

**DETERMINANTS OF THE ADOPTION OF BANCASSURANCE  
BUSINESS MODELS BY COMMERCIAL BANKS IN KENYA**

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## DECLARATION

This research project is my original work and has not been presented for award of any degree in any University.

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## **DEDICATION**

This research project is dedicated to my family and friends for their support throughout my course.

## **ACKNOWLEDGEMENTS**

First and foremost I thank the almighty God, to whom all knowledge and wisdom has come from and for sustaining us in good health throughout the study period.

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## **ABSTRACT**

The objective of this study was to establish the determinants of the adoption of bancassurance business models by commercial banks in Kenya. The research used a descriptive survey research design. The descriptive survey was ideal because it ensured thorough description of the situation ensuring least possible bias in data collection. The study made use of primary and secondary data collected from annual reports submitted to the CBK for the target population comprised of all the commercial banks in Kenya. Summaries of data findings together with their possible interpretations were presented using tables, charts, correlations, standard deviations and regression. The study found out that mean of bancassurance set up is relatively high as compared to other variables. The bancassurance also had the highest standard deviation. The bancassurance sales commission had the highest correlation with the return on assets. From the regression equation the study concluded that a unit increase in bancassurance set up, sales commission and administration costs would lead to improvement on financial performance of the commercial banks in Kenya. Therefore; the study recommends that; bancassurance practices should always be taken in to account to improve the banks return as measured by return on assets and hence the performance of the banks. Policy makers should also undertake to understand risks affecting the operations of the commercial banks to maximize performance.

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## **LIST OF ABBREVIATION OF TERMS**

**EMH** : Efficient-market hypothesis

**KLIA** : Korea Life Insurance Association

**LIC** : Local Insurance Companies

**OECD** : Economic Co-operation and Development

**SPSS** : Statistical Package for Social Sciences

**SWOT** : Strengths, Weaknesses, Opportunities and Threats

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of study**

Bancassurance is a system in which a bank has a corporate agency with one insurance company to sell its products. By selling insurance policies bank earns a revenue stream apart from their banking business. It is called as fee-based income. This income is purely risk free for the bank since the bank simply plays the role of an intermediary for sourcing business to the insurance company. Bancassurance has grown at different places and taken shapes and forms in different countries depending upon demography, economic and legislative prescriptions in that country. Bancassurance, the sale of life insurance and pensions products through a bank, has proved to be an effective distribution channel in a number of countries. In a broad sense, bancassurance is the distribution of insurance products to a bank's client base. However, beyond this definition, bancassurance business models vary widely from country to country (Karunakaran, 2006)

Bancassurance is also taken as the amalgamation of assurance and banking business within a financial environment. Bancassurance essentially means insurance selling through bank staff, at bank counters; fully exploited the synergies between banking and insurance, so as to develop and distribute cost effective banking products(Mwangi, 2010). The Life Insurance Marketing and Research Association (LIMRA) insurance dictionary defines Bancassurance as the provision of life insurance services by banks and building societies. The Association of British Insurers (ABI) defines Bancassurance as insurance companies that are subsidiaries of banks and building societies and whose primary

market is the customer base of the bank or building society. Another common definition of Bancassurance is the involvement of banks, savings banks and building societies in the manufacturing, marketing or distribution of insurance products. Fully exploiting the synergies between banking and insurance, so as to manufacture and distribute cost effective banking and insurance products to a common customer base (Allen, 2007). For the purpose of this report, the researcher will adopt the definition of Mintel Research which defines bancassurance as the provision of insurance and banking products through a common distribution channel and / or the same client base (Staikouras & Nurullah, 2008).

One of the most significant changes in financial services sector over the past few years has been the appearance and development of bancassurance. Banking institutions and insurance companies have found bancassurance to be an attractive and often profitable complement to their existing activities. Through a series of mergers, takeovers and joint ventures between banks and insurance companies, the past 20 years have seen the growth of bancassurance to become an increasingly dominant force in key financial services sectors across the globe a trend that is set to continue. The opportunities for the industry to target new customer segments and develop new products are currently immense. Emerging markets, changing employment patterns, growing disposable incomes and longer retirement periods mean that consumers have increasingly complex insurance and financial requirements. Until recently, most countries had regulations and laws that strictly curtailed banks' ability to sell or underwrite insurance products. Today, banks are competing with insurers in Canada, France, the UK and other countries like U.S.A and

Japan. The current trend is that many countries are reviewing their laws to allow for Bancassurance based on the gains that have been accrued from the practice around the world especially in Europe where the model has enjoyed the greatest success (Saunders, 2004).

The success of bancassurance has been limited to life insurance mostly, primarily because of the matching of banking products with the personal financial needs of individuals and families. Bancassurance works through a process system that highlights consumer lifestyle changes. Traditionally, insurance products have been sold through a process called event-based selling. This process serves to identify individuals or families who require life insurance coverage due to the happening of certain events which tend to increase future liabilities. Many of these events can be easily matched with banking transactions (Jamshaid, 2002)

### **1.1.1 Bancassurance in Kenya**

After years spent locked in a regulatory battle over whether banks should be allowed to sell insurance, banks and insurance companies are recognizing that bancassurance a French term for the selling of insurance by banks is finally becoming a reality. Most players also recognize that the biggest untapped bancassurance opportunity is life insurance, because it is currently distributed through expensive agent sales forces and has yet to be purchased by many potential consumers. The question for both banks and life insurers is how to organize to profit from this new opportunity. The answer, we believe, is for them to form partnerships.

