

**SIGNIFICANCE OF BANK ASSURANCE ON FINANCIAL  
PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

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## DECLARATION

This research project is my original work and has not been submitted for any award in any other university.

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This Research project has been submitted for examination with my approval a University Supervisor.

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## **DEDICATION**

This project is dedicated to my entire family, especially my parents Mr. & Mrs. J. Mwangi for their moral support, understanding and perseverance during my study period. They have been of constant encouragement during the entire period.

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## **LIST OF ABBREVIATIONS**

<b>BIM</b>	Bank Insurance Model
<b>CAR</b>	Capital Adequacy Ratio
<b>CBA</b>	Commercial Bank of Africa
<b>CBK</b>	Central Bank of Kenya
<b>CIC</b>	Co-operative Insurance Company
<b>EPS</b>	Earnings per Share
<b>IRA</b>	Insurance Regulatory Authority
<b>IRA</b>	Insurance Regulatory Authority
<b>ROA</b>	Return On Assets
<b>SACCO</b>	Savings and Credit Co-operative Society
<b>SPSS</b>	Statistical Package for Social Scientists
<b>USA</b>	United States of America

## **ABSTRACT**

Bank assurance is one of the products offered by commercial banks under ‘Universal Banking’. It is a combination of two words ‘bank’ and ‘assurance’ which refers to banks selling insurance products. Bank assurance arrangements take three forms; strategic alliance, full integration; and the mixed model. The objective of the study was to determine the significance of bank assurance on financial performance of Kenyan commercial banks. The study was anchored on three theories: financial intermediation theory, market power hypothesis and efficient market structures. The study adopted a correlation research design. The study population of the study was all the commercial banks in Kenya (43). The study used both primary and secondary data. Secondary data was from published financial reports of the Kenyan banks. The drop and pick method was used to collect primary data. The study used CAMEL MODEL (Capital Adequacy, Management performance, Earning performance and liquidity) to determine the financial performance of the commercial banks. Data collected was analysed using regression analysis and correlation coefficient was used to test for significance between the variables. The findings of the study were presented using frequency tables and pie charts. The study established that bank assurance had improved Return on Assets of the bank which translated in improved profit margins, this shows an indication that bank assurance had improved profitability of the banks. The study also established that variations in the financial performance of commercial banks was attributed to the combined effect of the predictor variables namely administration costs and market share. The study therefore concluded that there was a significant relationship of bank assurance to commercial banks financial performance since there was an increase in market share and an improvement of financial performance with increased return on assets. The study recommends that more banks actively take bank assurance on all insurance policies available so as to increase the revenue base of the bank. The study also recommended that banks take up banks- insurance firms’ strategies so as to generate more revenue and increase profitability.

# **CHAPTER ONE: INTRODUCTION**

## **1.1 Background to the Study**

Bank assurance is one of the products offered by commercial banks under ‘Universal Banking’. It generally entails the use of commercial banks as agents by insurance companies to sell and distribute insurance covers. This relation has been justified by the need by the two sectors to reduce operating expenses, encourage customer retentions, and meet the changing customer needs and to increase their profitability as well as customer line. This model of trading originated from France and is now widely used in developed countries (Fiordelisi and Ricci, 2011). The banking and insurance sectors have now become the two inextricably related parts of the financial sector (Fiordelisi and Ricci, 2011). Interconnections between them are particularly strong in times of crisis because of the manifestation of the depreciation element that insurance companies provide by assuming themselves the risk that goes with the business.

In Kenya, bank assurance policies were introduced by the Central Bank of Kenya (CBK) in order to increase coverage of insurance companies taking advantage of the expansive branch networks the commercial banks in Kenya are enjoying. Equity Bank, for instance has been in the forefront in the implementation of bank assurance and recently partnered with UAP insurance in providing livestock insurance cover for herders in the Northern part of Kenya over 650 herders in Marsabit District were compensated after a long dry spell that led to a major death of their livestock. The project has been termed as a great success mainly because of the wide network established by Equity bank even in the marginalize areas (Bank Supervision report, 2012).

### **1.1.1 Bank Assurance in practice**

The term bank assurance or Bank Insurance Model (BIM) is an association between a bank and an insurance company where, insurance company uses bank's canal to sell its insurance products. It is a combination of two words 'bank' and 'assurance' which refers to banks selling insurance products. As a term, bank assurance first appeared in France in 1980, to define the sale of insurance products through banks' distribution channels (Arora and Jain, 2013). By selling insurance policies bank earns a revenue stream apart from interest or fee-based income that is risk free for the bank because the only role of the bank since the bank is of an intermediary for sourcing business to the insurance company.

According to Gonulal and Krishnamurthy (2012), bank assurance is the process of using a bank's customer relationships to sell life and non-life insurance products and it is emerging as a natural pathway for the effective development of insurance. According to Elkington (1993), the term bank assurance refers to the provision of and selling of banking and insurance products by the same organisation under the same roof. It is a strategy adopted by banks or insurance companies aiming to operate the financial market in a more or less integrated manner. Bank assurance therefore assumes a wide range of detailed arrangements between banks and insurance companies, but in all cases it includes the provision of insurance and banking products or services from the same sources or to the same customer base (Norman, 2007).

Bank assurance arrangements take three major forms (Sumathi, 2012). First is that strategic alliance where there is a tie-up between a bank and an insurance company. Here, the

bank only markets the products of the insurance company and no other insurance functions are carried out by the bank except for marketing the products. Second is full integration; an arrangement that entails a full integration of banking and insurance services. Full integration implies that the bank sells the insurance products under its brand acting as a provider of financial solutions matching customer needs (Norman, 2007). The bank therefore controls sales and insurer service levels including approach to claims. Under such an arrangement the bank has an additional core activity almost similar to that of an insurance company. Lastly is the mixed model where the marketing is done by the insurer's staff and the bank is responsible for generating leads only. In other words, the database of the bank is sold to the insurance company.

Profit and competition are the two main reasons for the expansion of bank insurance. Estimates show that bank assurance contributes up to 30% of the profits of banks in the continental part of Europe (Krstić, Vojvodić-Miljković and Mandić, 2011). Due to the intense competition among banks in the reduction in interest rates, administrative and marketing costs have increased while profit margins have remained relatively low for traditional banking products. Banks therefore have turned to search for new products in order to increase their productivity and profitability (Krstić et al., 2011). At the same time, there was a change in preferences of bank customers in terms of reduced share of conventional savings and deposits.

### **1.1.2 Financial Performance of the Banking Industry in Kenya**

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central

Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system (CBK, 2014).

According to Central Bank of Kenya (2014) annual report, as at April 30, 2014, the banking sector comprised of 43 licensed commercial banks, 1 mortgage finance company, 9 deposit taking microfinance institutions, 7 representative offices of foreign banks, 97 foreign exchange bureaus, 3 money remittance providers and 2 credit reference bureaus. The banking sector balance sheet was Kshs. 2,873.1 billion in April 2014, loans and advances worth Kshs. 1,728.0 billion, while the deposit base was Kshs. 2,089.3 billion. Core capital and Total capital stood at 370.8 billion and 432.6 billion respectively (CBK, 2014).

The industry had a pre-tax profit of Kshs 43.8 billion as at the end of April 2014. Total income amounted to 128.8 billion while expenses were 85.0 billion. The main sources of income for the sector were from interest on loans and advances, fees and commissions and government securities accounting for 59.4 percent, 17.9 percent and 15.7 percent of the total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 32.2 percent, 28.8 and 23.7 percent, respectively. Number of bank customer deposit and loan accounts stood at 23,816,147 and 3,463,900 respectively (CBK, 2014).

