is based on free markets, globalization mergers, privatization, the modernized regulatory environment, and the increasing influence toward technology. However the banks adoption of banc-assurance can be seen against the framework of certain fundamentals such as user acceptance, relative advantage, complexity, compatibility, trial ability and observability

User acceptance can be defined as a concept of a user group willing to adopt new technology for the tasks is designed to support. User acceptance has been determined as the important issue to determine the success or failure of the information system project (Masrom. M, et. al., 2009). In more specific area, acceptance is used to describe a phenomenon: how potential users act and react if a certain measure or device is implemented? Besides that, Ausserer and Risser (2005) indicate that the acceptance depended on how users' needs are integrated into the development of the system. Schade and Schlag (2003) describe acceptance as the respondent's attitudes, including their behavioural responses after the introduction of a measure and acceptability as the prospective judgment to be introduced in the future.

Relative advantage is defined as the level of an innovation is better than the previous idea formed by other groups, and this is measured based on the matter to the other users (Robinson, 2009). To a great extent, relative advantages are focused on an attribute of the potential student rather than a "pure" attribute of the innovation itself. So, a consumer's perception of an advantage is based on need or how the "advantage" can benefit the consumer (DeFerrari, 1998). Complexity is defined as the degree to which an innovation is perceived as difficult to understand and use (Robinson, 2009). In the domain of banc-assurance, complexity of purchasing process is inversely proportional to acceptance of banc-

assurance. Norazah Mohd Suki (2010) stated that complexity has weak influence with consumer internet banking adoption. Since banc-assurance is categorized as a type of bank product, hence, it must be seen as compatible with the existing products and skills.

According to Akturan, and Tezcan, (2008), compatibility can be measured in terms of consistent with the existing values, past experiences, and needs of the potential adopters. In this study, two types of compatibility will be highlighted like compatibility with values or beliefs and compatibility with needs. A consumer will only purchase the new product when the values match their needs, so banc-assurance product, its distribution system and its channel should be compatible with the consumer needs or beliefs. Trial ability is meaning that innovation is easier to adopt if they can be tried out in part, on a temporary basis, or easily dispensed with after trial. Rogers (1983) argues that potential adopter may feel safer with innovation that can be experimented, thus increasing the likelihood of adoption. Observability is the degree to which an innovation is visible and communicated to others (Rogers, 1995). Zatman et. al. (1973) suggests that showing the results of using an innovation has a strong impact on adoption decision.

For the banks, the Banc-assurance offers another area of profitability to banks with little or no capital outlay. Besides, the bank is turned into a financial supermarket where the customer can find all what he needs, which is the new trend in financial services. The other outcome is that the bank can realise increase in income from the existing relation and by offering a range of different services by using Banc-assurance as income source through the added value in maximizing bank profit from the existing relation with our customers, diversify risks by tapping another area of profitability, reducing the risks by through diversification strategy.

## **2.8 Conclusion**

The emergence of Banc-assurance contributed to overall efficiency, an increase in economies of scope and an increase in productivity of both banks and insurance companies in some of the European countries. Similarly, to what Swiss Re, (No.7/2002) reported, that Banc-assurance has led to lower, report or stable distribution cost compared with career agents in Asia. Economies of scope may arise from both the production and consumption of financial services (Saunders and Walter, 1994). A larger scale production of elements common to these

various financial services can lead to cost advantages through economies of scale. Several specific cost advantages which have been identified include: gains through concentration of risk management, administration functions, and integrated product development; marketing economies in the common delivery of different services; better information access and sharing of information across different product groups; reputational and pecuniary capital to be shared across different products and services; and enhanced potential for risk management through diversification gains. On the consumption side, economies of scope may derive from: the potential for lower search, information, monitoring and transaction costs; negotiating better deals because of increased leverage; and lower product prices in a more competitive environment.

According to Capita (2006), Banks have a number of competitive advantages in the provision of insurance products. First, they have much better information on individual consumers—seen as key to pricing risk effectively. Second, the banks may be able to bring enormous economies of scale, particularly if they are part of a major global network. Michael Porter identified two basic types of competitive advantage, which are cost advantage and differentiation advantage. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself.