The insurance industry in Kenya consists of many players which include insurance companies, insurance brokers, independent agents, banks, the regulator, member association bodies, and service providers among others players. Kenya has 46 licensed insurance companies, and 4,576 registered agents, (Ombonya, 2013). The Insurance Industry recorded gross written premium of Sh79.1 billion in 2010 compared to Sh64.47 billion in 2009 (an increase of 22.7 per cent). Gross earned premium increased by 17.7 per cent to stand at Sh63.44 billion in 2010 compared to Sh53.92 billion in 2009. Despite having many companies, the insurance adoption is still low.

In Kenya, the use of the existing branch network would clearly be more effective than sole reliance on insurance agents in terms of expansion of the bancassurance at a minimal cost. The banking sector has achieved a deeper adoption especially within the rural areas, where the insurance companies do not have branches. With increased integration of financial services and banks seeking to expand the range of services offered to clients, a perfect opportunity exists for the two sectors to enter into a bancassurance partnership(Venkitaramanan, 2000).Banks and insurance companies in Kenya have some form of a working relationship. Moreover, consumer credit is secured through insurance companies leading to the products offered by banks to have complementary insurance products. The consolidated financial services industry will see the convergence of banking and insurance business. The Kenya Commercial bank, Equity bank and Family Bank are conducting bancassurance over the counter. There is great potential for development and growth of bancassurance in Kenya (Mwaniki, 2008). The banking

sector has achieved a deeper adoption especially within the rural areas, where the insurance companies do not have branches. With increased integration of financial services and banks seeking to expand the range of services offered to clients, a perfect opportunity exists for the two sectors to enter into a bancassurance partnership.

In Kenya, the market has witnessed the acquisition of insurance companies by banks. In 2005, ALICO Kenya (American Life Insurance Company) was acquired by CFC group and subsequently changed its name to CFC Life. A recent move saw Commercial Bank of Africa acquire a third of AIG insurance company's total interest. The consolidated financial services industry will see the convergence of banking and insurance business. There is also an agreement between British American Insurance of Kenya (BRITAK) with Equity bank and commercial bank of Africa. There is great potential for development and growth of bancassurance in Kenya. However, the market is yet to experience bancassurance in its truest form (Mwaniki, 2008).

### **1.1.2 Factors Determining Adoption of Bancassurance models in Kenyan insurance industry**

Apparently a sizeable percentage of all households are too poor to consider saving for their long-term futures through life insurance. Non-life adoption in Kenya is low in comparison with the developed world but compares favourably with most of Africa. Kenya's adoption in 2009 was 1.8%, whereas Egypt had just 0.4% and Nigeria 0.5%. However, South Africa had 2.6% adoption for the same period. No insurer is large, except in a local context, and there are few actual economies of scale.

The Kenyan insurance industry has been relying heavily on agents and brokers to sell insurance products according to AKI, (2011). Density (i.e.: premiums per capita) is low by all standards other than those of Africa (except South Africa) according to AKI reports. The low uptake of insurance among the Kenyan population may be partly as a result of using limited channels to sell insurance products.

The main reasons for low insurance adoption in Kenya include poverty and lack of awareness which appear to be major constraints. State-owned enterprises, potentially substantial users of insurance, have financial problems and therefore their purchase is limited. HIV/AIDS limits the potential for health insurance and life insurance. Insurers have been overly dependent on traditional products and distribution channels. According to the Insurance Regulatory Authority, fraud and corruption have been significant problems (AKI, 2011).

## **1.2 Research Problem**

Commercial banks are very important institutions which aid in the execution of socioeconomic activities undertaken by individuals, business organizations and even sovereign states. They serve primarily as a medium which bridges the gap between surplus and deficit spending units in an economy. This fundamental function of banks generate interest income which has over the years being their major source of revenue, since loans form a greater portion of the total assets of banks. These assets generate huge interest income for banks which to a large extent determines their financial performance

(Mabvure et al., 2012). In recent times however, advancements in information and communication technology, increased competition among banking companies as well as the diversity and complexity of businesses and their demands for financial services have compelled banks to consider other banking activities which offer diverse services to clients and beef up revenue generation through fee income. Bancassurance activities is basically incomes earned from insurance services which several banks have considered to boost their earnings. However current market conditions have put a strain on the interest income as cost of borrowing funds have substantially raised 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).Bancassurance provides banks with the opportunity to acquire additional revenue streams while promoting customer retention.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.. With the rise of financial innovation, Bancassurance is the way to go. Anja et al, (2010), describe 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. Few studies have been done relating to Bancassurance in its entirety. 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.

Locally 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. 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. These studies have not reached a consensus on the effect of bancassurance thus this study will try answer the following research question; what are the determinants of bancassurance in commercial banks in Kenya?

### **1.3 Research Objectives**

The general objective of the study is to determine the determinants of bancassurance business models on the performance of commercial banks in Kenya

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

This study is expected to be useful in a number of ways. To the academic researchers, the study will make significant contribution to the existing body of knowledge in the field of bancassurance. In addition, academic researchers might need the study findings to stimulate further research in these areas of insurance distribution channels especially through bancassurance and as such it will form a basis of good background for further researchers

Further, the study may be useful to the government in policy making regarding financial market liberalization and other regulatory requirements of the financial sector. Additionally, the result of this study will act as insight to strategic decision makers in the insurance business in Kenya to explore alternative channels so as to increase the level of adoption within the market, and also expected to help insurance companies to come up with strategies for their bancassurance operation. To the banks and insurance companies the study would make the management make informed decisions on whether to adopt bancassurance. The study will also provides insights into the bank – insurance model as a viable business strategy for enhancing the performance, thus, influence decision making.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents the literature review of the study. The chapter has the theoretical framework, determinants of bancassurance adoption in commercial banks in Kenya, theoretical literature review and summary of literature review.

