

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

BY

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DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

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DEDICATION

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LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
CBK	Central Bank of Kenya
GDP	Gross Domestic Product
IRA	Insurance Regulatory Authority
MPT	Modern portfolio Theory
NSE	Nairobi Securities Exchange
RBV	Resource Based View
ROA	Return on Assets
SPSS	Statistical Package for Social Sciences
VIF	Variance Inflation Factors

ABSTRACT

Interest income is the major source of incomes for the bank. This income arises due to the differentials in the borrowing and lending rate of the bank. However the prevailing market conditions have made income generation through interest income more stringent due to the substantial rise in the cost of borrowing funds and increased competitiveness in lending to provide useful interest income. Among the most notable transformations prevailing in the financial services' industry has been the emergence and growth of bancassurance in a bid to remain competitive and profitable. This study sought to determine the effect of bancassurance on financial performance of commercial banks in Kenya. The study's population was all the 42 commercial banks operating in Kenya. Data was obtained from 41 out of the 42 banks giving a response rate of 97.62%. The independent variable for the study was bancassurance as measured by ratio of annual value of premiums sold through bancassurance to annual total revenue earned. The control variables were liquidity as measured by the current ratio, firm size as measured by natural logarithm of total assets and capital adequacy as measured by the ratio of gross loans and advances to total assets. Financial performance was the dependent variable which the study sought to explain and it was measured by return on assets. Secondary data was collected for a period of 5 years (January 2013 to December 2017) on an annual basis. The study employed a descriptive cross-sectional research design and a multiple linear regression model was used to analyze the association between the variables. Data analysis was undertaken using the Statistical package for social sciences version 21. The results of the study produced R-square value of 0.337 which means that about 33.7 percent of the variation in the Kenyan commercial banks' financial performance can be explained by the four selected independent variables while 66.3 percent in the variation of financial performance of commercial banks was associated with other factors not covered in this research. The study also found that the independent variables had a strong correlation with financial performance ($R=0.580$). ANOVA results show that the F statistic was significant at 5% level with a $p=0.000$. Therefore the model was fit to explain the relationship between the selected variables. The results further revealed that bancassurance, capital adequacy and bank size produced positive and statistically significant values for this study. The study found that liquidity is a statistically insignificant determinant of financial performance of commercial banks. This study recommends that measures should be put in place to enhance bancassurance among commercial banks as this will improve their financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Due to globalization and liberalization of the financial services' industry, most financial institutions are getting involved in the business activities of other financial institutions, banks and provision of insurance services. Banks assume that through engaging in both life and non-life insurance services, a higher synergy would be attained since these insurance products could easily and conveniently be marketed through branch units (Voutilainen, 2005). Bancassurance has emerged as one of the most significant changes in the financial services' sector over the past few. Insurance companies and banking institutions have found bancassurance to be a profitable and attractive complement to their enterprises. Most bancassurance operations have been successful thus attracting massive attention of the financial services sector as new operations are constantly initiated (Davila, 2014).

This study was guided by several theories such as the diffusion of innovation theory, modern portfolio theory and the dynamic capabilities theory that have tried to explain the relationships between financial innovations and financial performance of firms. Diffusion of innovation refers to the communication of an idea which is considered to be novel to the members of a social system through certain preferred channels. Innovations have to gain acceptability in a wide area in order to be sustainable (Rogers, 2003). This theory has guided the study of the adoption of various technological innovations in businesses. Markwitz (1952) Modern Portfolio Theory (MPT) argues that by combining a number of assets to form a portfolio, an organization/business is able to maximize expected returns and eventually minimize

the risk. Dynamic capabilities theory which provides that a company's competitive advantage arises from the strategies that exploit existing firm-based assets is another theory this study will be based on.

A lot of dynamism is being witnessed in the business environment which has been attributed to increased financial innovation growth, competition and globalization. Therefore, in order to remain competitive, the banking sector has been forced to adopt these financial innovation changes. According to Furst, Lang and Nolle (2012), banks have employed new service distribution channels in order to attain competitive advantages in financial service industry and attain a competitive edge over other financial institutions. Bancassurance is such an adoption that is now widely practiced in Kenya and the current study will attempt to establish the effect of bancassurance on financial performance of retail Kenyan commercial banks.