## CHAPTER THREE

### 3.0 RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter gives a brief description of the methodology that was used in conducting this study. The chapter is organized into the following parts:

#### 3.1 Research design

The research study used descriptive survey research which refers to a body of techniques for collecting data on human characteristics, attitudes, thoughts, and behaviour by obtaining responses from individuals to a set of prepared questions (Bryman, 2004). This design was considered appropriate because it saves time, expenses and the amount of quality information yielded was valid, while interviewer bias is reduced because participants complete identically worded self-reported measures.

#### 3.2. Population

The term population is commonly used to refer to the group of people or entities (the universe) to which the findings of the sample are to be generalized (Cooper & Schindler, 2000). A target population is the collection of elements about which we wish to make some inferences (Cooper & Schindler, 2008). The target population was drawn from the 43 licensed commercial banks which comprise of 6 large banks, 15 medium sized banks and 22 small banks (Central Bank of Kenya Supervision Report, 2011). The target population will consist of two (2) managers from each of the large banks and one (1) manager from each of the medium and small banks all totalling forty nine (49) managers

#### 3.3 Sample Design

According to Trochim (2005), Sample design is a working plan or structure, which specifies the population frame, sample size and sample selection and the procedure the study uses to select the final sample to study. A sample is part of the target (or accessible) population that has been procedurally selected to represent it and whose properties are studied to gain information about the whole. The study used census sampling procedure which involves the use of the entire population as a sample. A census is attractive for small populations. A census eliminates sampling error and provides data on all the individuals in the population (Kothari, 2003). Thus the study took a total target population of forty nine (49) as a sample.

### **3.4 Data Collection**

#### **3.4.1 Data Sources and Collection Instruments**

Data is anything given or admitted as a fact on which a research inference was based, (Oso & Onen, 2009). Both primary and secondary data was collected. Primary data was collected from the banks through the use of a questionnaire which Kuter and Yilmaz (2001) define a questionnaire as a method for the elicitation, recording and collecting of information. The use of questionnaire is preferred because questionnaires generate data in a very systematic and ordered fashion. Secondary data was collected through reviewing records of the banc-assurance adoption in Kenya banks.

#### **3.5 Data Collection Procedures**

A letter requesting for information accompany the questionnaire explaining the purpose of study to the respondents. The questionnaires were dropped by the research assistants and personally by the researcher and later collected upon filling by the respondents. This method created provision for personal contacts between the researcher and the respondent. Each respondent received the same set of questions in exactly the same way. Library and desk research was carried out by scrutinizing official reports, guides and banc-assurance performance documentation which will be availed by the banks. The researcher looked out for banc-assurance trends from written literature in the libraries and other relevant sources.

#### **3.6 Data Analysis**

The variables of the study was measured as follows: adoption of Banc-assurance innovation was measured by profitability, market share and growth in sales; new revenue flow was measured by: return on sales, economic capital adequacy and increased solvency; diversification was measured by efficiency gain, cross-selling opportunities, and increased penetration of the market; while economies of scope was measured by: customer service process, increase in product and service solutions and customer convenience

Quantitative data was collected using closed ended questions in the questionnaires. The study used correlation and regression statistics to analyze the determinants of adoption of Banc-assurance by Commercial Banks in Kenya with the aid of SPSS 21. The study correlated the dependent and independent variables to determine if there exist any relationship between the variables, while regression statistics was used to determine the significance of the relationship between the dependent and independent variables. The

dependent variable of this study is adoption of Banc-assurance by banks in Kenya, while the independent variables include: new revenue flow, diversification and economies of scope.

Qualitative analysis involved coding and organizing collected data into themes and concepts that address the research questions and then analyzed using content analysis. Presentation of data was in form of Tables, Pie-charts and Bar graphs only where it provide successful interpretation of the findings. Summary data from a study was presented in the form of a figure, so that it is easy to observe general trends. Descriptive data will be provided in form of explanatory notes

### **3.6 Reliability and Validity**

Three stages was followed to ensure the reliability and validity of the research instrument (questionnaire): Firstly, a review of the relevant literature, as well as a set of exploratory interviews with target population was conducted. This resulted in the development of an initial list of items representing each of the study's constructs. Secondly, this list of items was then be modified based on recommendations from the supervisor and the peers. Thirdly, the amended list of items was piloted to ensure that the items are adequately worded. The result of the pilot study was analyzed using Cronbach alpha to determine the reliability of the study variables with a set lower limit of acceptability of Cronbach alpha.