### **1.1.3 Bank Assurance in the Kenyan Financial Industry**

The 2008 global crisis brought forth a lesson to the financial sector world over; that there is need for greater simplicity, reliability and transparency and this has made a split the optimal course of action in the financial sector. In reality, the Kenyan market has gone liberal reality going by the development in the Kenyan financial sector especially with the adoption of Safaricom's M-Pesa and Zain's Zap (Bank Supervision report, 2012). In Kenya, bank assurance sale synergies have emerged mainly from opportunities that banks have to sell insurance products along with some of the banking products. Most commercial banks insist on life assurance for all mortgage borrowers although it is not mandatory for the borrowers to buy insurance from the lenders. Together, Equity Bank and Madison Insurance offer customers and non-customers life assurance cover. The bank also has a deal with co-operative insurance company (CIC) in offering an Education Insurance cover; one of the very bank assurance in Kenya. This product too is available for both Equity customers and non-customers and has been received with great hospitality because through this model, parents can now save for their children's education (IRA, 2014).

Banks are also luring depositors, mostly savings accounts holders to take up depositor's insurance cover. The benefit from depositor's cover is structured in a manner that certain banks attract the public to deposit money with them but a minimum deposit amount is required. The total amount of the cover is a multiple of cash balance in the deposit account. The banks pay the premium and in the case of death of the depositor, this cash balance is increased accordingly and paid to the account's benefactors (Bank Supervision

report, 2012). Through credit cards and personal loans, commercial banks in Kenya have opportunities to sell protection insurance since the knowledge the bank has of its customers' finance creates opportunities to sell other products.

The insurance sector has benefited greatly from this model because companies are able to cut down on operating expense as the banks already have huge infrastructure to facilitate the services offered. The companies are able to reach a wider market through the expansive and countrywide bank network already established by commercial banks. The Insurance Regulatory Authority (IRA) therefore views bank assurance as the way forward in raising insurance penetration in Kenya (Bank Supervision report, 2012). The number of Kenyans with insurance is dismal and the industry has barely scratched the surface in terms of potential earnings. Overdependence on the unscrupulous insurance agents and brokers has also been reduced (Insurance Regulatory Authority, 2012). Bank assurance has also triggered the need for innovative products and services hence increase their profitability.

In the banking sector, bank assurance has enabled commercial banks to expand their product and services being offered to their customers, improved customer satisfaction and in turn achieved higher rates of customer retention. The emergence of bank assurance has led to the need for the banking sector to train its staff because a high degree of pro-active marketing and technical skill is required in selling the insurance products. Banks in bank assurance now have a better competitive advantage due to such knowledge diversification (Insurance Regulatory Authority, 2012). Banks are generally better placed to professionalize insurance sales while improving national savings and product



development based on established customer needs.

According to Hartford Life Insurance, banks are best positioned to do this because of their dense networks of regional branches and their sales style highlighted by close community relationships. Insurance products may therefore gain popularity because they are being sold at branches that are conversant with peoples' every day needs and commercial banks in Kenya view a takeover of stockbrokers as timely and critical in restoring faltering investor confidence in the insurance market following the collapse of Francis Thuo and Partners, Nyaga Stockbrokers and Discount Securities (Insurance Regulatory Authority, 2012).

#### **1.1.4 Significance of Bank Assurance on Financial Performance of banks**

The business of banking around the globe is changing due to integration of global financial markets, development of new technologies, globalization of banking operations and diversification in non banking activities. Due to all these movements, the boundaries that have kept various financial services separate from each other have vanished. The coming together of different financial services has provided synergies in operations and development of new concepts insurance companies require immense distribution strength and tremendous manpower to reach out to such a huge customer base (Arora, 2013). Sreasha and Joseph (2013) conducted a study With Special Reference to State Bank of India, studied the impact of selling insurance products using banks as a channel. With the help of the study the researcher found that bancassurance is one of the vital medium to improve performance of banks. Goran (1995) in an article titled The Profitability of Bancassurance for European banks assumed that the expansion of bancassurance relied

on three prerequisites: cross selling through existing branch networks, Sale of insurance products to customer of the bank and products produced by a subsidiary to the bank. The author also found out that where customers per branch are sufficiently large and if cross selling ratio is acceptable, in that particular branch, with investment appraisal assistance bancassurance came out successful (Muhoro, 2011).

The distribution of insurance products by banking networks has advantages for both bankers and insurers, which is why bancassurance is developing throughout the world. Banks have recorded improved sales from the competitive advantage that has been brought by embracing bancassurance. Bancassurance has made distribution networks more profitable the distribution commissions paid by the insurer represent a source of profits for the banker. These commissions boost the return on investment in setting up and maintaining branch network (Sinha, 2005).

Bancassurance has also enabled diversification the characteristics of certain insurance products have helped to drive the sales of the product, Life insurance products are very similar, from a technical standpoint, to savings and other investment products sold by banks, and are marketed as an alternative to these products. They are also fairly straightforward (Muhoro, 2011). This means that financial advisors have no difficulty in selling them and banks are not required to make a heavy investment in training; In addition, personal risk insurance is a profitable business (Muhoro, 2011). By contrast, the profitability of motor insurance business depends on building a large client base and distributing the products through large number outlets. Overall, for banks, costs are marginal, and for insurers, distribution costs are lower than through agent networks (Sinha, 2005).

The shift from a product-based approach to a solutions-based approach, or “one-stop shopping” at bank branches, makes life easier for clients. And selling each client a number of products helps to build loyalty. This is why players in the savings market must be able to offer a range of tax-advantaged personal equity plans and home loans backed by life insurance (Sinha, 2005). Overall, the best way of building client loyalty is by being able to offer a continuum of financial products and services covering all phases in the client’s life.

## **1.2 Research Problem**

Bank assurance is the provision of and selling of banking and insurance products by the same organisation under the same roof. In Kenya, this a strategy adopted by commercial banks aiming to operate the financial market in a more or less integrated manner. Bank assurance therefore assumes a wide range of detailed arrangements between banks and insurance companies, but in all cases it includes the provision of insurance and banking products or services from the same sources or to the same customer base (Norman, 2007).

The banking and insurance sectors have now become the two inextricably related parts of the financial sector (Fiordelisi and Ricci, 2011). Interconnections between them are particularly strong in times of crisis because of the manifestation of the depreciation element that insurance companies provide by assuming themselves the risk that goes with the business. The last twenty years has seen a growing presence of a model of integrated performance of insurance companies and banks in the market, which is reflected in the provision of banking and insurance services in one place. On one side, the banking sector

is highly competitive while on the other, the insurance sector has a lot of potential for growth (Norman, 2007). The combination of these two sectors results in an innovative concept of bank assurance.

Several studies have been done on the integration of financial sector in Kenya. For instance, Otieno (2009) did a study on the financial services sector in Kenya: a case for institutional reform and partial consolidation of the regulatory framework. The study reviewed the cross-marketing of insurance products by banks ('bancassurance'), the emergence of financial conglomerates in Kenya such as CFC-Stanbic Bank and the establishment of financial services units within certain financial institutions like the Co-operative Bank pose a challenge to regulators and call for a single regulatory authority in the market. This study did not consider the effects of bank assurance on the financial performance of commercial banks.