1.1.1 Bancassurance

Bancassurance as referred to by Yuan (2011) is the procedure of a bank marketing insurance items offered by insurance agencies to their clients. According to Anja et al., (2010), bancassurance can also be defined as the process through which an insurance firm liaises with the banks to sell insurance policies. The banks' network is used by the insurance company to access touch wide customer base and market its products while the bank benefit from the income as opposed to interest incomes which are free from risk. Arora (2013) argues that the distribution networks of the insurance companies must be superior for a wide customer base to be reached. This distribution is facilitated immensely by various insurance companies who bring their policies to the common man through the basic network of Banks.

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 bancassurance remains a profitable venture for both forms of operations. Productivity is increased by bancassurance through increased synergies and insolvency risks' reduction. Major revolutions have been witnessed in bancassurance have been witnessed over time basically through the use of bank networks to distribute insurance services. This has stretched the extent of associations between the banking and Insurance Industries making them more interdependent (Quagliarello, 2004).

1.1.2 Financial Performance

Financial performance refers to the extent to which the firm's financial objectives have been met or attained (Yahaya&Lamidi, 2015). The financial performance of a firm measures the firm's efficiency in utilizing its assets to generate revenues. Financial performance can also imply to the firm's overall well-being with regard to financial performance over time. The performance of a firm or firms across time and industries could be measured through this index for purposes of comparison. Financial performance is, in summary, is a crucial objective that firms especially the profit oriented firms desire or aim at to achieve (Kajirwa, 2015).

Financial performance is more concerned with the reports or statements that have a direct influence on the firm's financial statements. The financial performance analysis components include the firm's dividend growth, capital employed, sales turnover and asset base just to mention a few (Omondi &Muturi, 2013). According to Xu and Wanrapee (2014), the financial performance is a good indicator of the degree to which the set objectives and goals of the firm have been attained. The stakeholders of the

firm are mainly concerned with firm performance on the aspect of finance (Nyamita, 2014).

Financial performance is mostly measured using ratios (extracted from the financial statements of the firm such as liquidity ratios, activity ratios, profitability ratios and debt ratios (Bouba, 2011). Financial performance can be measured from various perspectives including: solvency, liquidity and profitability (Angima& Mwangi, 2016). A company's performance measurement can be done through accounting-based measures which are extracted from firm's financial statements for example the ROE, ROA and Gross profit margin (Mwangi&Murigu, 2015).

1.1.3 Bancassurance and Financial Performance

Prior studies that have examined the effect of bancassurance on the commercial banks' financial performance suggest that bancassurance provides infinite openings for commercial banks to earn high fee (commission) income at a relatively low cost(Waweru; 2014). For instance, bancassurance provides an opportunity for banks to distribute insurance products to their already existing and loyal customers who it has complete knowledge about their consumption/spending patterns, financial status as well as their preferences and choices. Moreover, commercial banks have a greater chance of approaching its customers and persuading them to purchase insurance products, since they have the trust of customers more than insurance companies(Fields et al., 2007).

This notwithstanding, insurance and banking entities share many similarities than the differences that increases chances of business compatibility and eventually promote joint production and business synergies (Staikouras&Nurullah, 2008). This approach lowers the resources needed to manage risk, which in turn lowers the cost (Hughes et

al.,1999). By selling multiple products, the banks are able to efficiently use fixed capacity resources, product combination strategy and customer demand for several products from a single channel (Bergendahl, 1995). Insurance companies also believe that the way to profitability is through increased number of marketing channels to increase the number of customers and sales.