## CHAPTER FOUR

### 4.0 DATA ANALYSIS AND DISCUSSIONS

#### 4.1 Introduction

This chapter presents the analysis of study findings based on the determinants of adoption of Bancassurance innovation by Commercial Banks and the resultant research question: How does the need for new revenue stream, business diversification and economies of scope influence the adoption of Bancassurance by Commercial Banks in Kenya? This chapter analyses the variables involved in the study and estimates of the model presented in the previous chapter.

#### 4.2 Data Presentation

##### 4.2.1 Response Rate

Table 4.1 Response Rate

Response	(n = 49)	
	f	%
Filled in questionnaires	43	87.8
Unreturned questionnaires	6	12.2
	<b>49</b>	<b>100</b>

The response rate of the respondents who participated in the survey is as shown in table 4.1 above. Out of the 49 issued questionnaires, 43 questionnaires representing 87.8% of the total questionnaires distributed were returned fully filled, while 6 questionnaires were not returned representing 12.2% of the total questions distributed to the respondents. It can be inferred that the response rate was good.

### 4.2.3 Adoption of Banc assurance by Commercial Banks

**Table 4.2 :Adoption of banc -assurance**

Question	Scale	Distribution	
		f	%
Has the Bank adopted Banc assurance?	Yes	36	83.7%
	No	7	16.3%
<b>Total</b>		<b>36</b>	<b>100%</b>

Results on table 4.2 above shows, 83.7% of the respondents indicated that their banks have adopted Banc assurance, while 16.3% of the respondents indicated that their banks have not adopted Banc assurance. From the study it can be deduced that majority of the banks have adopted Banc assurance.

**Table 4.3 :Successful Adoption**

Question	Scale	Distribution	
		f	%
Has been successfully adopted	Yes	27	75.0%
	No	9	25.0%
<b>Total</b>		<b>36</b>	<b>100%</b>

The finding on table 4.3 above indicated that majority (75.0%) of the banks have successfully adopted Banc assurance, while 25.0% have not successfully adopted Banc assurance.

**Table 4.4:Adoption of banc assurance 1**

Statement	(n = 36)				
	SA	A	N	D	SD
Has Increased Bank Profitability	35.7	20.0	10.9	19.8	13.6
Has Increased Market Share	55.6	28.9	0.5	5.6	9.4
Has Increased Bank Sales	34.7	40.1	11.7	9.1	4.4
Has Facilitated Utilization Of Resources	40.3	32.9	3.8	12.2	10.7

Table 4.4 above shows that majority (35.7%), (55.6%), (40.1%) and (40.3%) of the respondents strongly agreed and agreed respectively that: Banc assurance has increased bank profitability, market share, bank sales and has facilitated effective utilization of resources. From the analysis it can be concluded that Banc assurance has enhanced banks performance

**Table 4.5:Regression Model**

Model	R	R Square	Df	P-value	Sig
1	.793 <sup>a</sup>	.629 <sup>a</sup>	7	.129	.032

a Dependent Variable: Adoption of Banc assurance by Commercial Banks

	B	Std. Error	Beta	t	Sig.
(Constant)	1.101	.193		5.710	.000
Bank Profitability	.020	.062	.075	1.013	.016

Market Share	.040	.169	.137	.009	.005
Bank Sales	.093	.139	.306	1.004	.028
Utilization of Available Resources	.143	.123	.479	.003	.080

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a Dependent Variable: Adoption of Banc assurance by Commercial Banks

The result on table 4.5 above is based on the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0), Alpha = .05. (95%), (df) =7, and two-tailed test.

Based on the study, correlation coefficient (r) is .793 and the coefficient of determination ( $r^2$ ) is .629 indicating that 62% of the successful adoption of Banc assurance by commercial Banks can be measured by bank profitability, market share, bank sales and effective utilization of available resources. Since the correlation of .618 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between adoption of Banc assurance by commercial Banks and Bank profitability, market share, bank sales and effective utilization of available resources

The computed t-value ( $t=2.029$ ) is smaller than the critical t-value ( $t=2.57$ ) and the p-value of 0.129 is larger than the significance level of 0.05. This then indicates that there is a significant relationship between profitability, market share, bank sales and effective utilization of available resources and adoption of Banc assurance by commercial Banks

