THE EFFECT OF BANCASSURANCE ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY:

TRICKXIE NYAMBURA WAWERU

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DECLARATION

This research project is my original work and has not been presented for examination in any other University.

Signed……………………… Date……………………….

Trickxie Nyambura Waweru

D63/60082/2013

This research project has been submitted for examination with my approval as the University Supervisor.

Signed……………………….. Date…………………………

Mr. Herick Ondigo

Lecturer, Department of Finance and Accounting.

School of Business, University of Nairobi.

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Thank you all.

DEDICATION

Firstly, I would like to dedicate this project to my Almighty Father in Heaven. He gave me the grace to start and complete the project. Secondly, I dedicate my study to my parents; George Njuguna Waweru and Mary Wangari Waweru and my siblings; Lillian Njeri Waweru, Anthony Wachai and Stephen Mwangi Waweru, and my fiancée, Nelson Wambua Mutunga. God Bless you all.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

ACM	Assurances du Cr'edit Mutuel
BIM	Bank Insurance Model
CBK	Central Bank of Kenya
CRB	Credit Reference Bureau
GDP	Gross Domestic Product
IJES	International Journal of Engineering and Science
JKUAT	Jomo Kenyatta University of Agriculture and Technology
KBA	Kenya Bankers Association
NIM	Net Interest Margin
PWC	Price Waterhouse Coopers
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement
SPSS	Statistical Package for Social Sciences
SWOT	Strengths, Weaknesses, Opportunities and Threats
UFIRS	Uniform Financial Institutions Rating System

ABSTRACT

Financial Institutions for a long time have been grappling with the decrease in their interest margins as a result of the rise in competition, changes in technology and the deregulation of the Financial Sector as well as globalization. With the rise of financial innovation, Bancassurance is the way to go. Anja *et al.*, (2010), describes Bancassurance as the selling of insurance through the bank distribution channel. Bancassurance provides banks with the opportunity to acquire additional revenue streams while promoting customer retention. Few studies have been done relating to Bancassurance in its entirety.

The objective of the study was to determine the effect of Bancassurance on the financial performance of commercial banks in Kenya. Secondary data was collected from Central Bank of Kenya and Bank Financial reports and multiple regression and correlation analysis were used in the data analysis.

The study revealed that there was strong positive relationship between the financial performance of commercial banks and bancassurance, annual interest on loan advances but a negative relationship with annual inflation rate. Firstly, the study revealed that there was strong positive relationship between bancassurance and financial performance of commercial banks in Kenya. The study also found that there was a positive relationship between annual interest on loan advances and financial performance of commercial banks in Kenya. In contrast, however, the study revealed there was a negative relationship between annual inflation rate and financial performance of commercial banks in Kenya.

There is need for a committed top management to show full support in facilitating the adoption and implementation of bancassurance as there is significant relationship between bancassurance and financial performance of commercial banks. The study recommends that the Banking Act should be reviewed with a view of formulating policies so as to enhance clarity and recognition of this insurance sales channel through the banks.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The concept of Bancassurance was initially coined in Britain in 1965 with Barclays Life, a subsidiary of Barclays, which was later dropped with no much success. It was later to be revived in Spain and France. According to Berang'ere *et al*., (2005), in the 1970's the ACM (Assurances du Cr'edit Mutuel), in a bid to eliminate the involvement of middlemen in loan protection insurance in France, through provision of the same, rejuvenated the concept of Bancassurance. This was later followed by Spain in the 1980'swhen the Banco De Bilbao Group acquired a majority stake in Euroseguros SA (originally la vasca aseguradora SA).At that time, their control was purely financial as the legal framework prohibited banks from selling insurance. This barrier was finally lifted in 1991. Belgium followed in 1989.European and Asian countries took much longer to adopt this strategy with its first signs in Asia being noted in Korea in 2003(Focus, 2005). Chen *et al.,* (2009) noted that developing countries such as Asian countries took much longer due to the lack of establishment of Regulatory Frameworks and guidelines in the Financial Industry. According to Karunagaran (2006), Bancassurance has become widely adopted across the world from then on with Banks setting up Subsidiaries or going into Joint Ventures to facilitate this service.

Bancassurance can be defined as the partnership between a Bank and an Insurance company whereby the insurance company sells its policies through the bank network. The need for survival as a result of changes in regulation, Globalization and the changes in Customer demands have paved the way for the emergence of Financial Conglomerates resulting in Bancassurance (Karunagaran 2006).

Bancassurance, according to Florido (2002) is a combination of the word “banque or bank” and “assurance” signifying that both banking and insurance are being provided by the same corporate entity. This strategy is beneficial to both the bank offering its channel and the insurance company providing the services as the bank earns a risk- free income, referred to as Fee- based income while the Insurance company increases its capacity in reaching a wider customer base, thus increasing its numbers.

Kiragu (2014) noted that the increasingly competitive environment in the financial services markets has resulted in a company’s pressure to develop and utilize alternative delivery channels. Financial deregulation, convergence of markets and globalization has all had a negative effect in the Banking and Insurance Industries respectively. Banks have to come up with innovative ideas to maintain their customer base as well as increasing income. On the other hand, Insurance companies, faced with a stagnant growth and fairly mature markets, have to come up with innovative ideas to ensure survival.

Kiragu (2014) further states that, one major challenge facing General Insurance business is how to generate growth for an industry that has significant potential for growing as a percentage of GDP but has been stagnant. According to a survey conducted by Deloitte in 2008, the global economic outlook of Insurance Companies in the years ahead would face considerable challenges despite the current strong business conditions. Faced with this backdrop, insurance companies have to come up with innovative strategies to ensure sustainability in the future. On the other hand, the dwindling income from Traditional banking due to the changes in the savings nature of bank customers has forced banks to assess new opportunities to maintain profitability (Locatelli *et al.,* 2003).

The symbiotic relationship between these two sectors creates an opportunity to harness efficiencies as well as enhance profitability. Faced with the above backdrop, the study aims to investigate the relationship between Bancassurance and Financial Performance. It aims to investigate how Banks in Kenya are profiting by selling Insurance products through their networks

1.1.1 Bancassurance

Bancassurance is the process by which an insurance company uses the bank network to sell its policies (Anja *et al.*, 2010). The insurance company uses the bank's network to reach a wide customer base over which to market its products while the bank gains from the income other than interest income, which is risk- free. Arora (2013) stated that Insurance Companies require immense distribution strength and great power to reach a huge customer base. This distribution is facilitated immensely by various insurance companies who bring their policies to the common man through the basic network of Banks. According to the Taiwan Life Insurance Association Report (2010), Bancassurance represented 69 percent of new Insurance business with seven out of ten new business generated through cross-selling activities at Bank Branches. Deregulation that allows for diversification across both Financial Services as well as geographic areas together provide a potent rational for growth of Banking and Insurance in the years ahead.