On this note, Sudarsanam (2003) observes that banks that engage in bancassurance business are likely to benefit from reduced overall costs (fixed costs) and may experience increased market power. This joint activity/association between insurance and banks also brings about diversification benefits through generation of non-interest associated income which is the fee income. Both insurance and banks pool individuals' savings and pass them to capital markets. Bancassurance model also issue banks with cross-selling business synergies that lead to eventual cost savings due to economies of scale. Banks that offer insurance services benefit from offering a wide range of services that could result in comparative advantages over regular commercial banks and insurers (Schmid& Walter,2008).

These assertions are also echoed by Johnston and Madura (2000) and Singhal and Singh (2010) who are of the view that bancassurance activities provides an opportunity for banks/insurance companies to sell a larger volume of insurance products than a distribution from insurance companies themselves. For example, a car loan facility that a bank advances to the customer would often be combined with car insurance. This therefore is a positive prove that integrating bancassurance business into the main activities of banks leads to a significant reduction in costs that would result from leveraging of both infrastructural and operational expertise since the bank can choose to make the most of its shared resources (i.e. banks' distribution networks,

managerial/key staff expertise, equipment, staff costs amongst others and generate huge commissions through a one stop shop. Additionally, the bank can also capitalize on economies of scale/scope and use its extensive branch networks/centralized customer database to maximize on its profits/revenues (Lown et al.,2000).

1.1.4 Commercial Banks in Kenya

CBK defines a commercial bank as a business which carries out, or intends to conduct banking activities in Kenya. Commercial banking business involves accepting deposits, giving credit, money remittances and any other financial services. The industry performs one of the very important role in the financial sector with a lot of emphasizes on mobilizing of savings and credit provision in the economy. According to the Bank supervision yearly Report (2017), industry comprises of Central Bank as the regulatory authority. The industry also has 1 mortgage finance and 42 commercial banks. Among the 42 commercial banks in the country, 30 are locally owned banks, 9 microfinance banks and 14 foreign owned. Among the 42 commercial banks that we have in the Kenyan banking sector only 11 of the 42 are listed at the NSE.

The Insurance Industry comprises 49 insurance companies licensed and operating in Kenya as at December 2017 (IRA, 2017). The idea behind bancassurance is the relationship or partnership between the bank and an insurance company, where the bank sells insurance products to its current customer list using the banks sales channels. The idea of bancassurance was introduced in Kenya and many commercial banks embraced the prospect and in effect only 26 commercial banks have adopted bancassurance in an effort to differentiate its operations, change in accordance with the variations in client needs and venture into new and gainful markets; this study exhibits a decent boondocks for commercial banks to wander into to keep up their

benefit furthermore survival in the ever-changing business world. A limited number of studies have been conducted in the field of bancassurance.

1.2 Research Problem

Financial Institutions have for long been fighting with decreased interest margins due to increased competition, deregulation of the Financial Sector, globalization and technology changes. Interest income is the major source of incomes for the bank. This income arises due to the differentials in the borrowing and lending rate of the bank. However the prevailing market conditions have made income generation through interest income more stringent due to the substantial rise in the cost of borrowing funds and increased competitiveness in lending to provide useful interest income (Kumar, 2006). Among the most notable transformations prevailing in the financial services' industry has been the emergence and growth of bancassurance in a bid to remain competitive and profitable. The current study sought to investigate whether bancassurance has a strong effect on the commercial banks' financial performance.

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. Institutional and product innovations include the advance of internet banking, mobile banking, and the setting up of CRB bureaus and bancassurance (Ocharo&Muturi, 2016). The current study investigates the effect of bancassurance on financial performance of commercial banks in Kenya.

Studies by previous researchers such as Schmid and Walter (2008); Chen and Tan, (2010) and Casu et al., (2016) largely indicate conflicting results with Schmid and Walter (2008) reporting significant discounts amongst banks and insurance companies while others like Vennet (2002) and Lelyveld and Knot (2009) reports no discounts for banks that are diversifying into insurance business and that bancassurance oriented activities are cost and revenue efficient compared to non-bancassurance oriented activities with universal banks in the UK and US registering greater efficiency from bancassurance than non-universal banks.