#### 4.2.4 Need for New Revenue Streams

**Table 4.6: need for new revenue streams**

Statement	(n = 36)				
	SA%	A%	N%	D%	SD%
Banc assurance has increased revenues from sales	32.3	49.1	11.1	5.1	2.4
Banc assurance has improved capital adequacy	27.8	40.0	10.6	5.0	16.7
Banc assurance has increased banks solvency	16.7	43.8	22.2	10.0	7.3

Table 4.6 above shows that majority (49.1%), (40.0%) and (43.8%) of the respondents agreed that: Banc assurance has increased revenues from sales, improved capital adequacy and banks solvency

**Table 4.7: correlation model**

R	R Square	df	Sig
.851 <sup>a</sup>	.724	5	.028

b. Dependent Variable: Effective Implementation of Water Projects

Findings on table 4.7 above shows the analysis of correlations between need for new revenue streams and adoption of Banc assurance by commercial banks based on the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0), alpha = .05 or 95%, df = 5, and two-tailed test. Based on the study, correlation coefficient (r) was .851 and the coefficient of determination (r<sup>2</sup>) was .724 indicating that 72% of adoption of Banc assurance by commercial banks was influenced by the need for new revenue streams. Since the correlation of .851 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between adoption of Banc assurance by commercial banks and need for new revenue streams and

#### 4.2.5. Need for Product Diversification

**Table.4.8 Product Diversification**

Statement	(n = 36)				
	SA	A	N	SD	D
	%	%	%	%	%
Cross-selling opportunities in the bank	36.1	41.7	11.1	3.0	8.0
Reduced operation cost in the bank	38.9	44.4	3.0	6.0	8.0
Increased penetration of the market by the bank	30.6	36.1	13.9	8.0	11.1
Share core competitive advantages	33.3	52.8	6.0	3.0	6.0

Results of the Majority (41.1%), (44.4%), (36.1%) and (52.8%) of the respondents agreed that: adoption of Banc assurance has resulted in cross-selling opportunities, reduced operation cost in the bank, increased penetration of the market by the bank and enabled the bank to share core competitive advantages as shown on table 4.8 above

**Table 4.9 Correlation Model**

R	R Square	df	sig
.753 <sup>a</sup>	.567	6	.026

b. Dependent Variable: adoption of Banc assurance by commercial banks

Table 4.9 above shows the correlations between adoption of Banc assurance and need for product diversification based on the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0); alpha = .05. (95%), df= 6, and two-tailed test.

The results of the study indicate: (r) =.753; (r<sup>2</sup>) = .567 indicating that 57% of the adoption of Banc assurance by commercial banks is related to need for product diversification. Since the correlation of .567 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between adoption of Banc assurance by commercial banks and need for product diversification

#### 4.2.6 Need for Economies of Scope

**Table 4.10: Need for economies of scope 1**

	SA	A	N	D	SD
Increased product & service solutions	27.1	51.9	5.4	10.9	4.7
improved customer service process	27.1	54.3	2.3	9.3	7.0
increased customer convenience	51.9	25.6	6.2	8.5	7.8
increased skills levels	24.0	49.6	3.9	10.9	11.6

According to the study above majority (51.9%), (54.3), (51.9%) and (49.6%) of the respondents agreed and strongly agreed respectively that the adoption of Banc assurance by commercial banks increased product & service solutions, improved customer service process, increased customer convenience and increased skills levels.

**Table 4.11: Correlation Model**

	R	R Square	df	Fig
1	.691 <sup>a</sup>	.477	5	.041

b. Dependent Variable: Adoption of Banc assurance by Commercial Banks

	R	R Square	df	Fig
1	.691 <sup>a</sup>	.477	5	.041

b. Dependent Variable: Adoption of Banc assurance by Commercial Banks

Holding the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0); the study used the significance level of alpha = .05. (95%), Degrees of freedom (df) of 5, and two-tailed test. The results of the study indicated, correlation coefficient (r) = .691 and the coefficient of determination (r<sup>2</sup>) = .477 indicating that .47% of adoption of Bancassurance by commercial banks is related to need for economies of scope. Since the correlation of .477 is positive it can be concluded that there is a positive relationship between adoption of Banc assurance by commercial banks and need for economies of scope as shown on table 4.11 above