Nthenge (2012) studied challenges facing the success of insurance services provision in Tanzania. The study was conducted on the insurance companies registered and licenced by the Tanzania Insurances Regulatory Authority as at 31st July 2012. This study too did not consider the effects of bank assurance on the performance of commercial banks in Kenya. Kirui (2009) affirms that banks enter into bank assurance due to competition, operating expenses, customer retention, and wide-network coverage. Chelwa et al. (2010) in their market and regulatory analysis of Kenya micro-insurance landscape establish that an opportunity exists in terms of cross-selling of insurance products to the banked, MFI and SACCO markets in Kenya citing that 85% of Kenyan adults that have bank accounts do not have any form of insurance product.

From the above discussion, it is evident that the existing studies have looked at other aspects of bank assurance other than its significance on the financial performance of commercial banks in Kenya. This study therefore sought to fill this research gap by extending the existing literature on bank assurance. This study sought to answer the research question: What is the significance of bank assurance on financial performance of commercial banks in Kenya?

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

To determine the significance of bank assurance on financial performance of Kenyan commercial banks.

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

This study would contribute to the existing knowledge, address and provide the background information to research organizations, individual researchers and scholars who would want to carry out further research in this area. The study would help researchers and academicians to expand their research into the impact of bank assurance in the performance of the banking industry in Kenya as literature review.

This study would be important to the Government of Kenya especially the Central bank of Kenya in the development of policies and regulations governing the operations of bank assurance business in Kenya for a health banking and insurance sector. Through the findings of this study, the policy makers would be in a position to know what needs to be done to improve the bank assurance performance in Kenya.

The study would also benefit the management of commercial banks in improving their bank's performance through effective and efficient uptake of bank assurance products.

The study would provide the necessary knowledge and better understanding of the impact of bank assurance on the performance of the bank.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter provides theoretical and empirical information from publications on topics related to the research problem. It examines what various scholars and authors have written about bank assurance and its relation to performance of the financial industry. The chapter highlights the concept and various bank assurance models, bank's perspective of bank assurance, conceptual framework of the study and an empirical review on past studies.

### **2.2 Theoretical Review**

This study was anchored on three theories: financial intermediation theory, market power hypothesis and efficient market structures. Financial intermediation is a process which involves surplus units depositing funds with financial institutions who then lend to deficit units. According to Scholtens and van Wensveen (2003), the role of the financial intermediary is essentially seen as that of creating specialised financial commodities. Efficient-structure (ES) hypotheses explain the positive relationship between profitability and either concentration or market share with reference to efficiency measures. The ES hypotheses can be divided into the efficient-structure-X-efficiency and efficient-structure-scale-efficiency hypothesis. The profit-structure relationship is found because of the positive effect of X-efficiency on both profitability and market shares, and possibly on market concentration.

### **2.2.1 Financial Intermediation Theory**

Financial intermediation is a process which involves surplus units depositing funds with financial institutions who then lend to deficit units. Bisignano (1998) and Leland and Pyle (1977) identify that financial intermediaries can be distinguished by four criteria: first their main categories of liabilities (deposits) are specified for a fixed sum which is not related to the performance of a portfolio. Second the deposits are typically short-term and of a much shorter term than their assets. Third a high proportion of their liabilities are chequeable (can be withdrawn on demand). And fourth their liabilities and assets are largely not transferable. The most important contribution of intermediaries is a steady flow of funds from surplus to deficit units.

According to Scholtens and van Wensveen (2003), the role of the financial intermediary is essentially seen as that of creating specialised financial commodities. These are created whenever an intermediary finds that it can sell them for prices which are expected to cover all costs of their production, both direct costs and opportunity costs. Financial intermediaries exist due to market imperfections. As such, in a 'perfect' market situation, with no transaction or information costs, financial intermediaries would not exist. Numerous markets are characterized by informational differences between buyers and sellers. In financial markets, information asymmetries are particularly pronounced. Borrowers typically know their collateral, industriousness, and moral integrity better than do lenders. On the other hand, entrepreneurs possess inside information about their own projects for which they seek financing (Leland and Pyle, 1977). Moral hazard hampers the transfer of information between market participants, which is an important factor for projects of good quality to be financed.



### **2.2.2 Market-Power Hypothesis**

A very important contribution to the structure-performance studies is the efficient structure hypothesis proposed by Demsetz (1973) and Peltzman (1977). The efficient structure paradigm suggests that market structure is determined by the efficiency of the operating firms. In explaining a profit-structure relationship, market-power (MP) hypotheses state that market power is the main variable that causes profitability to change. Concentrated markets often entail market imperfections that may result from collusion, facilitated by high concentration, or by (legislative) entry and exit barriers which are often present in banking as a result of strict regulation. Because of these imperfections, firms operate in a market that deviates from perfect competition, which enables them to exert influence on prices charged and/or paid. These firms achieve higher profits at the expense of their customers through their price setting.

The researchers who defend the efficient structure model criticize the traditional market power model since the relationship between market share, concentration and efficiency is excluded. In this alternative model, important profits are generated by large firms since the concentration is the product of efficiency. These profits are considered as an economic return and not as a return on monopoly (Chortareas et al, 2009; Seelanatha, 2010). Which market structure variable is the best proxy for market power and thus for market imperfections determines the difference between two main types of market-power hypotheses in this category: the structure conduct-performance hypothesis and the relative-market-power hypothesis (Katib, 2004). The structure conduct-performance (SCP) hypothesis assumes that market concentration is the best proxy for market power because more concentrated markets show larger market imperfections enabling all firms to set

prices at levels less favorable to customers. Through market-wide price setting, each individual firm is able to improve its profitability (Seelanatha, 2010). The relative-market-power (RMP) hypothesis asserts that only firms with large market shares and well-differentiated products have the power to set prices for their products and thus to earn supernormal profits. In this case there is no market-wide price setting, but only price setting by dominant firms. Firms with smaller market shares are forced to operate as if under perfect competition and are unable to earn the same supernormal profits. This implies that the firm-specific market share is the better proxy for market power and market imperfections. A third additional hypothesis, mainly used to explain the possible absence of a profit-structure relationship, is the so-termed quiet life (QL) hypothesis.

This special case of the market-power hypotheses argues that as firms have more market power, either through market share or concentration, the management becomes less focused on efficiency, since setting prices at more favorable levels can increase revenues. The quiet life hypothesis states that firms do increase revenues as a result of increased market power but, as a result of higher inefficiencies, do not show a superior profitability.

### **2.2.3 Efficient-Structure Hypothesis**

Efficient-structure (ES) hypotheses explain the positive relationship between profitability and either concentration or market share with reference to efficiency measures. Efficiency of individual banks causes both high profitability and a high market share. Hence, these hypotheses state that by controlling for efficiency, the link between profitability and market structure variables becomes insignificant and thus economically meaningless (Peltzman, 1977). The ES hypotheses can be divided into the efficient-structure-X-

efficiency and efficient-structure-scale-efficiency hypotheses. The efficient-structure-X-efficiency (ESX) hypothesis states that firms are able to realise higher profits as a result of higher X-efficiency. X-efficiency measures to what extent the management of the firm is successful in earning maximum profits given input and output prices, or in minimizing costs given input prices and output quantities (Smirlok, 1985). Hence, it is often interpreted as an indication of the level of managerial efficiency. In addition to increasing profitability, higher X-efficiency levels also enable firms to increase their market share, at the expense of less efficient firms, which may result in a higher level of concentration. The profit-structure relationship is found because of the positive effect of X-efficiency on both profitability and market shares, and possibly on market concentration. Because of these simultaneous linkages, a significant but economically meaningless relationship between profitability and market structure is found, when no correction for X-efficiency is made (Brozen, 1982). Under the efficient-structure-scale efficiency (ESS) hypothesis, the difference in profitability between firms is not caused by differences in the quality of management, but by differences in the level of scale efficiency at which a firm is operating.