In Kenya, extant literature (Mwangi 2010; Omondi 2013; and Waweru 2014) also presents conflicting results. For instance, Waweru (2014) examined the impact of bancassurance on the Kenya's commercial banks financial performance and found out that profitability is likely to increase as more and more customers adopt bancassurance. Mwangi (2010) explored the determinants of bancassurance growth in Kenya. He found out that the introduction of bancassurance is influenced by factors such as; supplementing core business, increase in market share, efficiency and efficiency in operations and serving customers under one roof. Omondi (2013) conducted an investigation on factors that determine the adoption rate of bancassurance among the Kenyan Commercial Banks. The study found out that the adoption of bancassurance by commercial banks in Kenya is influenced by need for business diversification, new business and economies of scale.

The lack of consensus among international studies on impacts of bancassurance on the commercial banks' financial performance is an enough reason to conduct further studies. In addition, commercial banks in Kenya have embraced bancassurance and it is therefore necessary to establish whether the adoption of bancassurance has a

notable effect on financial performance of commercial banks. The reviewed studies in the Kenyan context have either failed to show how the Kenyan commercial bank's financial performance is affected by bancassurance; Waweru (2014) established a strong positive relationship between the two variables while Mwati (2013) established a weak positive relationship; or focused on a different aspect of bancassurance. The current study intended to fill this research gap by examining the effect of bancassurance on financial performance of Kenya's commercial banks. Therefore, the research question for the study is; what is the effect of bancassurance on financial performance of commercial banks in Kenya?

1.3 Objective of the Study

Determine the effect of bancassurance on financial performance of commercial banks in Kenya.

1.4 Value of the Study

The study's findings will be used for future reference by researchers, students and scholars who seek to undertake correlated or similar studies. The study will also benefit researchers and scholars in the identification of other fields of research by citing related topics that require further studies and empirical studies to determine study gaps.

The findings of the study may be utilized government and other policy makers to identify the development policies that need to be formulated to boost this sector in the economy. This study's findings will be useful to the regulator which is the central bank creating a clear understanding of the impacts of bancassurance on the success of Kenyan commercial banks thus formulation of relevant policies.

The study provides an understanding on the effectiveness of bancassurance on Kenya's commercial banks financial performance. The conclusion inferred from the study will be beneficial in guiding the formulation of guidelines and policies that would help the commercial banks in adopting channels that would improve their performance and lead to improved performance in this sector.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter reviews theories that form the foundation of this study. In addition, previous empirical studies that have been carried before on this research topic and related areas are also discussed. The other sections of this chapter include determinants of financial performance, conceptual framework showing the relationship between study variables and a literature review summary.

2.2 Theoretical Framework

This review will be based on several theories which will help show how the banks operate. These include the diffusion of innovation theory, modern portfolio theory and the dynamic capabilities theory. These theories are explained below;

2.2.1 Diffusion of Innovation Theory

Diffusion of Innovation refers to the communication of an idea which is considered to be novel to the members of a social system through certain preferred channels (Rogers, 2003). The spread of new ideas is impacted by four variables which are: the actual innovation, social systems, time and communication channels. Of utmost importance is innovations have to gain acceptability in a wide area in order to be sustainable. According to Fisher (1971), adoption of innovation when mapped in the long run forms an S shaped curve. This curve begins with the innovators, early adopters, early and late majority and finally the laggards.

How successful an innovation will be stems from the resolutions put forward by the social systems through five defined steps which are; knowledge: such as innovation awareness and continuous learning regarding it; persuasion which means willingness

to have detailed knowledge concerning the innovation; resolution, that is, consideration of the advantages and disadvantages of the innovation and choice of whether to adopt the innovation; application which is an examination of how useful the innovation will be and finally confirmation, which is eventual decision on the continual use of the innovation (Rogers, 2003). The diffusion of innovation model though falls short of explaining the importance of the capability and the dynamics of different inter-connected trading partners and the influence of power between trading partners (Hart & Saunders, 1997).