#### 4.2.7. Relationship between adoption of Banc assurance by Commercial and Determinants of Adoption of Banc assurance

**Table 4.12 :Regression model**

Model	R	R Square	df	P-Value	Sig.
1	.862 <sup>a</sup>	.743 <sup>a</sup>	5	.126 <sup>a</sup>	.037 <sup>a</sup>

a. Dependent Variable: Adoption of Banc assurance by Commercial Banks

**Table 4.13 : coefficients**

Variables	B	Beta	t	Sig.
(Constant)	1.640		7.752	.000
New Revenue Stream	0.160	0.155	0.902	0.72
Business Diversification	0.084	0.209	1.213	0.003

Economies Of Scope	0.051	0.127	0.696	0.040
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a. Dependent Variable: Adoption of Banc assurance by Commercial Banks

Results of the study on table 4.12 and 4.13 based on the significance level (alpha) of 0.05 (95%), degrees of freedom (df) of 5, and two-tailed test, shows the degree of the relationship between adoption of Banc assurance by commercial and determinants of adoption of Banc assurance

The findings established a positive correlation coefficient (r), = 0.862, (r<sup>2</sup>) = 0.743 (indicating that 74.3% probability of adoption of Banc assurance by commercial banks is influenced by need for new revenue stream, business diversification and economies of scope. In addition, the computed t-value (t=2.002) is smaller than the critical t-value (t= 2.57), while the p-value of 0.126 is larger than the significance level of 0.05. This then indicate that there is a relationship between need for new revenue stream, business diversification and economies of scope and adoption of Banc assurance by commercial banks

### **4.3 Summary & Presentation of Findings**

#### **4.3.1 Adoption of Banc assurance**

Results of the analysis indicate that 83.7% of the respondents indicated that their banks have adopted Banc assurance, while majority (35.7%), (55.6%), (40.1%) and (40.3%) of the respondents strongly agreed that: Banc assurance has increased bank profitability, market share, bank sales and has facilitated effective utilization of resources. The results of the relationship between the measurement of adoption of Banc assurance by commercial Banks showed a positive correlation of coefficient of determination (r<sup>2</sup> = 0.629), smaller computed (t-value =2.029) than the critical (t-value = 2.057), and a larger (p-value = 0.129) than (Alpha = 0.05). These findings indicates that there is a significant relationship between adoption of Banc assurance by commercial Banks and Bank profitability, market share, bank sales and effective utilization of available resources The results of the study are in line with views of El pash, (2012) and Karunagaran (2006) who noted that Banc assurance facilitate the reduction of costs by sharing and leveraging resources across the two value chains, Provision of a full range of financial products and services (banking and insurance)

through a single sales network; increased access to the customer hence increased opportunities to sale and extent their market share

#### **4.3.2 Need for New Revenue Streams**

Majority (49.1%), (40.0%) and (43.8%) of the respondents agreed that: Banc assurance has increased revenues from sales, improved capital adequacy and banks solvency. On the relationship between the adoption of Banc assurance by commercial banks and the need for new revenue streams, the correlation coefficient ( $r$ ) was .851 and the coefficient of determination ( $r^2$ ) was .724 indicating that 72% of adoption of Banc assurance by commercial banks was influenced by the need for new revenue streams. Since the correlation of .851 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between adoption of Banc assurance by commercial banks and need for new revenue streams .This is in line with the observations of Fiordelisi and Ricci, (2009) and Carow, (2001) that Banks have come to view Banc assurance as providing them with an alternative source of revenue stream which is non interest based income and that by selling the insurance product banks can increase their revenues

#### **4.3.3 Need for Product Diversification**

Results of the study showed that majority (41.1%), (44.4%), (36.1%) and (52.8%) of the respondents agreed that: adoption of Banc assurance has resulted in cross-selling opportunities, reduced operation cost in the bank, increased penetration of the market by the bank and enabled the bank to share core competitive advantages. On the relationship between adoption of Banc assurance and need for product diversification, results of the study indicate: ( $r$ ) =.753; ( $r^2$ ) = .567 indicating that 57% of the adoption of Banc assurance by commercial banks is related to need for product diversification. Since the correlation of .567 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between adoption of Banc assurance by commercial banks and need for product diversification