#### **2.2 Theoretical Framework**

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.

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 & 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 & Marius, 2009). The Theory behind Financial Intermediation arose from three different approaches namely; the theory of informational asymmetry, transactional cost theory and the theory of monetary regulation (Bert & Dick, 2013). The theory of Informational asymmetry was developed by Gurley & 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 & Smith, (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.

Financial Intermediation is based on the regulation of money production and of saving in financing the economy (Bert and Dick, 2003). This approach was developed by Guttentag & Lindsay, (1968). As stated by Arthur & 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.

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 increase customer loyalty as accumulators of funds as clients perceive that they will invest in the funds wisely.

### **2.3 Determinants of Bancassurance Models**

Bancassurance covers a wide range of detailed arrangement between, the banks and insurance companies, but in all cases it includes the provision of insurance and banking products and services from the same source or to the same customer base. Also, because there is a wide diversity of strategies available, there is no standard model for bancassurance. Bancassurance models vary from country to country. In many countries, the choice of a business model is influenced by regulatory constraints, for example, the minimum qualification required to sell insurance products, the type of products the banks are allowed to sell or the relationship between banks and insurance companies. However, the models are divided into three broad categories (Mwangi, 2010).

#### **2.3.1 Integrated Models**

This model operates in the form of a joint venture or a joint venture financial service group. In the joint venture the bank partners with the insurance company to create a new insurance company which has an exclusive distribution arrangement with the bank while in the joint venture financial service group, the insurance company builds or buys a bank or a bank builds or buys insurance and ventures into Bancassurance for example C.F.C group and Citi group. Premiums are collected by the bank through direct debit from customers, accounts. New business data entry is done in the bank branches and workflows between banks and insurance is automated selling is done by the bank staff. The bank receives commissions for the sale of the insurance products. The products are designed to specifically fit into the banks culture.

### **2.3.2 Non-integrated Models**

Banks set up networks of financial advisers authorized to sell regulated life insurance products. The products offered are similar to those sold through other channels. They usually operate as tied agents and sell exclusively the products manufactured by the bank's in-house life insurance company or its third party provider(s). A good example is the relation between Equity Bank and British American Insurance Company (Mwaniki, 2008).

### **2.3.3 Open Architecture Models**

Banks usually have non-exclusive distribution agreements with several companies, for example, one foreign company and several domestic firms. Non-exclusive distribution agreements seem to be the main vehicle for bancassurance for smaller banks, savings banks and building societies in most European countries. They choose one or several insurance providers for different types of products. Insurance products are sold by branch staff. The bank segments its customer base to identify possible clients. Commissions are paid directly to the bank, which may independently develop an incentive compensation arrangement for sales people.

### **2.3.4 Profitability of Commercial Banks**

For a bancassurance strategy to become profitable, it has to generate positive net benefits (NB). This means that formulation demonstrates that such a strategy is based on a combination of: small set-up costs; a rapid growth in sales commissions; acceptable outlays for sales promotion; and small administrative costs. A research by Göran,

(1995)in Krediet bank in Belgium and the Deutsche Bank in Germany showed that bancassurance responded to these costs and benefits in the following ways:

The Set-up costs a subsidiary have been established in order to produce life insurance services. The banks sell these services on a commission basis. However, both banks have had to give financial support to their insurance daughters. Consequently, the set-up costs for insurance distribution should be small in relation to the number of customers.

The growth in sales commissions: the premiums are supposed to be somewhat lower for insurance distribution via their bank branches than for direct distribution from ordinary insurance firms. This profile is supposed to be attractive for most private customers. Therefore, a rapid growth in revenues must not be obtained through high prices but in terms of large volumes. Thus, a key to success when entering the insurance market will be to establish a substantial market share as early as possible. Cross-selling ratios have to become at least 10-15 per cent.

Acceptable outlays for sales promotion: The services are marketed primarily to the customers of the banks. Life insurance is chosen as the primary insurance product. The sales are performed by bank officers. As a consequence, the sales promotion must not be very large for life insurance.

Small administration costs: The administration costs per contract have to be much lower for bank distribution than for direct distribution. Both banks have introduced standardized products and computerized systems in order to keep these costs on a low level: A key factor for an insurance firm is that old customers generate half as many claims as new ones. The focus on low administrative costs is the most successful strategy for bancassurance.

Wever, (2000) refers to bancassurance as the distribution of insurance products through banking networks; in other words, as the collaboration between banks and insurers to distribute insurance products to bank customers. Staikouras and Nurullah (2008) find that banking and insurance entities have more similarities than differences, characteristics that may favour joint production and business synergies. Through diversification, the bancassurance approach reduces the resources required to manage risk, which in turn results in lower costs (Hughes, Lang, LJ, & Moon, 1999).

Prior empirical studies evaluated the efficiency of bancassurance from the bank viewpoint, assessing its profitability as a bank product. But since bancassurance is also an insurance company product, we need to assess it from the insurance viewpoint as well. McKillop, Glass, & Morikawa, (1996) investigated cost efficiency in large Japanese banks and found that different cost function specifications led to different results. Bergendahl, (1995) claimed that the economic reasons for banks selling multiple products included efficiently using fixed capacity resources, customer demand for several products from a single channel, and product combination strategy. On the other hand, most

insurance companies believe that increasing the number of marketing channels to attract more customers and sales represents the way to profitability. Besides, using their own sales representatives, insurance companies try to sell products through banks. Bancassurance becomes an insurer's second marketing channel for selling insurance.

## **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 uptake of Bancassurance.

Chiang, Hung- Chi, & Wen – Chin, (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 results revealed that, while it was important to identify areas of high importance and low importance, neither was sufficient alone.