Rogers (1995) describe communication channel as a critical contributor to the success of adoption of new innovation in the organization. As an effective communication channel creates prior awareness of the new innovation, the trading partners need to work together to ensure the success of financial innovations. This will be determined by the inter-connected industry the organization is in and how influential that organization is to its trading partners (Lundblad, 2003). This theory has guided the study of the adoption of various financial innovations in businesses. The theory is relevant to this study as it explains how bancassurance concept has been adopted into the Kenyan banking system.

2.2.2 Modern Portfolio Theory

This is a theory that was developed by Markowitz in 1952 and 1959 where he formulated a portfolio problem in order to provide evidence that by combining a number of assets to form a portfolio, an organization/business is able to maximize expected returns and eventually minimize the risk (variance) (Fabozzi, Gupta, & Markowitz (2002). Under this theory, Markowitz uses the variance and standard deviation as measures of risk. He alludes that for diversification to be effective/work,

investors must be in a position to know exactly how to reduce the standard deviation of a portfolio by capitalizing a negative correlation of coefficient (i.e. choosing investment options/stocks that move together).

This theory is key in establishing how well bancassurance (diversification) can minimize the risks of an investment portfolio. In order for commercial banks to increase their earnings and maintain their sustainability in this competitive financial industry then there is need for them to diversify their portfolio. Banks are finding it increasingly challenging and costly to maintain their profitability due to the liberalization, deregulation and globalization of the market. From the 1980s there has been a decline in the interest margins on loans on Commercial Banks which have led to banks 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 (Fabozzi et al.,2002).

By venturing into bancassurance business, it means that banks are diversifying their portfolio. This could result in a reduction in risk levels. A customer feels more satisfied and will remain loyal if a variety of financial services are offered to them as and when required. This could have a significant impact on the earnings of the bank in the long run. Brady, Davies, and Gann (2005) also observe that by being a one-stop-shop financial platform, a retail commercial bank seizes the opportunity to grow in significance. Bancassurance also provides additional income to the bank which is known as fee income. Diversification also yields advantages in terms of scale and scope economies that eventually translate to increased revenue streams by commercial banks (Dontis-Charitos et al., 2011). This theory relates to the study in that it discusses diversification in order to boost financial performance and bancassurance is

one of the ways through which banks have diversified to improve their financial performance.

2.2.3 Dynamic Capabilities Theory

This theory arose from a resource-based view (RBV) that sees an organization as owning stocks of valuable technology and other resources (O'Connor, 2008). Companies are said to be heterogeneous in terms of resources, capabilities and endowments which are unique in their own sense and are difficult to modify. Because of this 'stickiness', a resource-based view provides that a company's competitive advantage arises from the strategies that exploit existing firm-based assets.

Over the years, extant literature has confirmed that a stock of assets is not enough for a firm to maintain its competitive advantage or build resilience during rapid and unpredictable changes (crisis) (Teece, Pisano & Shuen, 1997). Capabilities (which are the business processes required to configure assets in beneficial ways) are key to enable a firm to build resilience to shocks. The concept of dynamic capabilities is therefore important at this point since it emphasizes strategic management in adapting, integrating and reconfiguring those assets to be able to match the needs of the changing environment.

In this regard, Teece (2007) eludes that dynamic capability concept assists firms in creating a reservoir of resources that would enable the firm to achieve sustainable competitive advantage in the long run. This theory is relevant to the study in such a way that the channel to be used by most retail commercial banks to achieve competitive advantage, increase resilience against unforeseeable shocks that may bedevil the market now or in the future through diversifying the bank's portfolio (i.e. not

keeping all the eggs in one basket) and by so doing bancassurance is a sure way of diversifying.

2.3 Determinants of Financial Performance

An organization's performance can be determined by a number of factors; these factors are either internal or external. Internal factors differ from one bank to the next and are within a bank's scope of manipulation. These comprise of financial innovations such as bank assurance, capital size, labor productivity, deposit liabilities, management quality, credit portfolio, interest rate policy, bank size and ownership. External factors affecting the performance of a bank are mainly GDP, macroeconomic policy stability, Inflation, Political instability and Interest rate (Athanasoglou, Brissimis & Delis, 2005).