This findings concurs with the views of Smit and van der Lugt, (2000) who noted that banks have sought to diversify their product portfolio in the face of increased competition, dwindling revenues and a dynamic business environment By entering insurance and expanding non-interest-income (fee income), banks can diversify some

of their net interest rate margin risk without sacrificing profitability. The perceived benefits of diversification include synergies from scope economies, efficiency gains and profit-enhancing cross-selling opportunities. Furthermore diversification may allow financial services firms to decrease insolvency risk due to the lower correlation of profits arising from a more diverse range of financial activities

#### **4.3.4 Need for Economies of Scope**

Majority (51.9%), (54.3), (51.9%) and (49.6%) of the respondents agreed and strongly agreed respectively that the adoption of Bancassurance by commercial banks increased product & service solutions, improved customer service process, increased customer convenience and increased skills levels. The results of the analysis indicate that there is a positive relation between adoption of Bancassurance by commercial banks and the need for economies of scope as evidenced by positive correlation coefficient ( $r$ ) = .691 and the coefficient of determination ( $r^2$ ) = .477 indicating that .47% of adoption of Bancassurance by commercial banks is related to need for economies of scope. The study shows that there is a positive relationship between adoption of Bancassurance by commercial banks and need for economies of scope.

The results of the study are in line with study by Genetay and Molyneux (1998) who established that adoption of Bancassurance by banks was determined by the need to increase the economies of scope arising from gains through concentration of risk management, administration functions, and integrated product development; marketing economies in the common delivery of different services; better information access and sharing of information across different product groups; reputational and pecuniary capital to be shared across different products and services; and enhanced potential for risk management through diversification gains.

#### **4.3.5 Relationship between Adoption of Bancassurance by Commercial and Determinants of Adoption of Bancassurance**

The findings established a positive correlation coefficient ( $r$ ), = 0.862, ( $r^2$ ) = 0.743 (indicating that 74.3% probability of adoption of Bancassurance by commercial banks is influenced by need for new revenue stream, business diversification and economies of scope. In addition, the computed t-value ( $t=2.002$ ) is smaller than the critical t-value ( $t= 2.57$ ), while the p-value of 0.126 is larger than the significance level of 0.05 indicating that there is a significant positive relationship between need for new

revenue stream, business diversification and economies of scope and adoption of Bancassurance by commercial banks . The result of the study confirms the views of Jackson (2010), Fiordelisi and Ricci (2009) and Donne (2003) that Banks have come to view Bancassurance as providing them with an alternative source of some profit. By selling the insurance product by their own channel the banker can increase their income. Banks the selling of insurance within the banks lead to the development of sales culture in the banks. This helps bank in improving its own sale of financial products Banks also see value in insurance business due to complementarity of products, fee income derived from the distribution of insurance and ease of recovery of advances in case of death of the borrower or destruction of properties

## CHAPTER 5

### 5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary

The research study established that Banc assurance has increased bank profitability, market share, bank sales and has facilitated effective utilization of resources. There is a significant relationship between adoption of Banc assurance by commercial Banks and Bank profitability, market share, bank sales and effective utilization of available resources. On the relationship between adoption of Banc assurance by commercial and determinants of adoption of Banc assurance, the study established that adoption of Banc assurance by commercial banks is influenced by need for new revenue stream, business diversification and economies of scope and that there is a significant positive relationship between need for new revenue stream, business diversification and economies of scope and adoption of Banc assurance by commercial banks.

The research study found out that Banc assurance has increased revenues from sales, improved capital adequacy and banks solvency. there is a positive relationship between adoption of Bancassurance by commercial banks and need for new revenue streams as by selling insurance policies bank earns a revenue stream apart from interest which is purely risk free for the bank since the bank simply plays the role of an intermediary for sourcing business to the insurance company. The banks have taken advantage of Bancassurance to reap the benefits of this synergy by exploiting the sources of new business made available by the insurance branch network and the capacity to attract new clients.