Lovelin & 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 an empirical and descriptive approach. 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 J. , (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. It was noted that only eleven out of the Forty-Three Commercial Banks in Kenya had Bancassurance. 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, (2012) 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 innovations 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. 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. The results indicated that Bancassurance as Risk Mitigation Strategy at Equity Bank Limited was a good source of revenue, customer acquisition and retention.

## **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. 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 presents the research methodology and covers research design, population, sampling strategy, and data collection tools and data analysis techniques. All these shall be employed in efforts to realise the research objectives. They are carefully chosen to ensure accuracy, reliability and get the desire results.

#### **3.2 Research Design**

The design for this study shall be a survey design. A survey is an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables (Mugenda & Mugenda, 2003). Mugenda & Mugenda (2003) give the purpose of a survey research as seeking to obtain information that describes existing phenomena by asking individuals about their perceptions, attitudes, behaviour or values. Survey method which involves, asking respondents questions on how they feel, what their views are, and what they have experienced (Babbie,2002). Survey method is useful when a researcher wants to collect data on phenomena that cannot be observed directly. Its advantage is that, it allows the collection of large amounts of data from a sizeable population in a highly effective, easily and in an economical way, often using questionnaires.

### **3.3 Target Population**

A population is defined as all elements (individuals, objects and events) that meet the sample criteria for inclusion in a study. The target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well defined set of people, services, elements, and events, group of things or households that are being investigated. The target population for the proposed study is 43 commercial banks registered and operating in Kenya. The study will carry out a census survey of all the 43 commercial banks. A schedule of these commercial banks Appendix I.

### **3.5 Data Collection**

The data used in this study is quantitative in nature. The secondary data for five years (2010-2014) was obtained from annual publications by central bank as well as financial statements of commercial banks. This includes statement of financial position and directors reports. Secondary data from CBK was used to supplement data issued by Kenya National Bureau of Statistics (KNBS).

#### **3.6.1 Analytical model**

Regression analysis was used to establish the determinants of banc assurance business models by commercial banks in Kenya. The representation of the model is given in the equation below:

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

Where:

Y = Financial Performance (Measured by ROA, Net Income/ Total Assets)

$\beta_0$  = Constant;

$\beta_1 - \beta_5$  = regression coefficients;

X1=Set up (Likert Scale)

X2= Sales Commissions (Likert Scale)

X3=Administration Cost (Likert Scale)

$\epsilon_t$  = Error term;

The data collected will be analysed using SPSS version 21. The analysis will be done using multiple correlations to show the association between the variables and multiple regression analysis to show the relationship between the variables in which the regression equation will take the form.

### **3.6.1 Data validity and reliability**

Mugenda and Mugenda (2003) asserted that, the accuracy of data to be collected largely depend on the data collection instruments in terms of validity and reliability. Validity as noted by Robinson (2002) is the degree to which result obtained from the analysis of the data actually represents the phenomenon under study. This shall be achieved by pre-testing the instrument to be used to identify and change any ambiguous, awkward, or offensive questions and technique as emphasized by Cooper and Schindler (2003). The results of the study shall be validated by comparisons with other similar studies reviewed.

Reliability on the other hand refers to a measure of the degree to which research instruments yield consistent results (Mugenda & Mugenda, 2003). Using the pre-test data in this study, reliability will be assessed using Cronbach Alpha via the Split-Half Technique where the pre-test dataset will be split in to two equal datasets and their correlation assessed. A reliability score greater than 0.7 will indicate the reliability of the study instrument and the study findings.

### **3.6.2 Test of Significance**

T-tests can be used to determine whether there is a significant difference between two sets of means. Therefore t-tests using SPSS statistical program would be employed in this study. Conducting the t-tests requires that the normality of the data is not violated. The P-values of results of the multiple regression analysis shall be used to test for significance of the relationship between variables. The significance level to be used shall be 0.05 (5%) to test for significance where any P-value of less than 0.05 shall indicate a significant relationship.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSIONS**

#### **4.1 Introduction**

In this chapter the findings of the data analysis are presented. The data was sampled, collected and analyzed to determine the adoption of bancassurance business models by commercial banks in Kenya. The findings were then presented in tables and appropriate explanations were given in prose. The results of adoption of bancassurance were presented in a table and a brief explanation was given.

#### **4.2 Response Rate**

Of the total 43 commercial banks targeted 40 banks responded to the questionnaires, representing a response rate of 93% which is within Mugenda and Mugenda's (2003) prescribed significant response rate for statistical analysis which they established at a minimal value of 50%.

##### **4.2.1 Institutional background information**

The study sought to establish the institutional background information of the respondents including respondents' position in the organization, the type of bancassurance being offered.