Firms that operate below their efficient scale, given input prices and product mix, may realize lower costs and higher profits per unit of output, higher market shares and possibly higher levels of market concentration by moving towards a more efficient scale. The effects of scale efficiency on both profitability and market structure variables may lead a spurious profit- structure relationship (Rhodes, 2002).

### **2.3 Bank Performance Indicators**

Profit is the ultimate goal of commercial banks hence all the strategies designed and

activities performed thereof are meant to realize this grand objective. To measure the profitability of commercial banks, there are variety of ratios used of which Return on Asset, Return on Equity and Net Interest Margin are the major ones (Murthy and Sree, 2003).

### **2.3.1 Return on Equity (ROE)**

ROE is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders look in return for their investment. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE the better the company is in terms of profit generation. It is further explained by Khrawish (2011) that ROE is the ratio of Net Income after Taxes divided by Total Equity Capital. It represents the rate of return earned on the funds invested in the bank by its stockholders. ROE reflects how effectively a bank management is using shareholders' funds. Thus, it can be deduced from the above statement that the better the ROE the more effective the management in utilizing the shareholders capital.

### **2.3.2 Return on Asset**

ROA is also another major ratio that indicates the profitability of a bank. It is a ratio of Income to its total asset (Khrawish, 2011). It measures the ability of the bank management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income. It further indicates the efficiency of the management of a company in generating net income from all the resources of the institution. Wong (2004) stated that a higher

ROA shows that the company is more efficient in using its resources.

### **2.3.3 Net Interest Margin**

NIM is a measure of the difference between the interest income generated by banks and the amount of interest paid out to their lenders for example, deposits, relative to the amount of their interest-earning assets. It is usually expressed as a percentage of what the financial institution earns on loans in a specific time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period i.e the average earning assets. The NIM variable is defined as the net interest income divided by total earnings assets (Gul et al., 2011). Net interest margin measures the gap between the interest income the bank receives on loans and securities and interest cost of its borrowed funds. It reflects the cost of bank intermediation services and the efficiency of the bank. The higher the net interest margin, the higher the bank's profit and the more stable the bank is. Thus, it is one of the key measures of bank profitability. However, a higher net interest margin could reflect riskier lending practices associated with substantial loan loss provisions (Khrawish, 2011).

### **2.4 Empirical Review**

Using a case study of Commercial Bank of Africa Limited (CBA), Muhoro (2011) sought to establish the effects of bank assurance as a strategy used by banks to increase uptake of insurance products in Kenya. The study targeted all head of departments, senior managers and branch managers (census) in all the selected branches of CBA. Data was collected using in-depth interviews and analyzed descriptively and presented in tables, figures and charts. The study established that bank assurance increases insurance uptake by

increasing its distribution channels, attracts new customers while retaining the old and winning the customers trust unlike the traditional agents since most customers trust banks and they frequently visit it. Banks offering bank assurance have also gained a competitive edge through tapping into existing bank customers' database in the various branches as well as using the well trained staff and innovative marketing channels such as online marketing and e-sales.

Arora and Manish (2013) conducted an analysis on contribution performance of bank assurance on Financial of Bank of India. The study aimed at establishing the impact of bank assurance on performance of banks and to establish the motivation behind adoption of bank assurance by banks as a major channel for maintaining fee-based income. The study found that the performance of both insurance company and the bank depended on each other however and that there is a favorable impact of bank assurance on the financial performance of banks. The figures of Net profit, total income, capital adequacy ratio (CAR), earnings per share (EPS), and return on assets (ROA) revealed that bank assurance paves the way for banks to grow. Although there are a number of other factors which contributed to the growth of banks but bank assurance is one of the important factor.

Nandita (2012) investigated the scope for bank assurance models and strategy as feasible source of fee based, non-interest income. The study found that the success of bank assurance greatly depends on banks ensuring excellent customers relationship. The study also showed that branch oriented banking operations are more conducive for flourishing of

bank assurance as opposed to the mechanized and automated banking channels. In addition, if regulators explore the possibility of allowing banks having tie-up arrangements with more than one insurance company, banks would hugely benefit from the opportunity of giving wider choice for the customers. As distributors of insurance products, banks recognize the potential of bank assurance and can take equity stakes in insurance companies, in the long run. This is evident as observed in the United Kingdom and other European states where banks started off as distributors of insurance but then moved on to the fully owned insurance subsidiaries (Jongen, 2012). With adequate training coupled with sufficient incentive systems to avert the banks' staff resistance if any, bank assurance strategy is a 'win-win situation' for all the parties involved.

Otieno (2012) reviewed the financial services sector in Kenya: a case for institutional reform and partial consolidation of the regulatory framework. This study set out to make a case for institutional reform and partial integration of the financial services sector in Kenya. The sectors identified for reform and integration include banks and insurance companies. The case for reform followed by partial integration is necessitated by several circumstances. The study established that financial services in Kenya were highly integrated today. Examples of integration included the cross-marketing of insurance products by banks ("bancassurance") thereby posing the challenge of "circumvention of regulation" for the present regulators of the two sectors. Second, the emergence of financial conglomerates in Kenya such as CFC-Stanbic Bank and the establishment of financial services units within certain financial institutions like the Co-operative Bank pose a challenge to regulators and call for a single regulatory authority in the market. Third, the failures of prudential regulation characterized by the collapse of stockbrokers such as Thuo

& Partners, Nyaga Stockbrokers and Discount Securities and the collapse of banks such as Charterhouse and Daima Banks are clear examples of serious regulatory failures. Fourth, the requirement of multiple approvals during IPOs may negate investor appetite.

Nthenge (2012) studied the challenges facing the success of insurance services provision in Tanzania. The study was conducted on the insurance companies registered and licensed by the Tanzania Insurances Regulatory Authority as at 31st July 2012. Data was collected using questionnaires targeting business development executives in self addressed envelopes. The results were analyzed using descriptive cross sectional design as well as co-relational research due to the qualitative nature of the data. The key findings from the study show that insurance services provision in Tanzania face myriad of challenges that are inhibiting advancement. Due to these challenges the industry continues to register low penetration as many people remain uninsured. Many challenges have been outlined in the study need to be addressed by the stake holders if the industry is to achieve a penetration increase from its current 0.84%. The challenges included awareness, immature legal framework, lack of strong market –led initiative, claims fraud and corruption, under- capitalization, legal constraint to new channels of distribution such as banc assurance, weak supervision and lack of vocational training facilities leading to shortage in skills needed in the industry.

Krstić et al. (2011) investigated bank assurance as one of the new options for the development of Serbian financial industry. The study found that banking and insurance are the two inextricably related parts of the financial sector and the interconnections between them are particularly strong in times of crisis. The study also established growing presence of a model of integrated performance of banks and insurance



companies in the market exhibited by the provision of banking and insurance services in one place through the form of bank assurance. Bank assurance benefits the banking industry in the times of increasing competition among participants in the financial market including: expanding the base of clients; retaining the existing clients; increasing sales/profits; as well as improving the supply through a creation of new products according to the structure and needs of clients.

## **2.5 Summary of Literature Review**

This chapter has reviewed the various theories that inform the study. It has reviewed the indicators of bank performance including return on assets, return on equity and net interest margin. The study also reviewed existing empirical studies that looked at the effects of bank assurance from a strategic management perspective as a strategy used by banks to increase uptake of insurance products in Kenya.