2.3.1 Bancassurance

Sudarsanam (2003) observes that banks that engage in bancassurance business are likely to benefit from an overall reduction in overall costs (fixed costs) and may experience increased market power. This joint activity/association between insurance and banks also brings about diversification advantages by generating non-interest related income which is the fee income. Both insurance and banks pool savings of individuals to channel these savings to the capital market. The bancassurance model also creates cross-selling business synergies for banks that eventually lead to cost savings due to economies of scale. Banks that offer insurance services benefit from offering a wide range of services that could result in comparative advantages over regular commercial banks and insurers (Schmid & Walter, 2008).

Literature indicates that insurance related commission earned by retail commercial banks from bancassurance engagement has a notable and positive connection with

their performance/profitability (Dontis-Charitos et al., 2012). These findings collaborate that of Swiss, (2007) that bancassurance engagements improves the performance and contributes to additional profits for banks in the long-run. Moreover, Peng et al., (2007) points out that retail commercial banks that generate incremental returns/profits have a competitive advantage over insurers since they are able to leverage on their own staff to be able to earn fee-based income (commission) through selling insurance products/services and supplementing the earnings of the normal business activities of the bank.

2.3.2 Capital Adequacy

According to Athanasoglou et al., (2005), capital is a significant variable in determining bank financial performance. Capital is the owner's contribution which supports the bank's activities and acts as a buffer against negative occurrence. In capital markets that are not perfect, well-capitalized banks must reduce borrowing so as to support a certain index of assets, and as a result of lower prospective bankruptcy costs they tend to face lower funding costs.

A well-capitalized bank has a signaling effect to the market that a performance above average is to be expected. Athanasoglou et al., (2005) realized that capital contributions positively affected bank profitability, which reflects sound financial condition of banks in Greece. Also, Berger et al., (1987) noted positive causality in both direction between capital contributions and profitability in companies.

2.3.3 Bank Size

Bank size determines the extent to which a firm is affected by legal and financial factors. The size of the bank is also closely linked with the capital adequacy because large banks raise less expensive capital and thus generate huge profits. Bank size has

a positive correlation with the return on assets indicating that large banks can achieve economies of scales that reduce operational cost and hence help banks to improve their financial performance (Amato &Burson, 2007). Magweva and Marime (2016) link bank size to capital rations claiming that they are positively related to each other suggesting that as the size increases profitability rises.

The amount of assets owned by an organization determine it size (Amato &Burson, 2007). It is argued that large firms have adequate resources to undertake a number of large projects with better returns than firms with small amounts of total assets. In addition, firms with large amounts of total assets have adequate collateral which they can pledge to access credit and other debt facilities compared to their smaller counterparts (Njoroge, 2014). Lee (2009) established that the total assets controlled by a firm as measured by the total assets have an influence on the level of profitability recorded from one year to another.

2.3.4 Bank Liquidity

Liquidity is defined as the degree in which an entity is able to honor debt obligations falling due in the next twelve months through cash or cash equivalents for example assets that are short term can be quickly converted into cash. Liquidity results from the managers' ability to fulfill their commitments that fall due to policy holders as well as other creditors without having to increase profits from activities such as underwriting and investment and as well as their ability to liquidate financial assets. (Adam & Buckle, 2003)

According to Liargovas and Skandalis (2008), liquid assets can be used by firms for purposes of financing their activities and investments in instances where the external finance is not forthcoming.). Firms with higher liquidity are able to deal with

unexpected or unforeseen contingencies as well as cope with its obligations that fall due in periods of low earnings. Almajali et al., (2012) noted that firm's liquidity may have great influence on insurance companies' financial performance; therefore he suggested that insurance companies should aim at increasing their current assets while decreasing their current liabilities. However, Jovanic (1982) noted that an abundance of liquidity may at times result to more harm. He therefore concludes that the effect of liquidity on financial performance of firms is ambiguous.