#### 4.2.2 Respondent Position in the Organization

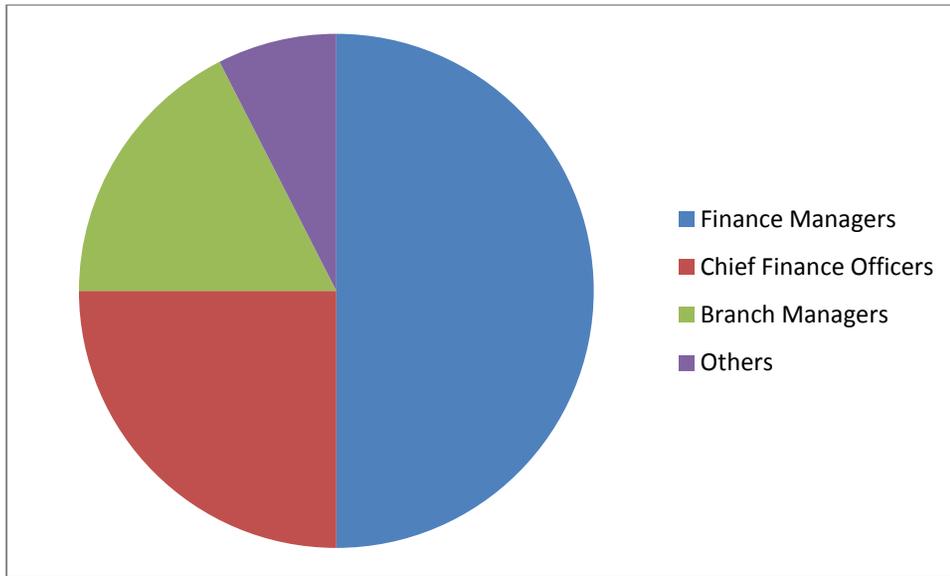
The study sought to find out the respondent's position in the organization which are captured in table 4.1. From the findings, majority of the respondents interviewed (50%) were Finance Managers who are key to commercial banks, 25% were Chief Finance Officers, 17.5% were Branch managers and 7.5% were others. The position of the respondent was of importance since it verified that the respondents could provide relevant information that would be of importance to study and was representative enough of the target population for generalization purpose.

**Table 4.1: Position of the Respondents**

<b>Position</b>	<b>Frequency</b>	<b>Percentage</b>
Finance Managers	20	50%
Chief Finance Officers	10	25%
Branch Managers	7	17.5%
Others	3	7.5%
<b>Total</b>	<b>40</b>	<b>100%</b>

The study sought to find out the respondent's position in the organization which are captured in table 4.1. From the findings, majority of the respondents interviewed (50%) were Finance Managers who are key to commercial banks, 25% were Chief Finance Officers, 17.5% were Branch managers and 7.5% were others.

**Figure 4.1: Response rate**



### **4.3 Descriptive Statistics**

Descriptive measures involved mean, maximum, minimum, standard error of estimate, skewness and kurtosis. Mean is a measure of central tendency used to describe the most typical value in a set of values. The standard error is a statistical term that measures the accuracy within a set of values. Skewness is a measure of symmetry, or more precisely, the lack of symmetry. A distribution, or data set, is symmetric if it looks the same to the left and right of the center point. Kurtosis is a measure of whether the data are peaked or flat relative to a normal distribution (Cooper and Schindler 2008).

The pertinent results are presented in Table 4.1.

**Table 4.2: Descriptive statistics results of the main variables**

	N	Mean	Std. Deviation	Minimum	Maximum
	Valid				
Return on Assets	40	2.7251	0.31260	-6.9713	5.6412
Bancassurance Set Up	40	4.1921	1.27100	3.5144	5.0000
Bancassurance Growth	40	3.9112	0.91501	1.1755	4.9772
Bancassurance Administration Expenses	40	3.7453	1.2518	2.4992	4.9513

**Source: Research findings**

The adoption of bancassurance models are quite high from the descriptive statistics contained in Table 4.2 the Return on assets for the commercial banks had a mean score of 2.7251. The maximum return on assets was 5.6412 while the minimum was -6.9713. The standard deviation was 0.31260. The bancassurance set up of commercial banks had a mean score of 4.1921. The maximum set up was 5.0000 while the minimum was 3.5144. The standard deviation was 1.271. The bancassurance growth of commercial banks had a mean score of 3.9112. The maximum bancassurance was 4.9772 while the minimum was 1.1755. The standard deviation was 0.91501. The bancassurance administration expenses of commercial banks had a mean score of 3.7452. The maximum administration expense was 4.9513 while the minimum was 2.4992. The standard deviation was 1.2518

### 4.3.1 Bancassurance Set Up

The study sought to evaluate the determinants of the adoption of bancassurance models by commercial banks in Kenya. The results as in Table 4.3 show that all the respondents agree with almost all item statements. Majority of the respondents (with a mean of over 3.9) strongly agreed with four items, namely item: There is an effective adoption of the bancassurance models by the commercial banks, increase in market share, supplement of core business, effectiveness and efficient operations, and customers getting related services.

**Table 4.3: Bancassurance Set Up**

<b>Statements</b>	<b>Mean</b>	<b>Standard Deviation</b>
Increase in market share(bank accounts)	4.19	0.66
To supplement core business	4.51	0.61
Effectiveness and efficiency operations	4.39	0.94
Customers getting related services under one roof	3.88	0.93

### 4.3.2 Bancassurance Growth

The study sought to establish the existence of bancassurance growth has been necessities by the adoption of the services by commercial banks in Kenya. The results as in Table 4.4 show that all the respondents agree with almost all item statements. Majority of the respondents (with a mean of over 4.2) strongly agreed with four items, namely item: There is an effective adoption of the bancassurance models by the commercial banks, increase in sales, increase in sales commissions, increased premiums and increased bank branches.

**Table 4.4: Bancassurance Growth**

<b>Statements</b>	<b>Mean</b>	<b>Standard Deviation</b>
Increase in Sales	4.29	0.67
Increase in Sales Commission related to bancassurance	4.61	0.72
Increased premiums received for insurance	4.49	0.68
The number of bank branches increased to handle insurance services	4.68	0.67

### 4.3.3 Bancassurance Administration Expenses

The study sought to establish the existence of bancassurance growth has been necessities by the adoption of the services by commercial banks in Kenya. The results as in Table 4.5 show that all the respondents agree with almost all item statements. Majority of the respondents (with a mean of over 3.74) strongly agreed with four items, namely item: There is an effective adoption of the bancassurance models by the commercial banks, increased stationery costs. Increased revenue base fro the bankand increased cross marketing.