Bancassurance is the process by which an insurance company uses the bank network to sell its policies. The insurance company uses the bank's network to reach a wide customer base over which to market its products while the bank gains from the income other than interest income, which is risk- free. Arora (2013) stated that Insurance Companies require immense distribution strength and great power to reach a huge customer base. This distribution is facilitated immensely by various insurance companies who bring their policies to the common man through the basic network of Banks. According to the Taiwan Life Insurance Association Report (2010), Bancassurance represented 69 percent of new Insurance business with seven out of ten new business generated through cross-selling activities at Bank Branches.

Banks on the other hand face the stark reality of reduction in savings due to changes in consumer savings behaviour. Locatelli *et al.,* (2003) stated that a decrease in household savings by consumers who now prefer remunerative investments have forced banks to fish for opportunities to maintain its interest margin. Banks have now ventured into investment banking or insurance, resulting in Bancassurance.

By allowing an insurance company to market its products through the bank network, a bank earns a revenue stream other than that which would have been earned from its banking business. El Pash (2012) noted that the combination of Banking and Insurance, that is., Bancassurance could prove to be a profitable venture for both existing operations. Bancassurance increases productivity through increased synergies, increased synergies and reduction in insolvency risk. Bancassurance has evolved over the years from merely the distribution that is of Insurance Products through the bank network. It now forms part a stringent relationship between these two sectors integrating all forms of relationships between the banks and Insurance Industries (Quagliarello, 2004)

1.1.2 Financial Performance

Organizational Performance is one of the most important constructs in Management Research (Richard *et al.,* 2009). Review of past studies reveals a multidimensional conceptualization of organizational performance related predominantly to the organizations Stakeholder, its heterogeneous product, market circumstances and the constraint factor of time. It is said to be the ultimate dependent variable of interest to management due to the consistent competition for customers, inputs and capital. It encompasses all aspects of the organization including Human Resource (HR), operations, marketing and strategy, components which are ultimately judged in determining the success of the modern business.

Organizational Performance measurement is essential in allowing managers to evaluate the specific action to be taken towards their rivals, internal actions as well as the firm's evolution over time. However, according to Richard *et al.,* (2009), although dimensions differ among different companies, Organizational performance is not a one- dimensional theoretical construct nor is it likely to be characterized by a single operational measure. He further describes three areas of Organizational Performance as; financial performance, that is, Profits, Return on assets (ROA), Return on Investment (ROI). Secondly, Product market performance, that is, Sales, Market Share and thirdly, Shareholder Return.

Namisi (2002) and Rutagi (2007) describe Financial Performance as to how well an organization is performing and the extent to which it achieves its intended outcome. Financial Performance of Institutions is usually measured using a combination of Financial Ratio analysis, benchmarking, measuring performance against a budget or a mix of all these methodologies. Otieno (2012) noted that most studies divided the determinants of performance of Commercial Banks into Internal and External Factors. Internal factors are further divided into Financial Statement Variables and Non- Financial Statement Variables. Financial Statement Variables are those variables that have a direct impact on the Financial Statement Items while Non- Financial Statement Variables do not have a direct impact on the Financial Statement items (Linyiru. 2006). On the flip-side, External Variables are those that are beyond a bank's control, that is, Competition, regulation, concentration, ownership, money supply, inflation.

1.1.3 Effect of Bancassurance on Financial Performance

In the Eighties, when Banks in select countries in Europe started implementing Bancassurance, the rest of the world contemplated for far too long whether or not to join. Eventually, Banks followed suit but after losing in terms of lost opportunity or lagging behind the late starters. Nowadays the foray of Life Insurance Premiums in West Europe has been achieved through Bancassurance. This translates to up to ninety percent of new life insurance business (Kumar, 2006).

The traditional sources of banks' revenues consisting of personal and commercial loans, Credit cards, maintenance fees, custodial services have been overtaken by growing competition, changes in regulation, shrinking interest rates and changes in customer savings and investment needs. Consequently, these financial institutions have been forced to fend for alternative sources of income to maintain their interest margins and sustainability. Jongeneel (2004) have noted that banks in the recent years have moved from traditional strategies of earning income to non-traditional strategies such as investment Banking, Securities Brokerage, Mutual Funds and Insurance Agencies. The ever increasing competitive nature of the banking industry has led to an increase in the cost of funds leading to banks having to come up with alternative deployment tactics to ensure that their interest margins are maintained.

Kumar (2006) stated that Bancassurance has been for a long time, practiced by Banks 'Passively' either as a way of risk mitigation (ensuring security of assets) or enhancing improved efficiency notably in case of liability products (deposits). Customers taking loans from banks had to take insurance in case of death, disability or theft of property. Mortgages, construction loans, personal loans had to be insured. The banks were benefiting however, the level of fee income was minimal. With the wave of Bancassurance, Banks have an opportunity to increase their earnings at minimal cost and stabilize their profits in the wake of dwindling interest margins.

Bancassurance provides endless opportunities for a bank to earn high fee income at low cost. Firstly, it is much easier for a bank to sell insurance products to its customers as it has complete knowledge about the financial status of its customers through their spending and savings patterns. Additionally, banks have an easier approach to customers in terms of persuasion to get an insurance product, since customers trust their banks more than an insurance company (Kumar, 2006). Bancassurance provides limitless advantages to banks. Bancassurance opens doors to new markets for growth, there is little or no competition, and an extremely high level of fee income on investments due to charging of high premiums. Additionally, banks get extra insurance against loss of assets, that is, through providing insurance to clients for their own products e.g, personal loan insurance against death or disability.

Bancassurance provides additional fee income for banks other than interest income – referred to as fee income. According to Kumar (2006), the best way to analyze the importance of insurance fee income on the Balance Sheet of a bank is to measure it against the interest margins. For example, Commercial Insurance on large and complicated projects can fetch a substantial fee income as insurance premiums. As a result, the fee income can be used to partly offset the interest reduction in a competitive lending environment. Similarly, the sale of a unit linked investment product from an insurance company can get more fee income than total interest income generated from a deposit product for a similar amount. Bancassurance also enhances a bank's financial statement items through retention of customers. Kumar (2006) states that a bank selling a ten year annual investment ties the customer with the bank for the next ten years. This gives the bank a great opportunity to maximize on potential additional business with the client.

1.1.4 Commercial Banks in Kenya

In Kenya, the concept of Banking started in the colonial period with the first colonially owned bank, British Commercial Bank, starting its operations in the 1890's. From then on, three British Banks dominated the Kenyan Banking system; The National Bank of India (started operations in 1896), The Standard Bank of South Africa (1910) and the National Bank of South Africa (Opondo, 2009). These banks were characterized by a high degree of concentration, branch banking, exclusivity from foreign trade and lack of concern of the African Banking Population.