2.3.5 Macro-Economic Variables

Macroeconomic variables impact on financial performance of commercial banks and especially on bank risk has been of great importance to policy makers. Using GDP growth to control cyclical output effects, which are likely to positively influence the profitability of banks, as the rate of growth in the GDP declines, more especially during recession, banks experience negative returns caused by the lowering of credit quality and increases in defaults (Flamini et al., 2009).

Macroeconomic variables that impact on the performance of banks include legislative laws, inflation rate, interest rate, economic growth level measured using Gross Domestic Product (GDP). Athanasoglou et al., (2005) argues that the GDP trend influences the demand for bank's assets. A decline in the GDP growth reduces the credit demand which has a negative impact on the banks' profitability. Additionally, a growing economy with positive GDP growth has a high depending on the prevailing business cycle. There is high demand for credit during boom as opposed to recession.

2.4 Empirical Review

Studies have been conducted both locally and internationally to support the relationship between bancassurance and financial performance, but these studies have produced mixed results.

2.4.1 Global Studies

A study by Jongeneel (2011) explored Bancassurance in a paper namely *Stale or Staunch? A Pan-European country analysis*. The researcher used examined factors such as market concentration, size of insurance market, internet usage, the density of bank branches and level of deregulation to ascertain their effect on the extent of Bancassurance. The findings revealed that Bancassurance was influenced by all the five variables although the insurable market size held for nonlife sample. The size of the insurance market, branch density and internet usage constrained bancassurance. The panel study results derived from seventeen European nations in a span of three years and in-house industry analysis of banks operating in Pan- European by PWC.

Chiang et al., (2013) undertook an examination on *Key Bancassurance Success Factors in Taiwan*. Three key success concepts that influence the success of Bancassurance operations in Taiwan were utilized which are the effects of key success factor and performance gaps as measured by actual performance less the major success factors. A deeper review of literature and in depth information was further extracted from the experts. The study adopted the analytical hierarchy process and modified Delphi method to develop a key success factors framework for Bancassurance. The analysis was useful for identification of key Bancassurance success factors. The results were useful to managers in revising the strategies to collect the inappropriate Bancassurance strategies. The findings showed that while it

was vital identify to identify areas of high low and high importance, the two were interdependent.

Sreedevi and Lovelin (2014) undertook an examination of the choice of Bancassurance in India. The objectives of the research were to study customer awareness on Bancassurance, the perception of the customer on Bancassurance, factors influencing the purchase of insurance products from banks and a SWOT analysis of Bancassurance. The study adopted an empirical and descriptive approach. Primary data was collected through questionnaires while secondary data was accumulated from insurance magazines, publications, annual reports, newspapers and official websites. The results revealed from the sample of one hundred respondents that most had no clue not on the Bancassurance concept. The respondents were only aware of factors including customer loyalty, loan requirements and positive tax benefits as the key determinants of the extent to which insurance products are purchased from banks.

Mitema (2014) conducted an assessment whether bank-insurance merger have created or destroyed the value of the companies. This study established that there is value creation in the Insurance Sector resulting from M&As activities. Bancassurance arrangement creates an avenue for capital inflow that leads to enhanced with regards to terms of financial resources which are necessary for the initiation of new and less risky projects

Ikpefan (2016) in a study on implementing bancassurance for competitive advantage in Nigeria also was established that banks that sale insurance products tend to generally exhibit superior performance in comparison with those that haven't yet adopted bancassurance.

2.4.2 Local Studies

Mwangi (2010) conducted an assessment on the determinants for the upsurge of bancassurance business in Kenya. The study employed a research design that mainly targeted large retail Kenyan commercial banks where it was established that just (11) of the forty three commercial banks had successfully adopted bancassurance activities with more than 50% reporting an increase in market share, increase in revenues and enhanced efficiency on the banks' core operations.

Mwati (2013) explored the effect of bancassurance on Kenyan banks' financial performance. A descriptive research survey was employed for the study. The study looked at nine Kenyan commercial banks which have taken up bancassurance. Because of the size of population of Kenya's commercial banks that have taken up bancassurance, census approach was adopted. The secondary data was collected from the commercial banks audited financial statements and also CBK for the year 2008-2012. The SPSS software was used for data analysis and the findings revealed that bancassurance exhibit a weak positive but significant effect on the Kenya's commercial banks financial performance.