**Table 4.5: Bancassurance Adminitration Expenses**

<b>Statements</b>	<b>Mean</b>	<b>Standard Deviation</b>
It has increased stationery costs	3.29	1.07
It has increase revenue base for the bank	4.49	0.98
It has enabled cross marketing hence saving on marketing costs	4.08	0.67
The paid for sales agents have increased	2.37	0.98
The number of employees have increased	4.13	0.87
The number of branches opened has increased	4.26	0.53
The training expenses relevant to bancassurance has grown	2.38	0.93

#### 4.4 Regression Analysis

In this study, a multiple regression analysis was conducted to establish the determinants of the adoption of bancassurance business models by commercial banks in Kenya. The research used statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions.

**Table 4.6: Model Summary**

<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
0.813	0.724	0.615	0.67120

R-Squared is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted R<sup>2</sup>, also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. 61.5% of the variations in performance of commercial banks are explained by influence of bancassurance set up, bancassurance growth in sales and bancassurance administration costs leaving 38.5% percent unexplained.

**Table 4.7: Summary of One-Way ANOVA (Analysis of Variance)**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	5.62	4	1.655	5.721	0.003
	Residual	31.61	36	0.351		
	Total	37.230	40			

From the ANOVA table 4.7, the regression model predicting the relationship between the dependent and independent variables is significant at  $F= 5.720$  and  $P = 0.003$ . The results presented gives the ANOVA results which show the reliability of the model developed in explaining the relationship between the study variables. This therefore reveals that the regression model developed is statistically significance and the variation in the results is insignificant that cannot result to a much difference in case of a change in the study units (population) and therefore the model can be relied upon to explain the effect of bancassurance on the performance of commercial banks in Kenya.

**Table 4.8: Coefficients of Regression Equation**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.192	0.331		2.762	0.016
Bancassurance Set Up	0.507	0.118	0.146	7.463	0.015
Bancassurance Sales Commission	0.448	0.142	0.126	3.887	0.029
BancassuranceAdministration Costs	0.312	0.126	0.145	4.904	0.021

These coefficients therefore are used to answer the following regression model which relates the predictor variables (independent variables) and the dependent variables;

$$Y = 0.192 + 0.507X_1 + 0.448 X_2 + 0.312X_3 + \epsilon$$

Where Y = Performance (Measured by Return on Assets) which is the dependent variable:

$\alpha$  = Constant which defines long term Performance value without inclusion of independent variables

$X_1$  = Bancassurnace Set Up Costs,

$X_2$  = Bancassurance Growth in Sales Commission,

$X_3$  = Bancassurance Administration Costs,

e = Error Term Based on these coefficients, the regression model therefore becomes; The regression test results presented in the table 4.14 indicate that, all the coefficients are positive and are also significant as given by their p-values (sig. values) which are all less than 0.025 testing at 5% level with a 2-tailed test. Thus, with these values being less than the critical value at 5% level, the coefficients are statistically significant and explain significant influence of the independent variables to the performance of commercial banks.

Thus, the model indicates that, holding the predictor variables constant, the Performance of commercial banks would be 0.192. This explains that, without the influence of the bancassurance services, the Performance of pension schemes using ROA would be 0.1932 Also, the model shows that, a unit increase in risk management environment activities would result to 0.806times increase in the pension schemes performance. Thus the two variables are positively related with a magnitude of 0.806explaining the extent of influence to the dependent variable.

All the variables were significant as their P-values were less than 0.05. In terms of magnitude, the findings indicated that internal control had the highest influence on performance of pension schemes measured using Sharpe ratio, followed by risk management environment, followed by risk monitoring, followed by risk measurement while risk mitigation had the least influence on performance of pension schemes measured using Sharpe ratio.

#### **4.5 Discussion of the findings**

The study established that there was a significant relationship between the bancassurance services on the performance of commercial banks in Kenya. In general, table 4.8 shows the result of correlations analysis between performance of commercial banks (using Return on Assets) and the bancassurance practices showed an existence of strong positive correlation. A strong positive correlation between performance of commercial banks and set up costs (0.507) existed. A

positive correlation relationship (0.448) exists between performance of commercial banks and bancassurance sales commission. Moreover, there is a moderate correlation between performance of commercial banks and bancassurance administration costs (0.312)Based on these correlations, it can be concluded that the higher the performance of commercial banks, the better will be the bancassuarance practices.

The R-Square in table 4.6 indicates that 61.5% of the performance of commercial banks (using ROA) is explained by the bancassurance practices. The adjusted R-Square of 0.724 also confirms the same. This means that there is a strong effect between the financial performance and the bancassurance practices undertaken by commercial banks in Kenya.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introductions**

The purpose of this chapter was to discuss and draw conclusions and recommendations on the findings of the main objective of the study which was to examine the effects of bancassurance practices on the performance of commercial banks in Kenya. The chapter will also discuss further areas of study.

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

The adoption of bancassurance models are quite high from the descriptive statistics contained in Table 4.2 the Return on assets for the commercial banks had a mean score of 2.7251. The maximum return on assets was 5.6412 while the minimum was -6.9713. The standard deviation was 0.31260. The bancassurance set up of commercial banks had a mean score of 4.1921. The maximum set up was 5.0000 while the minimum was 3.5144. The standard deviation was 1.271. The bancassurance growth of commercial banks had a mean score of 3.9112. The maximum bancassurance was 4.9772 while the minimum was 1.1755. The standard deviation was 0.91501. The bancassurance administration expenses of commercial banks had a mean score of 3.7452. The maximum administration expense was 4.9513 while the minimum was 2.4992. The standard deviation was 1.2518.