Fraser and Kolari (2004) in the paper titled “What's different about Bancassurance”? Evidence of Wealth Gains to Banks and Insurance Companies” a study on wealth effects in bancassurance mergers between banking and insurance firms in the period 1997- 2002 found that bancassurance mergers were positive wealth creating events. On the other hand, they did not find any statistically significant change in total or systematic risks before and after bancassurance mergers. According to the authors, economic motives are the driving forces behind bancassurance mergers. However, the study suggested Bancassurance model as not only legal, but also economically viable organizational form for financial service firms. This study was done in developed countries and not developing countries like Kenya where Bancassurance is in its infancy stage. The current study will therefore seek to provide literature specific to Kenya’s Bank assurance.

Arora and Manish (2013) in a study titled “an analysis on contribution of bank assurance on financial performance of Bank of India”, looked at the impact of bank assurance on performance of banks and also the motivation behind the adoption of bank assurance by banks as a major channel for maintaining fee based income. The authors in their study found out that there is a favorable impact on the banks financial performance and also on the overall performance of the insurance companies. This study was done in India which has a different operating environment from that of Kenya hence its findings may not fully apply to Kenyan scenario. The current study therefore seeks to provide Kenyan specific information.

Nandita (2012) investigated the scope for bank assurance models and strategy as feasible source of fee based, non-interest income. This study did not review the effects of bank assurance on financial performance as the current study. The proxies used to measure performance are different. Otieno (2012) reviewed the financial services sector in Kenya using a case for institutional reform and partial consolidation of the regulatory framework. This study set out to make a case for institutional reform and partial integration of the financial services sector in Kenya. Nthenge (2012) studied the challenges facing the success of insurance services provision in Tanzania. This study did not consider the selling of insurance services through banks besides being conducted in Tanzania which presents a different perspective from that of Kenya. The study therefore sought to fill the research gaps discussed above by investigating the significance of bank assurance on financial performance of Kenyan commercial banks.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter described the research methodology of the study. It highlighted the procedures and techniques that were used while collecting processing and analyzing data. This section of the study therefore described the research design, target population and area, data collection instruments, procedures, analysis management and the ethical considerations that the study used.

### **3.2 Research Design**

A correlational study design was used for this study. This is a design in which the main objective was to determine whether or not two variables are correlated. This design was appropriate because it helped establish the relationship between bank assurance and financial profitability of Kenyan commercial banks. This research design was deemed appropriate because it showed an in-depth investigation that not only the significance of bank assurance on the performance of commercial banks in Kenya but it would also explore the strategies that can be used to improve the performance of bank assurance in the Kenyan banking industry.

### **3.3 Population**

The study population was all the commercial banks in Kenya which currently totals to 43 (CBK, 2014). The target population of the study was senior managers in the finance departments of banks that provide bank assurance services. This is because these are the people best placed to provide the required information. Following the small number of

banks involved in the study, the study included all of the firms hence a census.

### **3.4 Data Collection Procedures and Instruments**

The study used both primary and secondary data. Secondary data was from published financial reports of the Kenyan banks. The drop and pick method was used to collect primary data. The structured questionnaires were used in an effort to conserve time and money as well as to facilitate in easier analysis as they were in immediate usable form.

Primary data was collected using structured questionnaires. The questionnaire consisted of both open and closed ended questions. Questionnaires are the most commonly used methods when respondents can be reached and are willing to co-operate. This method can reach a large number of subjects who are able to read and write independently. The study used a questionnaire containing both closed-ended and open-ended questions. Secondary data was collected from published financial reports of the banks.

### **3.6 Data Analysis and Presentation**

Once the raw data was collected it was cleaned and then edited for completeness and consistency. It was then systematically organized to confirm if it represented the target population and to facilitate objective analysis at a later stage. The responses were also screened for correctness and accuracy and then they were assigned numerical values which represented various attributes being measured.

In order to study the significance of bank assurance on the financial performance of commercial banks in Kenya, the tool of analysis to be used was the CAMEL MODEL

(Capital Adequacy, Management performance, Earning performance and liquidity), this model is commonly used to determine the financial performance of banks.

$$Y = B_0 + B_1 X_1 + B_2 X_2 + \epsilon$$

Where Y = Financial performance (Return of Assets)

$X_1$  = Administration Costs

$X_2$  = Market Share

Correlation coefficient was also used to show the significance of bank assurance to financial performance of Kenyan Commercial banks. It ranges from -1.0 to +1.0. The closer r is to +1 or -1, the more closely the two variables are related. If r is close to 0, it means there is no relationship between the variables. If r is positive, it means that as one variable gets larger the other gets larger. If r is negative it means that as one gets larger, the other gets smaller (often called an "inverse" correlation).

Data on the performance of commercial banks was collected from secondary data while the independent variables data was collected from primary data.

## CHAPTER FOUR

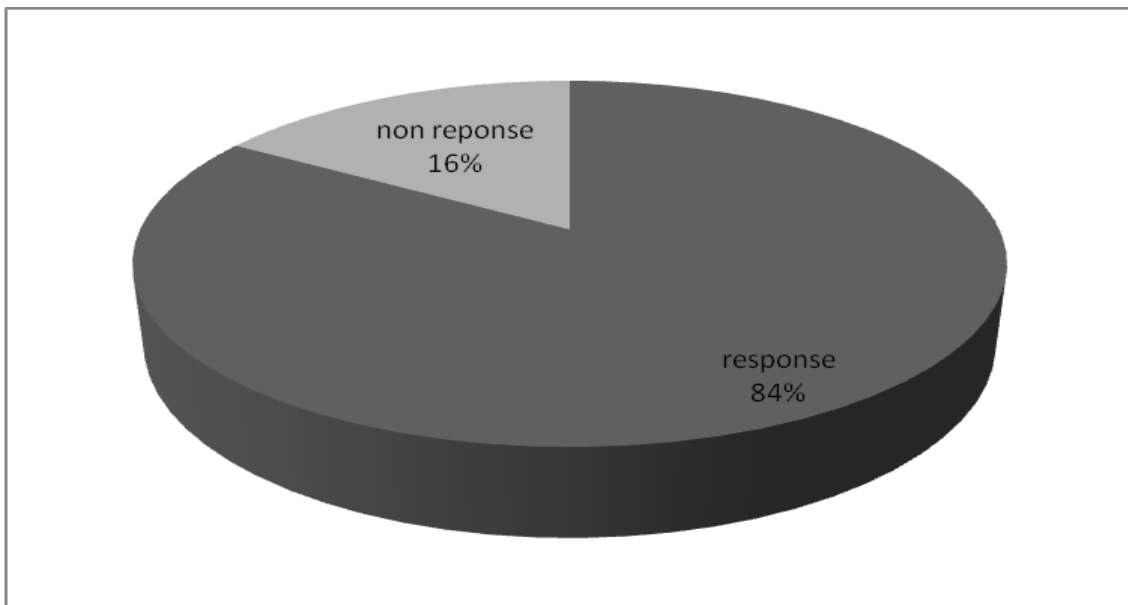
### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter presents analysis, findings and discussion of the study. The objective of the study was to determine the significance of bank assurance on financial performance of Kenyan commercial banks. Data was collected using a questionnaire.

#### 4.2 Response Rate

The study targeted all the 43 commercial banks in Kenya. Out of the targeted 43, 36 banks filled and returned their questionnaires. This translated to a response rate of 84%. According to Mugenda and Mugenda (2003), the statistically significant response rate for an analysis should be at least 50%.