The Banking Sector in Kenya has undergone Financial Innovations over the years to meet the growing changes in customer tastes and preferences, changes in the market structure, changes in regulation and the need to survive in an ever dynamic and changing competitive business environment (Kiragu, 2014). As a result, product, process and institutional innovations have emerged. Process innovations include advanced technologies, efficiency in operations as well as faster ways of money transfer, that is, RTGS. Institutional and Product innovations include the advance of Internet banking, mobile banking, and the setting up of CRB bureaus and Bancassurance.

In Kenya Bancassurance is regulated by the Insurance Regulatory Authority (IRA). According to Kirui (2009), The Banking Act in Kenya does not expressly provide for banking to undertake the role of providing Insurance services and products. It does not mention any synergies or innovation that would bring the practice of Bancassurance within its purview. The writer further stated that, it was clear that the Banking Sector had not endeavored to regulate any other business than the Banking business and most recently, Forex Bureaus and Agency Banking. This overlap allowed for IRA to serve this regulatory overlap. Through its circular dated 03/2010, it provided guidelines for Bancassurance in Kenya. It regulates certain areas such as establishment of an insurance agency, the products to be offered through Bancassurance, guidelines on agreement between the Insurance agency and the insurer, Annual Reports of the Insurance agent, Audited Reports of the Insurance agent, Inducement and Compellation and disqualification.

1.2 Research Problem

Financial Institutions for a long time have been grappling with the decrease in their interest margins as a result of the rise in competition, changes in technology and the deregulation of the Financial Sector as well as globalization. The major income generated by banks is interest income. This is income arising from the difference between the lending and borrowing rates charged to customers. However current market conditions have put a strain on the interest income as cost of borrowing funds have substantially risen and lending has become too competitive to provide worthwhile interest income (Kumar, 2006).

The liberalization of the Kenyan Market has brought even a bigger burden to Commercial Banks as it has broaden the playing field with businesses in other sectors of the economy wanting a ‘piece of the cake’ (Kiragu, 2014). With the advent of m-pesa by Safaricom and Airtel’s airtel money, where customers can save their money through their phones, banks have noticed a drop in the deposit base of their customers. Additionally, new and innovative products such as m-shwari, have allowed customers to borrow loans through their mobile phones.

With the rise of financial innovation, Bancassurance is the way to go. Anja *et al.,* (2010), describes Bancassurance as the selling of insurance through the bank distribution channel.

Bancassurance provides banks with the opportunity to acquire additional revenue streams while promoting customer retention.

The Bancassurance sector in Kenya is regulated by strict guidelines that have seen only a handful of Commercial Banks given the green- light to provide insurance policies. Anja *et al.,* (2010) stated that Bancassurance is not permitted under the Banking Act but has been provided through case-by-case exemptions facilitated by the CBK and IRA. In effect, only certain banks provide Bancassurance while others are not even aware of this option. In effect this study will provide information that may prove useful to the remaining banks to use for purposes of charting the way forward towards Bancassurance. Additionally, with the need to diversify operations, change in line with the changes in customer needs and venture into new and profitable markets; this study presents a good frontier for Commercial Banks to venture into to maintain their profitability and also survival in the ever-changing business world.

Few studies have been done relating to Bancassurance in its entirety. Kiragu (2014) in his study assessed the challenges facing insurance companies in building competitive advantage in Kenya. He noted that changes in regulation had the most negative effective in the Insurance industry. Mwangi (2010) did a study on the determinants of the growth of Bancassurance in Kenya. Omondi (2013) did a study on the determinants of adoption of Bancassurance by Commercial Banks in Kenya. The study focused on the influx of new revenue and business diversification as brought about by Bancassurance. The study sought to answer the following question: What is the effect of Bancassurance on the Financial Performance of Commercial Banks in Kenya?

1.3 Research Objectives

To determine the effect of Bancassurance on the financial performance of commercial banks in Kenya

1.4 Value of the Study

The study is valuable as it will be able to provide further information and knowledge into Bancassurance and can be used as a starting point to acquire further information by students and researchers. Researchers and Students can use the study to build more knowledge into the field of Bancassurance and also get topics for further study where gaps are found.

Additionally, the study can be used by Commercial Banks that want to venture into the field of Bancassurance. The study will provide analysis into the effect of Bancassurance and Banks can acquire valuable information to use in their future prospects especially with the rise in the increasingly competitive financial services sector and thus provide more opportunities for growth and additional sources of revenue.

The study can be used by Government to formulate policies for the growth of Bancassurance in Kenya. The government should endeavor to provide strategies for growth for Banks as this will have a positive impact on the overall growth of the economy. As a result, this study could prove to be useful as its analysis could be used by the Government to formulate new policies that could reduce the hindrance of the growth of this Financial Innovation.

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

This chapter will start off by assessing the various theories relating to the study at hand, their prepositions and implications. It will then delve into the determinants of Financial Performance of Commercial Banks. Empirical literature will also be shown with objectives, methodology and results. Finally, a summary of the literature discussed in the chapter will be discussed.

2.2 Theoretical Review

The Theoretical Review will analyze theories and concepts that propose the rationale behind Bancassurance. In this case, the Modern Portfolio, Financial Intermediation and Economies of Scale theories will be discussed.

2.2.1 Modern Portfolio Theory

The Modern Portfolio theory was developed by Markowitz (1952). Markowitz drew attention to the common practice of Portfolio diversification and showed exactly how an investor can reduce the standard deviation of portfolio returns by choosing stocks that do not exactly move together. The rule states that the investor does (or should) diversify his funds among all those securities which give maximum expected return (Markowitz, 1952). He further went ahead to work on the basic principles of portfolio construction that eventually led to the concept of Efficient Portfolios. According to Markowitz (1952), a portfolio that gives both maximum expected returns and minimum variance should be commended to the investor.

These basic principles are the foundation for much of what has been written about risk and return.

An efficient portfolio consists of a set of assets that give either a high return for a given level of risk or a low risk for a given level of return. In essence, a shrewd investor may reduce the risk of a negative return by holding a portfolio of different assets in order to mitigate the risk of loss should one of those assets not produce the expected outcome, that is, diversification. Thanks to diversification, the portfolio risk is less than the average risk of the separate stocks (Brealey and Myers, 2003)

Commercial Banks have over the years noticed that there is a need to diversify their portfolio of offerings to remain relevant, increase their earnings and maintain their sustainability in this cut-throat competitive financial services industry. With the liberalization of the market coupled with deregulation and globalization, banks have found it increasingly difficult and costly to maintain their profitability. Jongeneel (2011) noted factors such as and evolved e-commerce channel and changes in consumer attitudes leading to the steady decline in interest margins on loans of Commercial Banks from the 1980s. Banks are now investing in Financial Innovation and venturing into areas of diaspora banking, internet banking, Mobile banking, custodial services, shares management, trade and commodity banking and Bancassurance.