#### **5.3 Conclusions of the Study**

The study established that financial risk management had a strong impact on the performance of pension schemes in Kenya. The study also established that the internal controls had the biggest

impact on financial performance followed by risk mitigation practice. Thus, as each shilling invested in risk measurement techniques and risk mitigation techniques increases revenues generation and the performance of pension schemes increases. Also the study concludes that privately managed pension funds have obtained a positive premium given the level risk when comparing at least with the short-term alternative investment instrument.

#### **5.4 Recommendations of the Study**

The study makes a number of recommendations. First, the study recommends that the commercial banks in Kenya should adopt the bancassurance practices in that they will be able to improve on their performance as measured by return on assets. Secondly, the study recommends that in order for commercial banks to improve on their performance, they should focus more on improving working more with the insurance companies. Lastly, the study recommends that the CBK and IRA should, on frequent basis, evaluate the bancassurance practices being offered by the commercial banks in Kenya.

#### **5.5 Limitations of the Study**

The data covers a few years, precisely only 5 years. The findings may not be applicable across all times in Kenya. The results given by this study are therefore limited to the 5 years that were studied. The findings may, therefore, not apply across all years since as evidenced by the data itself variations in the relationship may vary from time to time dependent upon the policies concerning the operations of commercial banks in Kenya.

The study does not provide a universal argument concerning the relationship between commercial banks performance and the independent variables. Within the increasingly globalized world economy of the world, there is need to provide argument that stand the test of global argument. In

universal arguments the findings are usually applicable in different geographical contexts and different time contexts. The findings of this study are applicable, mainly in Kenya and for the covered period. A study can be done to find out how to generate universal arguments.

The study did not investigate the effect of governance on financial performance of the commercial banks; it focused only on the bancassurance practices.

### **5.6 Suggestions for further Research**

The study recommends that a similar study should also be done in other areas like insurance, SACCOS and microfinance companies to establish whether it will yield the same results. Further comparative studies should be done on bancassurance practices and governance of commercial banks in Kenya. From the findings only 61.5% of factors influencing performance of commercial banks hence further studies should be carried out to establish the remaining 38.5%. The study suggests that a further study can be done on the effects of bancassurance practices on the performance of all financial institutions in Kenya.

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

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. CFC Stanbic Bank Ltd.
7. Chase Bank (K) Ltd.
8. Citibank N.A Kenya
10. Commercial Bank of Africa Ltd.
11. Consolidated Bank of Kenya Ltd.
12. Co-operative Bank of Kenya Ltd.
13. Credit Bank Ltd.
14. Development Bank of Kenya Ltd.
15. Diamond Trust Bank (K) Ltd.
16. Dubai Bank Kenya Ltd.
17. Ecobank Kenya Ltd
18. Equatorial Commercial Bank Ltd.

19. Equity Bank Ltd.
20. Family Bank Ltd
21. Fidelity Commercial Bank Ltd
22. Fina Bank Ltd
23. First community Bank Limited
24. Giro Commercial Bank Ltd.
25. Guardian Bank Ltd
26. Gulf African Bank Limited
27. Habib Bank A.G Zurich
28. Habib Bank Ltd.
29. Imperial Bank Ltd
30. I & M Bank Ltd
31. Jamii Bora Bank Ltd.
32. Kenya Commercial Bank Ltd
33. K-Rep Bank Ltd
34. Middle East Bank (K) Ltd
35. National Bank of Kenya Ltd

36. NIC Bank Ltd
37. Oriental Commercial Bank Ltd
38. Paramount Universal Bank Ltd
39. Prime Bank Ltd
40. Standard Chartered Bank (K) Ltd
41. Trans-National Bank Ltd
42. Victoria Commercial Bank Ltd
43. UBA Kenya Bank Ltd.
43. Housing Finance: Mortgage Finance Company

Source: Central Bank of Kenya Report, 2014.

**APPENDIX II: RETURN ON ASSETS OF COMMERCIAL BANKS**

		<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>Bank</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
1	Africa Banking Corporation Ltd	1.49	2.90	2.90	4.11	4.6
2	Bank Of Africa Ltd	0.33	2.00	1.30	1.29	1.59
3	Commercial Bank Of Africa Ltd	2.57	3.60	4.00	3.52	3.83
4	Kenya Commercial Bank Ltd	5.93	5.50	5.20	4.98	5.17
5	Equity Bank Ltd	7.26	7.70	7.40	6.75	6.26
6	Habib Bank Ltd	5.63	6.20	6.50	4.62	4.34
7	Habib A.G. Zurich	5.29	4.30	4.20	2.91	3.05
8	Dubai Bank Ltd	0.21	0.50	-1.20	0.9	0.02
9	Barclays Bank Ltd	5.44	5.80	7.00	7.18	6.25
10	Cooperative Bank	4.43	4.70	4.80	3.66	3.65
11	Standard Chartered Bank	6.42	6.00	5.90	5.03	5.38
12	Bank Of India	3.74	4.10	2.40	4.18	5.02
13	Chase Bank	3.08	2.90	2.70	2.33	2.45
14	Credit Bank	-1.02	1.00	1.30	-0.8	3.53
15	Fidelity Bank	1.80	2.50	0.90	2.79	6.26
16	Bank Of Baroda	4.35	4.80	3.60	4.57	5.65
17	CFC Stanbic Bank	4.31	4.10	3.50	2.23	1.96
18	NIC Bank	4.44	4.60	4.20	4.57	4.42
19	Citibank N.A	5.22	7.00	10.40	6.43	4.64
20	Charterhouse Bank	0.00	0.00	0.00	0.00	0.00
21	Consolidated Bank	-1.82	-0.80	1.00	1.61	2.46
22	Diamond Trust Bank	4.47	4.90	4.90	4.17	4.14
23	Development Bank Of Kenya Ltd	1.88	1.80	0.80	1.28	2.14
24	Ecobank Ltd	-1.09	-3.30	-4.80	0.45	0.7
25	Family Bank Ltd	4.24	4.00	2.70	2.01	2.48
26	Guaranty Trust Bank Ltd	2.08	1.60	2.00	2.12	1.74