The study found out that banks have sought to diversify their product and service portfolio due to increased competition in the market which has resulted in the dwindling revenues and to reduce risk of relying on only one or few income sources. In addition the adoption of Bancassurance has resulted in cross-selling opportunities, reduced operation cost in the bank, increased penetration of the market by the bank and enabled the bank to share core competitive advantages. On the relationship between adoption of Bancassurance and need for product diversification, results of the study established that there is a positive relationship between adoption of Bancassurance by commercial banks and need for product diversification

The study established that the adoption of Bancassurance by commercial banks has increased product & service solutions, improved customer service process, increased customer convenience and increased skills levels. Bancassurance offers the customer by providing comprehensive financial advisory services under one roof, and saves the customer and resources required for searching for separate institution for each and every service or product that they require, while offering better value at cheaper costs. The results of the analysis indicate that there is a positive relation between adoption of Banc assurance by commercial banks and the need for economies of scope

## **5.2 Conclusion**

Banc assurance has increased bank profitability, market share, bank sales and has facilitated effective utilization of resources. Adoption of Banc assurance by commercial banks is influenced by need for new revenue stream, business diversification and economies of scope and that there is a significant positive relationship between need for new revenue stream, business diversification and economies of scope and adoption of Banc assurance by commercial banks .

Banc assurance has increased revenues from sales, improved capital adequacy and banks solvency. there is a positive relationship between adoption of Banc assurance by commercial banks and need for new revenue streams as by selling insurance policies bank earns a revenue stream apart from interest which is purely risk free for the bank since the bank simply plays the role of an intermediary for sourcing business to the insurance company.

Banks have sought to diversify their product and service portfolio due to increased competition in the market which has resulted in the dwindling revenues and to reduce risk of relying on only one or few income sources. In addition the adoption of Banc assurance has resulted in cross-selling opportunities, reduced operation cost in the bank, increased penetration of the market by the bank and enabled the bank to share core competitive advantages.

Adoption of Banc assurance by commercial banks has increased product & service solutions, improved customer service process, increased customer convenience and increased skills levels. Banc assurance provides customers with comprehensive financial advisory services

under one roof, and saves the customer and resources required for searching for separate institution for each and every service or product that they require, while offering better value at cheaper costs.

### **5.3 Policy Recommendation**

There is need for a committed top management that facilitates the adoption and implementation of Banc assurance as there are significant organizational changes required to adopt the Banc assurance business hence top management must be actively and consistently involved throughout the adoption and implementation process.

An important influence on the adoption and implementation of the Banc assurance business is the tight integration of the sales force into the branch network so as to effectively sell a broad range of products hence banks need to invest in training in banking, insurance and investment product knowledge so as to enhance the sales process.

Given the increasing complexity of the product lines and the sales process, integrated information support systems must be developed to provide an effective customer experience. This means building appropriate customer databases and integrating information and transaction processing systems to provide customers with a seamless experience regardless of which products or services are being provided.

There is need for the bank management to understand its target segments' values and decision-making processes hence different criteria must be used in segmenting the market for banking, investments and insurance products, while taking into consideration the changing market environment that influences customer tastes and preferences

### **5.4 Limitations of the study**

There is limited written literature or availability of relevant research in the field of Banc assurance in the Kenyan banking sector as Banc assurance is still a new business model in Kenya and most of the banking experiences on it were general and based on the reports of the managers and were in general. However the researcher used questionnaire and secondary data

Majority of the respondents were unwilling to take part in the study due to the issue of, confidentiality they regarded as important however it was agreed with the respondents that

individuals and company names will not be mentioned in the study.

the study used questionnaire that rely on self report responses, however the problem with using a questionnaire is that it is based on the assumption that participants would respond to the questions in an honest and accurate manner but respondents in some cases give answers that they believe to be desirable. However the researcher used secondary data to complement the information obtained through the questionnaire

### **5.5 Suggestions for Future Research**

This study has primarily focused on specific issues such issues of scope diversification and revenue arising from the Banc assurance business. Future research may look deeper into more specific issues in banking sector to include other emerging issues the determine the adoption and growth of Banc assurance

There is also need to undertake further research in the area of customer response to Banc assurance so as to determine the customer expectations and perceptions, of the Banc assurance which is key to the performance of and growth in the country

This research study only focused on the banking sector; however there is need to also focus on the insurance side of the Banc assurance so as to ensure that there is comprehensive information on the issues that influence the adoption and growth of Banc assurance in Kenya

SOThere is need to undertake further research to determine the general impact of Banc assurance to both the insurance industry and the banking industry emerging from the adoption of the Banc assurance in Kenya so as to inform the industry player on the way forward.