Bancassurance as a Bank’s strategy to venturing into other areas of business and diversification has positive impacts to its financial performance. Providing a variety of financial services to the same customer base enhances customer loyalty. This could have a positive impact on the long term earnings of the bank. Jongeneel (2011) stated that, by being a one-stop-shop financial solution, a commercial bank seizes the opportunity to grow in significance. Secondly, Bancassurance provides additional income to the bank known as fee income. Brealey and Myers (2003) further noted that diversification brings scale, which may make it easier to attract professional management, gain access to international financial markets, or to gain political power in countries where government tries to manage the economy or where laws and regulations are erratically enforced.

2.2.2 Theory of Financial Intermediation

Financial intermediation is the transfer of funds from agencies that have a surplus to agencies that have a deficit through Financial Intermediaries (Alexandru *et al.*, 2009). The Theory behind Financial Intermediation arose from three different approaches namely; the theory of informational asymmetry, transactional cost theory and the theory of regulation of monetary regulation. (Bert and Dick, 2003)

The theory of Informational asymmetry dates back to the 1960's. It was developed by Gurley and Shaw (1960) and emphasized that intermediaries came about as a result of informational asymmetry leading to high transactional costs. The need to reduce the effects of imperfect markets gave rise to financial intermediaries as they were seen to eliminate or partially reduce some specific forms of transactional costs through pooling of resources of individual customers leading to scale economies (Alexandru *et al.*, 2009)

The theory of Transaction cost, developed by Benston and Smith Junior (1976), emphasized on the impact of transactional technologies that were brought about by financial intermediation (Bert and Dick, 2003). Intermediaries are perceived to be a coalition of individual creditors and debtors who exploit the scale economy at the level of transactional technologies (Alexandru *et al.*, 2009). Through their function of processing huge volumes of data at high efficiencies, clients perceive that they are experts at making the best financial decisions.

The third approach to Financial Intermediation is based on the regulation of money production and of saving in and financing of the economy (Bert and Dick, 2003). This approach was developed by Guttentag and Lindsay (1968) .As stated by Arthur and Iris (2003), this method of regulation influences the liquidity and solvability of intermediaries involved.

Banks have found it increasingly difficult to maintain their profitability due to increased competition, globalization and liberalization of the market. The need for specialized partnerships is seen to be imperative for the long-term growth and sustainability of these Financial Institutions as well as maintaining their liquidity. By comparison, Insurance companies have over the years found it increasingly difficult to maintain their competitive advantage in the ever- changing competitive environment. Kiragu (2014) noted that the increasingly competitive environment in the financial services market has resulted in the pressure to develop and utilize alternative delivery channels. With this, Insurance companies are striving to ensure that they can garner a huge customer base to increase their premiums.

Bancassurance proves to be a worthwhile vehicle for both the Bank and the Insurance Company through the concept of Financial Intermediation. As financial institutions faced with the backdrop of the ever changing and competitive financial services industry, their partnerships allow them to take advantage of efficiencies in transactional technologies and reduction in transactional costs. More importantly, their combined efforts increases customer loyalty as accumulators of funds as clients perceive that they will invest in the funds wisely.

2.2.3 Theory of Economies of Scale

The theory of Economies of Scale was laid out by Marshall (1890). Marshall assigned the key role to external economies in his attempt to reconcile increasing returns and competitive equilibrium (Hart, 1996). It is argued that Marshall's chief purpose in creating the category of external economies was to explain the great historical reduction in production costs associated with increase output (Roy and Wilfred, 2011). To the extent that Marshall envisaged the advantages available to small firms as arising from the general progress of industries, and although he clearly distinguished between external and internal economies, there was a clear conclusion that the two sources are seen to co-exist. The availability of external economies to firms is seen to increase with the scale of industry output, a factor which also induces the average size of firms to increase, and therefore the availability of internal economies (Roy and Wilfred, 2011).

Economies of Scale Refer to the cost advantages that enterprises obtain due to size, output or scale of operations. Economies of scale are either internal, external, National, International, aggregative or dis-aggregative (Hart, 1996). In Bancassurance, economies of scale are dominant in the fact that Banks and Insurance companies operate in a similar fashion. They both deal with reserves, have similar expertise in administration and money management, they both create liquidity, assume a risk- spreading through re-insurance or re-financing and rely on the law of large numbers. (Hart, 1996) stated that Banks take advantage of economies of scale arising from the law of large numbers. Similarly, Insurance companies rely on the law of large numbers. In insurance, this means that the expected loss distribution approaches the true loss as the sample grows. Additionally, they offer complimentary products. Banks require their borrowers to take insurance against various risks e.g, insurance against death and permanent disability when taking personal loans making insurance an inherent part of the loan. In this regard, their integration can have a positive impact on their operations in the case of cost- savings.

Economies of scale focus most of its attention on reduction of costs through increased productivity. The mechanics through which Bancassurance is executed is through the use of the bank's distribution network, that is, its branch network. Through this, the Banks acquires an extra income other than interest income- referred to Fee Income at a reduced cost. This is because the policies are marketed through an already established branch network rather than the bank forming a completely new wing with the same business. Additionally, the fact that Banking and Insurance are similar in provides a great avenue to combine forces at a lower cost.

Bancassurance model could eventually create cross- selling business synergies for banks that could lead to cost- savings through economies of scale. To offer a wider range of services is beneficial to bank-assurers as this could bring comparative advantages over regular commercial banks. Jongeneel (2011) stated that economies of scale are mentioned as a pivotal argument to adopt Bancassurance strategy. Part of the efficiency benefits apply to banks that have chosen Bancassurance. The more insurance products a bank sells, the more experience it will gain along with scale advantages and ultimately, the marginal selling costs can decrease. A reduction in costs by a commercial bank is a positive strategy to enhance its financial performance.

2.3 Determinants of Financial Performance in Commercial Banks

The role of Financial Intermediation of Commercial Banks calls for the need to evaluate their performance in terms of the efficiency with which they carry out their intermediation function (Kongiri, 2012). The theory of Financial Intermediation presupposes the need for Financial Intermediaries to deal with issues such as information asymmetry, enhance transactional technologies and promote regulation in saving and promoting the economy (Alexandru *et al.*, 2009)

The CAMEL rating is a supervisory rating system originally developed in the USA to classify a bank's overall condition. This system can trace its roots to 1979, when the Uniform Financial Institutions Rating System (UFIRS) was implemented by US banking institutions and later, globally following a recommendation by the US Federal Reserve (Vijayakumar, 2012). The system came to be known as CAMEL, an abbreviation of five assessment arears namely: Capital Adequacy, Asset Quality, Management Efficiency, Earnings Performance and Liquidity. This supervisory system focuses on evaluating the banking system by analyzing its balance sheet as well as its profit and loss statement, thus observing the institutions dynamic aspects. It not only analyses the ROA and ROE but also other ratios touching on various aspects of bank operations (Kongiri, 2012).