27	First Community Bank Ltd	0.67	1.80	2.90	1.28	-2.5
28	Giro Commercial Bank Ltd	3.13	2.80	1.70	2.78	6.2
29	Guardian Bank	2.59	3.00	1.90	1.92	1.39
30	Gulf African Bank	3.11	2.70	2.80	1.2	-0.6
31	Imperial Bank	4.75	5.80	5.50	6.37	6.33
32	Jamii Bora Bank	0.73	1.30	1.50	-3.7	-4.8
33	K-Rep Bank	4.61	4.20	3.20	2.75	1.44
34	Middle East Bank	1.28	1.40	0.79	1.99	5.11
35	National Bank of Kenya	1.90	1.90	1.70	3.56	4.49
36	Oriental Commercial Bank	1.07	2.50	1.80	3.8	4.01
37	Paramount Universal Bank	1.32	1.20	1.20	2.38	7.34
38	Prime Bank	4.18	3.80	2.70	3.03	2.25
39	Trans-national Bank	1.86	2.30	3.70	4.02	3.24
40	UBA Kenya Bank Ltd	-6.97	-7.50	-13.60	-6.4	-4.6
41	Victoria Commercial Bank	3.68	4.30	4.80	4.31	5.03
42	Equatorial Commercial Bank Ltd	-2.78	1.00	-4.60	0.53	-0.3
43	I&M Bank Ltd	5.64	5.50	5.20	5.87	4.8
	<b>TOTAL</b>	4.46	4.70	4.70	4.40	4.43

### APPENDIX III

#### QUESTIONNAIRE

#### ADOPTION OF BANK ASSURANCE MODELS BY COMMERCIAL BANKS IN KENYA

Please take a few minutes of your time to complete this questionnaire .Your honest answers will be completely anonymous, but your views, in combination with those of others are extremely important in building knowledge on the significance of bancassurance models on financial performance of commercial banks in Kenya. Kindly answer all questions.

#### PART A: BIODATA

1. Gender

Male ( )

Female ( )

2. Age

18-27 ( )

28-37 ( )

38-47 ( )

48-57 ( )

Above 58 ( )

3. Education level

- Post -graduate ( )
- Graduate ( )
- Under-graduate ( )
- Diploma /college certificate ( )
- Ordinary level ( )
- Other (specify).....

4. Number of years in the organization

- 1-10 ( )
- 11-20 ( )
- 21-30 ( )
- 31-40 ( )
- Above 40 years ( )

**PART B: DEMOGRAPHIC INFORMATION**

This section enquires on the demographic profile of your bank. Kindly tick the answer that reflects your answer.

5. Name of your Bank (Optional) .....

6. Type of ownership of your bank

Government [ ] Private [ ] Both Government and Public [ ]

7. Does your bank offer bank assurance services?

Yes [ ] No [ ]

8. What is the profitability range of your bank?

A. Below 500 M

B. 500M - 1B

C. 1-10 B

D. Over 10B

**PART C: BANCASSURANCE SET UP**

9. What is the position held in the organization?

General Manager [ ]

Finance manager [ ]

Marketing manager [ ]

Human resource manager [ ]

Bancassurance manager [ ]

Any other (kindly specify) .....

10. To what extent did the following factors influence the introduction of bancassurance? Rank them in the range 1-5 where 1 is least preferred while 5 is most preferred.

<b>Factor</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Increase in market share(bank accounts)					
To supplement core business					
Effectiveness and efficiency operations					
Customers getting related services under one roof					

Any other (specify)

.....

**PART D: BANCASSURANCE GROWTH**

10. To what extent did the following factors influence the introduction of bancassurance? Rank them in the range 1-5 where 1 is least preferred while 5 is most preferred.

<b>Factor</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Increase in Sales					
Increase in Sales Commission related to bancassurance					
Increased premiums received for insurance					
The number of bank branches increased to handle insurance services					

Any other (specify) .....

**PART E: BANCASSURANCE ADMINISTRATION EXPENSES**

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

Yes [ ]                      No [ ]

12. 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).

<b>Factor</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
It has increased stationery costs					
It has increase revenue base for the bank					
It has enabled cross marketing hence saving on marketing costs					
The paid for sales agents have increased					
The number of employees have increased					
The number of branches opened has increased					
The training expenses relevant to bancassurance has grown					

Any other (specify)

.....

**SECTION D: FINANCIAL PERFORMANCE**

13. 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).

<b>Factor</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Improved ROA of the Bank					
Improved profit Margin					
Effective utilization of resources					
Assets securitization by selling insurance products					
Greater fee based income					

Any other (specify) .....

14. What are the risks associated with this business?

<b>Factor</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Operational efficiency					
Resistance from customers					
Incurring loss					
Deviation from core business					

Any other (specify) .....15. In your own opinion, kindly rate in a scale of 1-5 the

importance that your  
organization attaches to bancassurance?

- 1. Not important at all ( )
- 2. Less important ( )
- 3. Moderately important ( )
- 4. Important ( )
- 5. Very important ( )

16. Average number of policies sold every year?

- less than 1000 ( )
- 1000-3000 ( )
- 3001-5000 ( )
- Over 5000 ( )

17. Any other comments .....

**Thank you**