**Figure 4.1: Response Rate**

### 4.3: Demographic Information

#### 4.3.1 Ownership of the Bank

The study sought to establish the ownership of the bank. The findings are shown in table 4.1

**Table 4. 1: Ownership of the Bank**

	Frequency	Percentage
Government	5	14
Private	21	58
Private and Government	10	28
<b>Total</b>	<b>36</b>	<b>100</b>

Those banks that are owned by the government comprised 14% of the respondents, 58% private banks, 28% private and government. The study involved banks that had different ownership structures and thus brought in perspectives from the different management practices.

#### 4.3.2 Years Bank Has Operated In Kenya

The study sought to establish the number of years the bank has been in operation in Kenya.

**Table 4. 2: Years Bank has Operated**

	Frequency	Percentage
Below 5 years	3	8
6-10 years	8	22
11-15 years	10	27
Over 16 years	16	43
<b>Total</b>	<b>37</b>	<b>100</b>

The banks that have been in operation for less than 5 years in Kenya were 8%, 22% had been operations for 6-10 years, 27% had been in operations for 11-15 years while 43%. This ensured that all banks that were involved in the study had been in operation for a

considerably period of time and thus understood the banking sector.

### **4.3.3 Assurance Services**

The study sought to establish whether the banks offered assurance services. The findings showed that all banks involved in the study offered assurance services.

### **4.3.4 Profitability Range of the Bank**

The study sought to establish the profitability range of the bank . The findings are shown in the table below.

**Table 4.3: Profitability of the Bank**

	Frequency	Percentage
Below 500 M	6	17
1-10 B	12	33
500M – 1B	10	28
Over 10B	8	22
<b>Total</b>	<b>36</b>	<b>100</b>

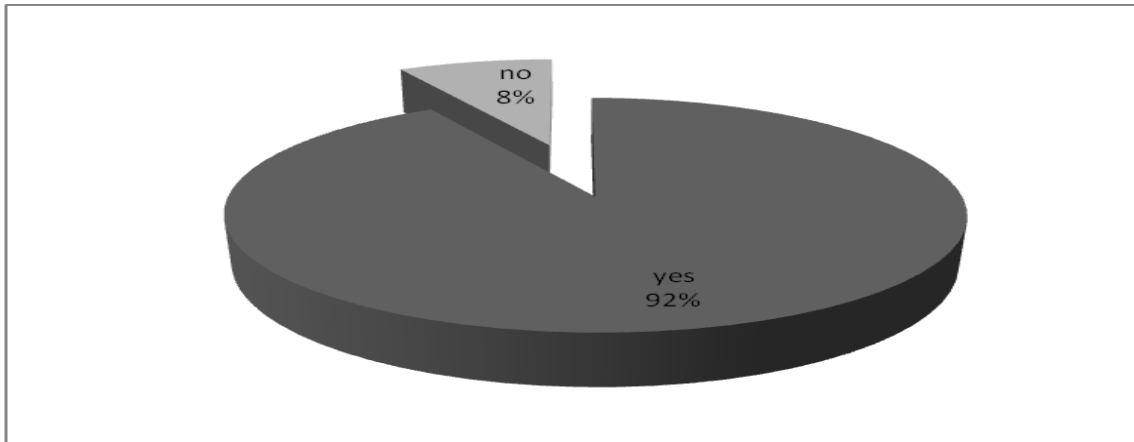
Those banks whose profit range was below 500M were 17%, 33% profits range was between 1-10B, 28% between 500M-1B and those that made Over 10B were 22%.

## **4.4 Administration Costs**

### **4.4.1 Bank assurance and administration cost**

The study sought to establish whether the bank assurance has affected the administration cost of the bank. The findings are shown in the figure 4.2.





**Figure 4.2: Bank Assurance and Administration Cost**

The banks that said bank assurance affected the administration cost of the bank were 92% were 8% said it did not. According to Scholtens and van Wensveen (2003) financial intermediaries are created whenever an intermediary finds that it can sell them for prices which are expected to cover all costs of their production, both direct costs and opportunity costs.

#### **4.4.2 Effect of Bank Assurance on Administration Cost**

The table 4.4 shows the effects of bank assurance on the administration cost.

**Table 4.4: Effect of Bank Assurance on Administration Cost**

	<b>Mean</b>	<b>Std.Dev</b>
It has increased stationery costs	3.821	0.231
It has increase revenue base for the bank	4.021	0.254
It has enabled cross marketing hence saving on marketing costs	4.528	0.631

The banks said that bank assurance has increased stationery costs to a great extent with a mean of 3.821 and increased the revenue base for the bank to a great extent with a mean of 4.021. There has been an increase in the need for banks to come up with new strategies so as to increase profitability due to the increased competition in the banking industry.

(Krstić et al., 2011) cites that bank assurance has increased profitability among the banks. The banks also said that bank assurance has enabled cross marketing hence saving on marketing costs to a very great extent with a mean of 4.528. According to Krstić *et al.*,(2011) the bank and insurance company partnerships has resulted in the reducing of the administrative and marketing costs.

#### **4.4.3 Extent of Influence of Bank Assurance on Costs**

The study sought to establish the extent to which bank assurance affected the administration costs. The findings are shown in the table below.

**Table 4.5: Extent of influence of bank assurance on costs**

	<b>Frequency</b>	<b>Percentage</b>
Very Great Extent	13	36
Great Extent	18	50
Moderate Extent	2	6
Little Extent	2	6
No Extent At All	1	3
<b>Total</b>	<b>36</b>	<b>100</b>

The banks that said bank assurance affected the banks to a very great extent were 36%, 50% said to a great extent, 6% said to a moderate extent, another 6% said to a little extent and 3% said to no extent at all. This relation between banks and insurance companies has been justified by the need by the two sectors to reduce operating expenses (Fiordelisi and Ricci, 2011).

#### **4.5 Market Share**

The study sought to establish ways in which bank assurance could affect the market share of banks. Table 4.6 shows the findings.

**Table 4. 6: Bank Assurance and Market Share**

	<b>Mean</b>	<b>Std. Dev</b>
Bank assurance has increased the number of customers	3.988	0.214
Bank assurance has increased the popularity of the bank	4.021	0.325
Bank assurance has increased the deposits in the Bank	4.055	0.442
Bank assurance has increased the loan portfolio of the bank	4.233	0.182

Asked whether bank assurance had increased the number of customers scored a mean of 3.9888 an indication that they agreed. Fiordelisi and Ricci, (2011) cited that one of the advantages of bank assurance is that it ensures customer retention and attraction. The banks also agreed that bank assurance had increased the popularity of the bank to a mean of 4.021. The partnership between the banks and insurance companies has promoted popularity between the customers of the two firms due to the ease in marketing (Arora and Jain, 2013). On whether bank assurance had increased the deposits in the banks agreed with a mean of 4.055 and also agreed that bank assurance has increased the loan portfolio of the bank to a great extent. The bank supervision report (2012) asserts that Banks are also luring depositors, mostly savings accounts holders to take up depositor's insurance cover and thus increased their deposits and loan portfolios from the new customers taking up loans.