The Central Bank of Kenya employs the CAMEL framework as the regulatory tool for monitoring bank performance (CBK, 2010). In line with its acronym, the model applies financial ratios to assess various elements within its framework and pre-determined industry benchmarks to determine the financial soundness of Commercial Banks, with a rating of one (1) for the best and a rating of five (5) for the worst (Waithaka, 2013). Numerous prior studies have examined the efficacy of CAMEL ratings and they generally conclude that publicly available data combined with CAMEL ratings can identify or predict problems or failed banks (Gasbarro et al., 2002)

2.3.1 Capital Adequacy

The first function of capital in banks is the incentives function and then the risk sharing function. Due to the debt-like nature of liabilities in banks, they have an incentive to engage in risk-shifting or asset substitution. This means that they will indulge in high risk activities to shift the downside- risk to creditors. To avoid this, regulators require them to hold a minimum ratio of capital to assets to reduce their sensitivity to risk (Kongiro, 2012). In this case, capital adequacy can be measured using ratios such as capital to liabilities and the capital to assets ratio. Capital consists of permanent shareholders equity including issued and fully paid-up ordinary shares, retained earnings and goodwill (Waithaka, 2013).

2.3.2 Asset Quality

Asset quality comes from the concept of proper management of a bank's assets. Banks will offer loans and expect that the principal amount will be paid within a certain period. Asset Quality is a measure of the probability that the loan will either be paid or not. It is measured using credit risk which is the risk of loss due to non-payment of debtors' loans (Ogilo, 2012). The failure of a debtor to pay a loan enhances the credit risk of a bank and thus reduces its asset quality. Kongiri (2012) noted that asset quality is measured by the ratio of net non-performing loans to the gross loans. Furthermore, Molyneux *et al.*, (2007) noted that the various pointers to the deterioration in the asset value could be through using ratios such as earnings assets to total assets and the provisioning of gross advance ratios.

2.3.3 Management Quality

Management quality in commercial banks may not be easily measured using financial ratios as the effects and processes are qualitative (Ogilo, 2012). The role of management in banking institutions ensures the smooth operations of activities, day to day handling of risks and the role of stewardship. The agency problem manifests itself in the managing of financial institutions where managers put their personal goals first rather than maximizing shareholder value. Tools such as total expenses to total income and operating expenses to total expenses ratios could be used to assess management quality (Chen *et al*., 2009).

2.3.4 Earnings Performance

The earnings and profitability of a financial institution shows its ability to persistently generate income to increase its own funds and reserves and also settle its debt obligations. Furthermore, the stream of income can be used to capture a larger market share and seize other opportunities (Kumar, 2007).

The historical source of generating earnings by banks was through interest- earning activities, that is, lending. However, over the years, banks have realized income and fees from other innovative activities (Kumar, 2006).The tools for assessing bank earnings and profit levels include ROA, ROE and the NIM. These ratios are analyzed periodically to ascertain whether performance is increasing or decreasing (Nyathira, 2012)

2.3.5 Liquidity

Liquidity refers to the ability of financial institutions to fund increases in asset holdings and meet obligations as they fall due (CBK Report, 2010). One key aspect in banking is the management of liquidity risk. Bank managers usually face the tough balancing act of ensuring that funds are available to cater for withdrawals from deposits, meet short- term obligations when they fall due and provide funds for short-term lending. With this in view, bank regulators attempt to manage liquidity risk by imposing liquidity ratios and imposing monetary policy (Vijayakumar, 2012). The liquid assets to total assets ratio and the loans to deposits ratio are used to assess liquidity. Waithaka (2013) notes that liquid assets to liquid liabilities ratio can be used to measure a bank's liquidity.

2.4 Empirical Review

Empirical Review analyzed the studies that have been conducted by various authors in relation to the topic at hand. It included a review of the respective objectives of each study, their methodologies and results.

2.4.1 International Empirical Review

Jongeneel (2011) did a paper on Bancassurance: Stale or Staunch? A Pan-European country analysis. In his study, the researcher sought to identify the critical drivers in Bancassurance as a distribution channel for insurers. A global comparison of Bancassurance was given through different business models and a descriptive design extended by an analysis of previous literature. Subsequently, a quantitative country-level assessment was performed. The researcher used examined factors such as market concentration, internet usage, size of insurance market, level of deregulation and bank's branch density to measure their impact on the proportional size of Bancassurance. The empirical results indicated that all the five variables affected Bancassurance although the size of the insurable market only held for non-life sample. The size of the insurance market, branch density and internet usage constrained Bancassurance. The results were derived from a panel study among seventeen European countries over three years and in-house industry analysis of Pan- European operating banks by PWC.

Chiang *et al*., (2013) did a study on an evaluation of Key Factors for Bancassurance Success. The study focused on Taiwan. In the study, the researcher analyzed three concepts; the key success factors that influence Bancassurance operations in Taiwan, the weight of each key success factor and the performance gaps measured as actual performance minus the key success factors. The study further reviewed literature and interview experts. It adopted the modified Delphi method and analytical hierarchy process to construct the framework for the key success factors for Bancassurance. The importance performance analysis was used to identify the performance of each key success factor for Bancassurance. The findings were to suggest how managers may revise Bancassurance strategies that were inappropriate. The results revealed that, while it was important to identify areas of high importance and low importance, neither was sufficient alone.

Lovelin and Sreedevi (2014) did a study on the Preference of Bancassurance in India. The objectives of the research were to study the awareness of customer on Bancassurance, customer perception on Bancassurance, factors affecting buying of insurance products from banks and a SWOT analysis of Bancassurance. The study adopted and empirical and descriptive approach. Primary data was collected through questionnaires while secondary data was accumulated from publications, insurance magazines, official websites, annual reports and newspapers. The findings noted that, from one hundred respondents, a large number were not aware of the concept of Bancassurance. Respondents noted factors such as customer loyalty, positive tax benefits and loan requirements as reasons influencing buying of insurance products from banks.

2.4.2 Local Empirical Review

Mwangi (2010) did a study on the assessment of the determinants of growth of Bancassurance in Kenya. The researcher used a survey design and the target population was all the Commercial Banks in Kenya. A sample of one bank manager was picked randomly from all the banks. It was noted that only eleven out of the Forty- Three Commercial Banks in Kenya had Bancassurance. The researcher used both Primary and Secondary data. The results of the study showed that the factors influencing the introduction of Bancassurance included an increase in market share, supplementing core business, customers getting related services under one roof and efficiency and effectiveness of operations. Furthermore, the study showed that the benefits of Bancassurance were increased sales, an increase in market share, outreach to strategic customers and improvement in operations.

Nyathira (2013) did a study on the effects of Financial Innovation on the Financial Performance of Commercial Banks in Kenya. The purpose of the study was to assess the effect of financial innovation on Commercial banks' financial performance as key players in the banking sector over a period of four years. A causal research design was used and the population of study was all the Forty-three commercial banks in Kenya as at 30th June 2012. Secondary data from published Central Bank's annual reports was used. The independent variable was Financial Innovation unique to Commercial Banks while the dependent variable was Financial Performance of all banks. The results showed that Financial Innovation indeed contributed to and was positively correlated to profitability in the banking sector, particularly that of commercial banks. This was further supported by the high uptake of efficient financial systems in substitute of the less efficient traditional systems.