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## **APPENDIX I : letter of introduction**

**APPENDIX II- RESEARCH QUESTIONNAIRE**

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This questionnaire has been designed to assist the researcher collect data concerning the determinants of adoption of Banc-assurance by Commercial Banks in Kenya. The information you provide will be used only for the purpose of this study and will be held strictly confidential and in no way will your name or answers be revealed out.

Please answer all the questions as best as you can.

**SECTION A: RESPONDENT PROFILE**

1. Bank.....

2. Occupation.....

(Please tick where applicable)

**SECTION B –DEPENDENT VARIABLE**

**PART 1: Adoption of Banc-assurance**

3. Has the Bank adopted Banc-assurance?

Yes [ ] No [ ]

4. If yes has been successfully adopted

Yes [ ] No [ ]

**5. Please tick the statement corresponding to the situation for each statement**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>disagree</b>	<b>Strongly disagree</b>
Bancassurance has increased bank profitability					
Adoption of Bancassurance has facilitated banks to acquire increased market share					

The adoption of Banc-assurance by the bank has increased bank sales					
Adoption of banc-assurance has facilitated effective utilization of available resources					

**SECTION C INDEPENDENT VARIABLES**

**PART. 2. Need for New Revenue Streams**

**7. Please tick the statement corresponding to the situation for each statement**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>disagree</b>	<b>Strongly disagree</b>
The adoption of Banc-assurance has increased revenues from expanding sales					
The adoption of banc-assurance has improved capital adequacy of most banks as a result of new revenues from multiple sources					
The adoption of Banc-assurance has facilitated banks to increase their solvency					

**PART. 3. Need for Product Diversification**

**8. Please tick the statement corresponding to the situation for each statement**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>disagree</b>	<b>Strongly disagree</b>

The adoption of bancassurance has resulted in cross-selling opportunities in the bank					
The adoption of bancassurance by banks has reduced operation cost in the bank					
The adoption of bancassurance by commercial banks has increased penetration of the market by the bank					
The adoption of bancassurance enables the bank to share core competitive advantages between banking services and insurance services					

**PART 4: Need for Economies of Scope**

**9. Please tick the statement corresponding to the situation for each statement**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>disagree</b>	<b>Strongly disagree</b>
The adoption of bancassurance has increased product and service solutions for bank customers					
The adoption of bancassurance has improved customer service process in the bank					

### **APPENDIX 3.-POPULATION OF THE STUDY**

#### **Large Banks**

1. Barclays Bank of Kenya Ltd
2. CFC-Stanbic Bank Ltd
3. Co-operative Bank of Kenya Ltd
4. Equity Bank Ltd.
5. Kenya Commercial Bank Ltd
6. Standard Chartered Bank Ltd

#### **Medium Banks**

7. Bank of Africa Kenya Ltd
8. Bank of Baroda Ltd
9. Bank of India
10. Chase Bank Ltd
11. Citibank N.A.
12. Commercial Bank of Africa Ltd
13. Diamond Trust Bank Kenya Ltd
14. Ecobank Ltd
15. Family Bank Ltd
16. Imperial Bank Ltd
17. I & M Bank Ltd
18. National Bank of Kenya Ltd
19. N I C Bank Ltd
20. Prime Bank Ltd

#### **Small Banks**

21. African Banking Corporation Ltd
22. Charterhouse Bank Ltd
23. Consolidated Bank of Kenya Ltd
24. Credit Bank Ltd
25. Development Bank of Kenya Ltd
26. Dubai Bank Ltd
27. Equatorial Bank Ltd
28. Fidelity Commercial Bank Ltd

29. Fina Bank Ltd
30. First Community Bank Ltd
31. Giro Commercial Bank Ltd Small
32. Guardian Bank Ltd
33. Gulf African Bank Ltd
34. Habib A.G. Zurich
35. Habib Bank Ltd
36. Jamii Bora Bank Ltd
37. K-Rep Bank Ltd
38. Middle East Bank Ltd
39. Oriental Commercial Bank Ltd
40. Paramount Universal Bank Ltd
41. Transnational Bank Ltd
42. UBA Bank Ltd
43. Victoria Commercial Bank Ltd

**Mortgage Finance Company**

1. Housing Finance

**Source, Central Bank of Kenya, (2011)**