#### **4.5.1 Extent of Influence to Market Share**

The study sought to establish to what extent bank assurance has affected market share of the Bank. Table 4.7 shows the results

**Table 4.7: Extent of Influence to Market share**

	<b>Frequency</b>	<b>Percentage</b>
Very Great Extent	8	22
Great Extent	23	64
Moderate Extent	3	8
No Extent At All	2	6
<b>Total</b>	<b>36</b>	<b>100%</b>

The respondents that said bank assurance affects market share to a very great extent were 22%, 64% said to a great extent, 8% said to a moderate extent and 6% said no extent at all. The bank assurance policies were introduced in Kenya by the Central Bank of Kenya, to increase coverage of insurance companies taking advantage of the expansive branch networks the commercial banks in Kenya are enjoying thus increasing the market share of both organizations (CBK, 2012).

#### **4.6 Financial Performance**

The study sought to find out the extent to which bank assurance has affected the financial performance of the Banks. The findings are shown in Table 4.8

**Table 4.8: Bank Assurance and Financial performance**

	<b>Mean</b>	<b>Std. Dev</b>
Improved ROA of the Bank	4.210	0.652
Improved profit margins	4.445	0.331
Effective utilization of resources	4.521	0.452
Assets securitization by selling insurance products	4.621	0.113
Greater fee based income	4.322	0.421

The findings show that the bank assurance had improved the ROA of the bank to a great extent by a score of 4.210, and also improved the profits margins to a great extent by a mean of 4.445. According to Khrawish, (2011), one of the indicators of profitability is the rate on asset ratio. This is an indication that bank assurance had promoted the profitability of the banks. The ROA shows how efficiently the resources of the company

are used to generate the income. It further indicates the efficiency of the management of a company in generating net income from all the resources of the institution (Wong, 2004). This findings were replicated by the findings which showed that the extent to which bank assurance had improved the effective utilization of resources was to a very great extent with a score of 4.521 and to a very extent on assets securitization by selling insurance products by a mean of 4.621. The findings also show that bank assurance had enabled a greater fee based income to a great extent by a mean of 4.322.

#### 4.7 Regression Analysis

**Table 4. 9: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.861 <sup>a</sup>	.742	.726	11.87860
a. Predictors: (Constant), MV, AC				

From table 4.9 above,R-Square which is the coefficient of determination is a commonly used statistic to evaluate the fitness of the model. The adjusted R<sup>2</sup>, is also called the coefficient of multiple determinations, is the percentage of the variance in the dependent explained uniquely or jointly by the independent variables. From the 72.6 % of variations in the financial performance can be attributed to the combined effect of the predictor variables namely administration costs and market share. This means that 27.4% of the changes in financial performance can be attributed to other factors.

**Table 4. 10: ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.170	2	.585	23.4	.023 <sup>b</sup>
Residual	.833	33	.025		
Total	2.003	35			

The probability value of 0.023 indicates that the regression relationship was highly significant in predicting how administration costs and market value influenced the financial performance of Kenyan commercial banks. The F critical at 5% level of significance was 3.29 while the value of F calculated was 23.4. since F calculated is greater than the F critical (value = 3.29) thus showing that the model was significant.

**Table 4. 11: Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	.279	.079		3.517	.001
AC	.183	.138	.233	1.330	.013
MV	.092	.138	.117	.664	.033

From the table 4.11 the regression model can be written as:

$$Y = 0.279 + 0.183X_1 + 0.092X_2 + \epsilon$$

The regression equation above has established that taking all factors (administration costs and market value) constant at zero, the financial performance of the commercial banks will have an autonomous value of 0.279. The findings presented also show that taking all other independent variables at zero, a unit increase in administration costs would lead to a 0.183 increase in the financial performance of the commercial banks. A unit increase in market value would lead to a 0.092 increase in the financial performance of commercial banks.. All the variables were significant as the P-values were less than 0.05. This inferred that all the variables contributed to the financial performance of Kenyan commercial banks.

#### **4.8 Interpretation and Discussion of Results**

From the findings of the regression table, the study established 72.6 % of variations in the financial performance can be attributed to the combined effect of the predictor variables namely administration costs and market share. This meant that 27.4% of the changes in financial performance can be attributed to other factors. The value of Calculated F was 23.4 while the value of F critical was 3.29. Since F calculated was greater than the F critical (value = 3.29) thus showing that the model was significant. The regression equation established that taking all factors constant at zero, the financial performance of the commercial banks will have an autonomous value of 0.279. The findings presented also showed that taking all other independent variables constant at zero, a unit increase in administration costs would lead to a 0.183 increase in the financial performance of the commercial banks. A unit increase in market value would lead to a 0.092 increase in the financial performance of commercial banks. The study also established that all the variables were significant as the P-values were less than 0.05.

Regarding the administration cost, the study established that bank assurance affected the administration cost of the bank. According to Scholtens and van Wensveen (2003) financial intermediaries are created whenever an intermediary finds that it can sell them for prices which are expected to cover all costs of their production, both direct costs and opportunity costs. The study revealed that bank assurance has increased stationery costs to a great extent and increased the revenue base for the bank to a great extent. There has been an increase in the need for banks to come up with new strategies so as to increase profitability due to the increased competition in the banking industry. (Krstić et al., 2011) cites that bank assurance has increased profitability among the banks. The findings also

established that bank assurance has enabled cross marketing hence saving on marketing costs to a very great extent. According to Krstić *et al.*, (2011) the bank and insurance company partnerships has resulted in the reducing of the administrative and marketing costs.

The study established that bank assurance had increased the number of customers. Fiodelisi and Ricci, (2011) cited that one of the advantages of bank assurance is that it ensures customer retention and attraction. The findings also established that bank assurance had increased the popularity of the bank. The partnership between the banks and insurance companies has promoted popularity between the customers of the two firms due to the ease in marketing (Arora and Jain, 2013). The study established that bank assurance had increased the deposits in the banks and also established that bank assurance has increased the loan portfolio of the bank. The bank supervision report (2012) asserts that Banks are also luring depositors, mostly savings accounts holders to take up depositor's insurance cover and thus increased their deposits and loan portfolios from the new customers taking up loans.

The findings show that the bank assurance had improved the ROA of the bank to a great extent, and also improved the profits margins to a great extent. According to Khrawish, (2011), one of the indicators of profitability is the rate on asset ratio. This is an indication that bank assurance had promoted the profitability of the banks. The ROA shows how efficiently the resources of the company are used to generate the income. It further indicates the efficiency of the management of a company in generating net income from all the resources of the institution (Wong, 2004). This findings were replicated by the findings of this study that showed that the extent to which bank assurance had improved



the effective utilization of resources was to a very great extent and to a very extent on assets securitization by selling insurance products.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter discusses the findings of the study, draws up conclusions and makes recommendations. The conclusions and recommendations were drawn in addressing the research objective which was to determine the significance of bank assurance on financial performance of Kenyan commercial banks.

#### **5.2 Summary of Findings**

##### **5.2.1 Administration costs**

On bank assurance and administration cost, the study established that 92% of the respondents indicated that bank assurance affected the administration cost of the bank while 8% of the respondents did not. On effects of bank assurance on administration cost, results presented in table 4.4 showed that majority of the respondents agreed to a great extent that bank assurance has increased stationery costs as shown with a mean of 3.821 and a deviation of 0.231. Majority of the respondents also agreed to a great extent that bank assurance has increased the revenue base for the bank to a great extent with a mean of 4.021 and a deviation of 0.254. The study further established that majority of the respondents agreed to a very great extent that bank assurance has enabled cross marketing hence saving on marketing costs as shown with a mean of 4.528 and a deviation of 0.631.