Omondi (2013) did a study on the determinants of adoption of Bancassurance by Commercial Banks in Kenya. The target population was drawn from the Forty- three licensed commercial banks comprising of six large banks, fifteen medium sized and twenty-two small banks. The results of the study showed that adoption of Bancassurance by Commercial Banks was influenced by the need for new revenue stream, diversification and economies of scope. There was a significant positive relationship between need for new revenue stream, business diversification, economies of scope and adoption of Bancassurance by Commercial Banks.

Nyakundi (2013) did a study on Management Perception of Bancassurance as Risk Mitigation Strategy at Equity Bank Limited. The purpose of the study was to establish if Equity Bank and Insurance Companies can mitigate some of the management problems such as high loan default leading to high credit risks, switching of customers due to dissatisfaction, declining profits, resistance to buy new insurance products hence minimum growth. Additionally, the study intended to find out if Bancassurance model was a good source of revenue, customer acquisition and retention as one of the factors an investor would consider before taking the risk of investing in the Commercial Industry.

2.5 Summary of Literature Review

Bancassurance has proven to be a formidable force to reckon with in the light of changes in the model of the Financial Services Industry. In the coming days, when banks try to outdo each other in the traditional banking products marketplace, Bancassurance shall be the key differentiator to determine and influence a customer's choice of his preferred bank (Kumar, 2007)

The Modern Portfolio Theory emphasized the need for Commercial Banks to diversify their operations in order to mitigate the risks associated with holding one asset. Economies of Scale emphasized the need for Commercial Banks to reduce their overall costs through partnerships with Insurance. Financial Intermediation Theory saw Bancassurance as a new model for Banks to increase their demand deposits.

The Empirical Literature that was analyzed focused on studies conducted by researchers internationally and locally. International literature focused on the importance of Bancassurance and the key factors that would ensure success of Bancassurance. Jongeneel (2011) analyzed five critical factors that led to the successful adoption of Bancassurance. Additionally, the study conducted by Chiang *et al*., (2013) on the key factors for Bancassurance adoption in Taiwan concluded that all the factors considered were important.

On the other hand, Lovelin and Sreedevi (2014) in their study of the Preference of Bancassurance in India concluded that banks were a good avenue of Bancassurance. From the studies, although the researchers studied the factors for successful Bancassurance, it was however very clear that none of the researchers investigated the impact of Bancassurance on the Financial Performance of Commercial Banks.

On the other hand, studies done locally focused on Bancassurance as a form of financial innovation, determinants for the growth and adoption of Bancassurance as well as management perception of Bancassurance in banks. Mwangi (2010) and Omondi (2013) in their study on the determinants of growth of Bancassurance in Kenya. On the other hand, Nyakundi (2013) in his study on Management Perception of Bancassurance as Risk Mitigation Strategy at Equity Bank Limited concluded that the Bancassurance model was a good source of revenue, customer acquisition and retention. The results of these various studies showed that, indeed, Bancassurance was a viable strategy and its adoption could be beneficial to the Bank through retention of customers, fostering customer loyalty, increasing market share and attracting investors and a form of financial innovation. The Empirical Literature, however, did not focus on its effect on the Financial Performance of Commercial Banks. Faced with the gaps from both the international and local literature, the study aims to investigate the effect of Bancassurance on the Financial Performance of Commercial Banks in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a preamble on the procedure that was followed in acquiring the data, analyzing it and finally, its interpretation in order to finalize the study. It Includes the Research design that was used, the population of study, Data Collection and Data Analysis Techniques that was used.

3.2 Research Design

Research design refers to the methodology that was used for the collection, measurement and analysis of the data. According Andre *et al*., (2011), a research design expresses either the configuration of relationships among variables or the structure of the research problem.

The study used a descriptive design. A descriptive study is a statistical study that identifies the patterns or trends in a situation (Nyathira, 2012). Descriptive studies are usually the best methods for collecting information that will demonstrate relationships and describe the world as it exists. A descriptive design therefore was relevant for this study as it sought to answer the effect of Bancassurance on Financial Performance of Commercial Banks.

3.3 Population

A population refers to the whole set of cases from which the sample were drawn out (Nyathira, 2012). In Kenya, there is a case by case exemption assessed by the Insurance Regulatory Authority in conjunction with Central Bank of Kenya of Banks that offers

Bancassurance. In this case, the population of study was the twelve banks offering Bancassurance in Kenya (Appendix ii) and a census approach of these banks was used.

3.4 Data Collection

The study used secondary sources of data. This data was acquired from CBK reports for a period of 5 years, that is, from 2009 to 2013.

3.5 Data Analysis

The Statistical Package for Social Sciences (SPSS) was used to analyze the data.. The results of the model were presented using tables so as to show the effect of the respective independent variables on the dependent variable

3.5.1 Analytical Model

An analytical model is a model that is used for simulating, explaining and making predictions about mechanisms involved in a complex physical process (Andre *et al*., 2011). The model to be used multiple regressions analysis and the results of the models will be presented using tables to show the effect of the independent variables on the dependent variable.

The model used was as shown below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y= Financial Performance measured by Return on Assets.

β_0= Constant Term

β_1, β_2, β_3 = β_i= Beta Coefficients

X_1= Bancassurance, (measured by the annual value of premiums sold through Bancassurance against annual total revenue)

X_2= Annual Interest on loan advances

X_3= Annual Inflation rate

ε = Error Term

3.5.2 Test of Significance

Tests of Statistical significance are used to address the question of whether or not the relationship between two or more variables is caused by mere chance or not. They address the issue of relevance of relationship by assigning a probability that the model shows the relationships between the variables (Andre *et al*., 2011). Analysis of Variance (ANOVA) was used to test the fitness of the model with a test of significance of 95% confidence level.

CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the research findings to determine the effect of Bancassurance on the financial performance of commercial banks in Kenya. The study was conducted on a 5 years period where secondary data from the period of 2009 to 2013 was used in the analysis. Regression analysis was used in analyzing the data.

4.2 Findings

This section presents the research findings; it presents the study findings from the regression and correlation analysis.

4.2.1 Regression Analysis

In order to determine the effect of Bancassurance on the financial performance of commercial banks in Kenya, the study conducted multiple regression analysis using SPSS version 20, where financial performance of the banks was the dependent variable, while Bancassurance, annual interest on loan advances and annual inflation rate were the independent variable.

Table 4.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.955[a]	.913	.909	.01190

Source : Research Findings

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.909 an indication that there was variation of 90.9% on financial performance of commercial banks due to changes in Bancassurance, annual interest on loan advances and annual inflation rate at 95% confidence interval. This shows that 90.9% changes in financial performance of commercial banks could be accounted for by bancassurance, annual interest on loan advances and annual inflation rate. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.955.

Table 4.2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.649	3	1.883	12.986	.000[b]
	Residual	1.160	8	0.145		
	Total	6.809	11			

Source: Research Findings

From the finding of the ANOVA statistics shown in table 4.2, the study found that the significance value was 0.000 an indication that the model had a significance level of 0% which show that model was statistically significant since the value was less than 0.05, this shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The F critical at 5% level of significance and 11 degree of freedom were 2.201. Since F calculated (12.986) is greater than the F critical (2.201), this shows that bancassurance, annual interest on loan advances and annual inflation rate were significantly affecting the financial performance of commercial banks in kenya.

Table 4.3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.018	.423		2.407	.004
	Bancassurance	.833	.239	.922	3.485	.000
	Annual interest on loan advances	.270	.105	.059	2.571	.002
	Annual inflation rate	-.134	.026	-.055	-5.154	.010

Source : Research Findings

From the data in the above table the established regression equation was;

$Y = 1.018 + 0.833\ X_1 + 0.270\ X_2 - 0.134X_3$

From the above regression equation it was revealed that holding bancassurance, annual interest on loan advances and annual inflation rate to a constant zero, financial performance of commercial banks would be at 1.018. A unit increase in bancassurance would lead to increase in the financial performance of commercial banks by a factor of 0.833. A unit increase in annual interest on loan advances would lead to increase in the financial performance of commercial bank by a factor of 0.270 and a unit increase in annual inflation rate would lead to decrease in the financial performance of commercial banks by a factor of 0.134.

At 5% level of significance and 95% level of confidence, annual inflation rate had a 0.010 level of significance; annual interest on loan advances showed a 0.002 level of significance while bancassurance showed 0.000 level of significance, hence, the most significant factor is bancassurance. Overall, bancassurance had the greatest effect on the financial performance of commercial banks in Kenya, followed by annual interest on loan advances while annual inflation rate had the least effect to the financial performance of commercial bank. All the variables were found to significantly affect financial performance of commercial bank in Kenya as they significant level were less than 0.05 ($p<0.05$).

4.2.2 Correlations Analysis

Table 4.4: Correlations

		Financial performance	Bancassurance	Annual Interest On Loan Advances	Annual Inflation Rate
Financial performance	Pearson Correlation	1	.953**	.627	-.488**
	Sig. (2-tailed)		.000	.304	.000
	N	12	12	12	12
Bancassurance	Pearson Correlation	.953**	1	.080	.475**
	Sig. (2-tailed)	.000		.522	.000
	N	12	12	12	12
Annual Interest On Loan Advances	Pearson Correlation	.627	.080	1	-.095
	Sig. (2-tailed)	.304	.522		.444
	N	12	12	12	12
Annual Inflation Rate	Pearson Correlation	-.488**	.475**	-.095	1**
	Sig. (2-tailed)	.000	.000	.444	
	N	12	12	12	12

Source: Research Findings

Correlation analysis is the statistical tool that can be used to determine the level of association of two variables (Levin & Rubin, 1998). This analysis can be seen as the initial step in statistical modeling to determine the relationship between the dependent and independent variables. Correlation value of 0 shows that there is no relationship between the dependent and the independent variables. On the other hand, a correlation of ±1.0 means there is a perfect positive or negative relationship (Hair et al., 2010). The values were interpreted between 0 (no relationship) and 1.0 (perfect relationship). The relationship was considered small when r = ±0.1 to ±0.29, while the relationship was be considered medium when r = ±0.3 to ±0.49, and when r= ±0.5 and above, the relationship was considered strong.

On the correlation of the study variables, the researcher conducted a Pearson Product Moment correlation. From the findings on the correlation analysis between financial performance of commercial banks and Bancassurance. The study found that there was positive correlation between bancassurance and financial performance of commercial banks as shown by correlation factor of 0.953, this relationship was found to be statistically significant , the study also found a positive correlation between annual interest on loan advances and financial performance of commercial banks as shown by correlation coefficient of 0.627, association between annual inflation rate and financial performance of commercial banks was found to have negative relationship as shown by correlation coefficient of 0.488.

4.3 Interpretation of Findings

From the finding of Adjusted R squared the study found that there was variation of 90.9% on financial performance of commercial banks due to changes in bancassurance, annual interest on loan advances and annual inflation rate, this is an indication that there was 90.9% changes in financial performance of commercial banks could be accounted for by bancassurance, annual interest on loan advances and annual inflation rate. The study also revealed that there was strong postive realtiosnhip between the financial performance of commercial banks and bancassurance, annual interest on loan advances and annual inflation rate.

From the ANOVA finding the study revealed that that bancassurance, annual interest on loan advances and annual inflation rate were significantly affecting the financial performance of commercial banks in Kenya. The established regression equation was; $Y = 1.018 + 0.833 X_1 + 0.270 X_2 - 0.134X_3$ From the regression analysis the study found that there was a positive relationship between bancassurance, annual interest and financial performance of commercial banks. However relationship between financial performance of commercial banks and annual inflation was negative.

There have been several studies conducted on Bancassurance which concur with the above findings. This study concurs with the findings of Jongeneel (2011),who found that the empirical results indicated that all the five variables affected Bancassurance although the size of the insurable market only held for non-life sample. The size of the insurance market, branch density and internet usage constrained Bancassurance. The results were derived from a panel study among seventeen European countries over three years and in-house industry analysis of Pan- European operating banks by PWC. The finding of this study were found to be in agreement with the finding of Lovelin and Sreedevi (2014), the findings noted that, from one hundred respondents, a large number were not aware of the concept of Bancassurance. Respondents noted factors such as customer loyalty, positive tax benefits and loan requirements as reasons influencing buying of insurance products from banks.

These finding also concur with the findings of Mwangi (2010) which showed that the factors influencing the introduction of Bancassurance included an increase in market share, supplementing core business, customers getting related services under one roof and efficiency and effectiveness of operations. Furthermore, the study showed that the benefits of Bancassurance were increased sales, an increase in market share, outreach to strategic customers and improvement in operations. Nyathira (2013) showed that Financial Innovation indeed contributed to and was positively correlated to profitability in the banking sector, particularly that of commercial banks. This was further supported by the high uptake of efficient financial systems in substitute of the less efficient traditional systems. These finding concur with the finding of Omondi (2013), who found that there was a significant positive relationship between need for new revenue stream, business diversification, economies of scope and adoption of Bancassurance by Commercial Banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected, the following discussions, conclusion and recommendations were made. The responses were based on the objectives of the study. The researcher had intended to determine the effect of Bancassurance on the financial performance of commercial banks in Kenya.

5.2 Summary

The objective of the study was to determine the effect of Bancassurance on the financial performance of commercial banks in Kenya. Secondary data was collected from Central Bank of Kenya and Bank Financial reports and multiple regression and correlation analysis were used in the data analysis. From the finding of Adjusted R squared the study found that there was variation of 90.9% on financial performance of commercial banks due to changes in bancassurance, annual interest on loan advances and annual inflation rate, this is an indication that there was 90.9% changes in financial performance of commercial banks could be accounted for by bancassurance, annual interest on loan advances and annual inflation rate. The study also revealed that there was strong postive realtiosnhip between the financial performance of commercial banks and bancassurance, annual interest on loan advances and annual inflation rate.