### **5.2.1 Market share**

On the extent of influence of bank assurance on costs, the study established that 36% of the respondents indicated that bank assurance affected the banks to a very great extent, 50% of the respondents said to a great extent, 6% said to a moderate extent, another 6% said to a little extent and 3% said to no extent at all. Asked whether bank assurance had increased the number of customers, results presented in Table 4.6 showed that majority of the respondents agreed to a great extent as shown with a mean of 3.9888 and a deviation of 0.214. The banks also agreed that bank assurance had increased the popularity of the bank to a mean of 4.021 and a deviation of 0.325. On whether bank assurance had increased the deposits in the banks, majority of the respondents agreed to a great extent with a mean of 4.055 and also agreed that bank assurance has increased the loan portfolio of the bank to a great extent. Regarding the extent of influence to market share, 22% of the respondents that said bank assurance affects market share to a very great extent, 64% said to a great extent, 8% said to a moderate extent while 6% said no extent at all.

### **5.2.2 Financial Performance**

On financial performance, the findings presented in Table 4.8 showed that bank assurance had improved the ROA of the bank to a great extent by a score of 4.210, and also improved the profit margins to a great extent by a mean of 4.445. These findings also indicate that majority of the respondents agreed to a very great extent that bank assurance had improved the effective utilization of resources as shown with a score of 4.521 and a deviation of 0.452 and also to a very extent on assets securitization by selling insurance products as shown with a mean of 4.621 and a deviation of 0.113. The findings also

showed that majority of the respondents agreed to a great extent that bank assurance had enabled a greater fee based income as shown with a mean of 4.322 and a deviation of 0.421.

### **5.3 Conclusions**

The study concludes that bank assurance has a significant influence in the profitability of commercial banks in Kenya. Bank assurance has proved not only to be an additional source of revenue for banks but also an avenue of increasing its customer base and market share. This in the long run affects the revenues of the banks in a positive manner hence increased profits. The study established that bank assurance has enabled cross marketing hence saving on marketing costs to a very great extent. Hence the study concludes that banks have made tremendous savings due to cross marketing.

Bank assurance had increased the number of customers for the banks, the study therefore concludes that banks have obtained or gained customers due to the influence of bank assurance. The study concluded that bank assurance had increased the popularity of the banks.

Regarding financial performance, the study concludes that banks have grown their asset value as well as realizing profits brought about by effective utilization of resources and revenues acquired from the insurance companies as commissions. The study therefore concludes that banks have gained a lot of income due to influence of bank assurance.

### **5.4 Recommendation**

On increase in revenue from bank assurance, the study recommends that more banks actively take up bank assurance on all insurance policies available so as to increase the

revenue base of the bank. This will also widely market the services offered to the banks by customers that are interested in the insurance products.

On market share, the study outlines that bank assurance has increased the market share of the banks. This study therefore recommends that the banks together with the insurance companies strategize on innovative products that will give them a competitive advantage and increase their market share by reaching out to more customers.

On the significance of bank assurance and financial performance of the banks, this study therefore recommends that banks should take up banks- insurance firms' strategies so as to generate more revenue and increase profitability.

### **5.5 Suggestions for Further Studies**

The study concentrated on the the significance of bank assurance on financial performance of Kenyan commercial banks. The study thus recommends that in the future a similar study be conducted across insurance companies and other MFI. This will enable the generalization of the findings.

The study recommends that in future a study be conducted to determine the impact of bank assurance as a customer attraction strategy across the commercial banks in Kenya. This will be important in evaluating the effectiveness of bank assurance in attracting more customers and increasing the market share.

### **5.6 Limitations of the Study**

The study encountered various limitations.

The study relied on primary data collected using questionnaires. During data collection

some of the respondents were reluctant to give information as they were afraid that the information would be used against them. However the researcher assured them the information would be treated with confidentiality and that the findings were only to be presented for academic purposes.

Another limitation of the study was time. There was limited time available to complete the research as the targeted respondents who are in management operated busy schedules and thus had limited time to respond to the questions. To overcome this challenge, the researchers used a drop and pick later method so as to allow the respondents some time to fill in and return the questionnaires.

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**SECTION B: ADMINISTRATION COSTS**

1. Has bank assurance affected administration costs in the Bank in any way?

Yes [ ] No [ ]

2. If your answer to question 5 is ‘yes’ Please indicate to which it has affected administration costs (1= no extent, 2= little extent, 3= moderate extent, 4= great extent and 5 = very great extent).

	1	2	3	4	5
It has increased stationery costs					
It has increase revenue base for the bank					
It has enabled cross marketing hence saving on marketing costs					

3. To what extent has bank assurance affected administration costs?

No extent [ ]

Little extent [ ]

Moderate extent [ ]

Great extent [ ]

Very great extent [ ]

**SECTION C: MARKET SHARE**

4. Below is a list of some ways in which bank assurance could affect the market share of banks. Please indicate the extent to which you agree with each statement as regards the effects of bank assurance on the performance of your bank in terms of market share.

	1	2	3	4	5
Bank assurance has increased the number of customers					
Bank assurance has increased the popularity of the bank					
Bank assurance has increased the deposits in the Bank					
Bank assurance has increased the loan portfolio of the bank					

5. To what extent has bank assurance affected market share of the Bank?

No extent [ ]

Little extent [ ]

- Moderate extent [       ]
- Great extent     [       ]
- Very great extent [       ]

**SECTION D: FINANCIAL PERFORMANCE**

6. Below are several ways in which bancassurance has affected the financial performance of your Bank. Kindly indicate the extent to which you agree with each. (1= no extent, 2= little extent, 3= moderate extent, 4= great extent and 5 = very great extent).

	1	2	3	4	5
Improved ROA of the Bank					
Improved profit margins					
Effective utilization of resources					
Assets securitization by selling insurance products					
Greater fee based income					

## **APPENDIX II: LIST OF COMMERCIAL BANKS IN KENYA**

### **A. COMMERCIAL BANKS**

1. African Banking Corporation Limited.
2. Bank of Africa Kenya Limited.
3. Bank of Baroda (K) Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CFC Stanbic Bank Limited.
7. Charterhouse bank Limited ( Under- statutory management)
8. Chase Bank (K) Limited.
9. Citibank N.A Kenya
10. Commercial Bank of Africa Limited
11. Consolidated Bank of Kenya Limited
12. Co-operative Bank of Kenya Limited.
13. Credit Bank Limited.
14. Development Bank of Kenya Limited.
15. Diamond Trust Bank Kenya Limited.
16. Dubai Bank Kenya Limited.
17. Eco bank Kenya Limited.
18. Equatorial Commercial Bank Limited.
19. Equity Bank Limited.
20. Family Bank Limited.
21. Fidelity Commercial Bank Limited.
22. First Community Bank Limited
23. Giro Commercial Bank Limited
24. Guaranty Trust Bank
25. Guardian Bank Limited
26. Gulf African Bank Limited
27. Habib Bank A.G.Zurich
28. Habib Bank Limited

29. Imperial Bank Limited
  30. I & M Bank Limited
  31. Jamii Bora Bank Limited
  32. Kenya Commercial Bank Limited
  33. K-Rep Bank
  34. Middle East Bank (K) Limited
  35. National Bank of Kenya Limited
  36. NIC Bank Limited
  37. Oriental Commercial Bank Limited
  38. Paramount Universal Bank Limited
  39. Prime Bank Limited
  40. Standard Chartered Bank Kenya Limited
  41. Trans National Bank Kenya Limited
  42. United Bank for Africa (K) Limited
  43. Victoria Commercial Bank Limited
- B. MORTGAGE FINANCE COMPANIES**
1. Housing Finance Company of Kenya Limited