From the ANOVA finding the study revealed that that bancassurance, annual interest on loan advances and annual inflation rate were significantly affecting the financial performance of commercial banks in Kenya. The established regression equation was; $Y = 1.018 + 0.833 X_1 + 0.270 X_2 - 0.134X_3$ From the regression analysis the study found that there was a positive relationship between bancassurance, annual interest on loan advances and financial performance of commercial banks. However relationship between financial performance of commercial banks and annual inflation was negative.

5.3 Conclusion

From the finding the study revealed that there was a positive relationship between bancassurance and financial performance of commercial banks in Kenya, the study found that there was a positive correlation between bancassurance and financial performance of commercial banks in Kenya, thus the study concludes that bancassurance positively affect the financial performance of commercial banks in Kenya.

The study also found that there was a positive relationship between annual interest on loan advances and financial performance of commercial banks in kenya , thus the study concludes that annual interest on loan advances positively affect the financial performance of commercial banks in Kenya.

The study further revealed there was a negative relationship between annual inflation rate and financial performance of commercial banks in Kenya, thus the study concludes that annual inflation rate negatively affects the financial performance of commercial banks in Kenya

5.4 Recommendations for Policy

In order to remain profitable there is need for the commercial banks 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

There is need for a committed top management to show full support in facilitating the adoption and implementation of bancassurance as there are significant relationship between bancassurance and financial performance of commercial banks.

The study recommends that the baking act should be reviewed; this should be done with a view of formulating policies so as to enhance clarity and recognition of this insurance sales channel through the banks.

5.5 Limitations of the Study

In attaining its objective the study was limited to 12 Commercial Banks that had bancassurance.

Secondary data was collected from the firm financial reports. The study was also limited to the degree of precision of the data obtained from the secondary source. While the data was verifiable since it came from the Central Bank and Banks publications, it nonetheless could still be prone to these shortcomings.

The study was limited to determine the effect of Bancassurance on the financial performance of commercial banks in Kenya. For this reason other financial institution like MFI and Insurance companies could not be incorporated in the study.

The study was based on a five year study period from the year 2009 to 2013. This is because Bancassurance is a relatively new concept. A longer duration of the study will have captured periods of various economic significances such as booms and recessions. This may have probably given a longer time focus hence given a broader dimension to the problem.

5.6 Suggestions for Further Studies

A study can be designed to find out challenge facing adoption of bancassurance by commercial banks in Kenya.

From the findings and conclusion, the study recommends and in-depth study to be carried out on the relationship between bancassurance and market share of commercial banks in Kenya.

The study recommends that a study should be done on the factors influencing the adoption of bancassurance by commercial bank in Kenya.

The Study also recommends a study to be conducted on the impact of Bancassurance on the financial performance of the Insurance Sector in Kenya.

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APPENDICES

Appendix I: Data Collection Sheet

Name of the bank					
	annual value of premiums	Annual Interest on loan advances	Ratio of non-performing loans	Annual Inflation rate	ROA
2009					
2010					
2011					
2012					
2013					

Appendix II: List of Commercial Banks in Kenya as at 31st December 2013

	Name Of Bank	Date Licenced	No Of Branches
1	African Banking Corporation	05/01/1984	10
2	Bank Of Africa Kenya Ltd	1980	18
3	Bank Of Baroda(K)	7/1/1953	11
4	Bank Of India	6/5/1953	5
5	Barclays Bank Of Kenya Ltd	6/5/1953	103
6	CFC Stanbic Bank Ltd	5/14/1955	20
7	Charterhouse Bank Ltd	11/11/1996	10
8	Chase Bank(K) Ltd	4/1/1991	18
9	Citibank N .A Kenya	7/1/1974	4
10	Commercial Bank Of Africa Ltd	1/1/1967	20
11	Consolidated Bank Of Kenya Ltd	12/18/1989	14
12	Co-Operative Bank Of Kenya	1/1/1965	87
13	Credit Bank Ltd	5/14/1986	7
14	Development Bank Of Kenya Ltd	1/1/1973	3
15	Diamond Trust Bank Kenya Ltd	1/1/1946	36
16	Dubai Bank Kenya Ltd	1/1/1982	5
17	Ecobank Kenya Ltd	1/11/2005	20
18	Equatorial Commercial Bank Ltd	12/20/1995	12
19	Equity Bank Ltd	28/12/2004	123
20	Family Bank Limited	1/1/1984	52
21	Fidelity Commercial Bank	6/1/1992	7
22	Fina Bank	1/1/1986	15
23	First Community Bank Limited	29/04/2008	18
24	Giro Commercial Bank Ltd	12/17/1992	7
25	Guardian Bank Ltd	12/17/1992	7
26	Gulf African Bank Ltd	1/11/2007	15
27	Habib Bank A .G Urich	1/7/1978	5
28	Habib Bank Ltd	2/3/1956	4
29	Imperial Bank Ltd	1/11/1992	16
30	I & M Bank	1/1/1974	19
31	Jamii Bora Bank Limited	9/10/1984	1
32	Kenya Commercial Bank	1/1/1896	165
33	K-Rep Bank	3/25/1999	31
34	Middle East Bank(K)Ltd	3/25/1980	3
35	National Bank Of Kenya Ltd	1/1/1968	54
36	NIC Bank Ltd	9/17/1959	16
37	Oriental Commercial Bank	8/2/1991	6

38	Paramount Universal Bank Ltd	10/1/1993	6
39	Prime Bank Ltd	3/1/1992	14
40	Standard Chartered Bank Kenya Ltd	10/1/1990	33
41	Trans-National Bank Ltd	8/1/1985	18
42	UBA Kenya Bank Ltd	24/09/2009	4
43	Victoria Commercial Bank	6/1/1987	3

Source: www.centralbank.go.ke

Appendix III: Commercial Banks Offering Bancassurance as at 31st December 2013

	Name Of Bank	Date Licensed	No Of Branches
1	Barclays Bank Of Kenya Ltd	6/5/1953	103
2	CFC Stanbic Bank Ltd	5/14/1955	20
3	Chase Bank(K) Ltd	4/1/1991	18
4	Commercial Bank Of Africa Ltd	1/1/1967	20
5	Co-Operative Bank Of Kenya	1/1/1965	87
6	Diamond Trust Bank Kenya Ltd	1/1/1946	36
7	Equity Bank Ltd	28/12/2004	123
8	Family Bank Limited	1/1/1984	52
9	I & M Bank	1/1/1974	19
10	Kenya Commercial Bank	1/1/1896	165
11	National Bank Of Kenya Ltd	1/1/1968	54
12	Standard Chartered Bank Kenya Ltd	10/1/1990	33

Source: www.centralbank.go.ke