Muunda (2013) explored the impact of bancassurance Kenyan commercial banks' performance and noted that Kenyan banks operate in a highly profitable and dynamic and Investment Avenue with reducing cost to income ratio, declining asset to liability ratio and a return on assets ratio that is increasing. When the success of bancassurance was analyzed, the results revealed that increasing return on investment, increasing profitability and increasing return on assets with 96% of the banks that have adopted bancassurance showing profits at the time of the study. It was concluded from the

study that bancassurance profitability significantly affects the overall banking industry's profitability.

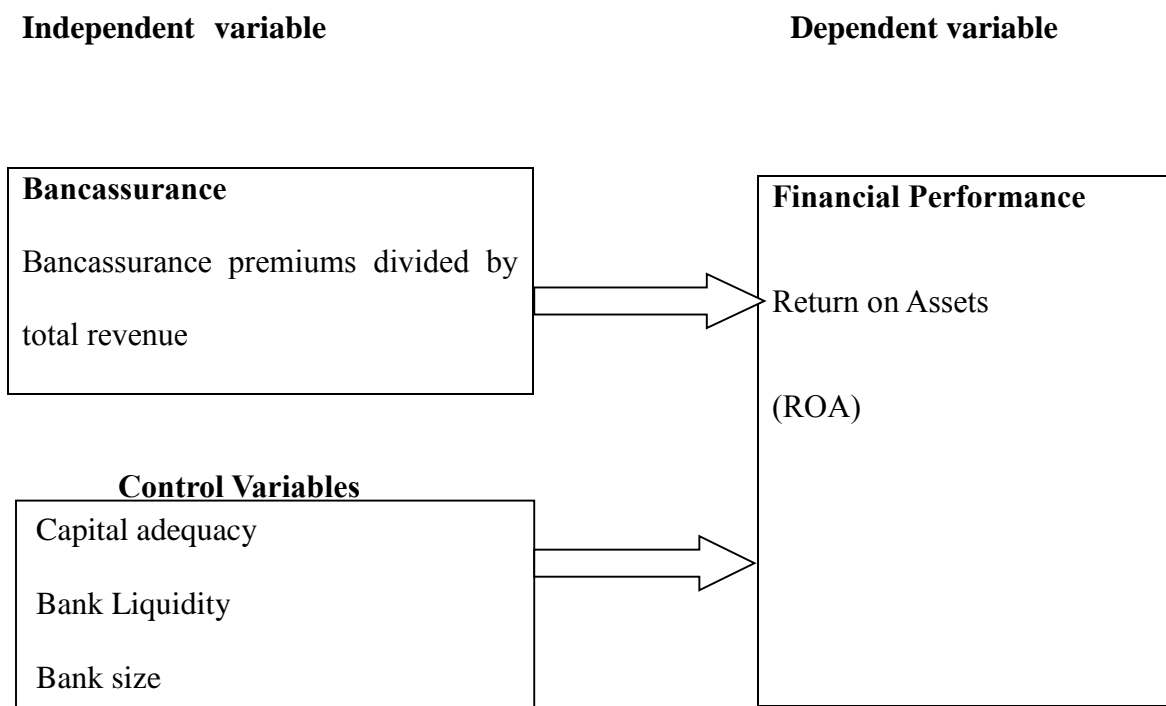
Waweru (2014) conducted a study to determine how the performance of commercial banks is influenced by Bancassurance. The study utilized secondary data from bank financial reports and the central bank of Kenya. Data analysis was carried out using correlation and multiple regression analysis. The findings revealed a strong positive association between the commercial banks' financial performance and bancassurance, annual interest on loans while a negative association was noted between bancassurance and the annual inflation rate. The study established a positive association between annual interest on borrowed loans and the banks' financial performance and a negative association between annual inflation rate and Kenyan commercial bank's financial performance.

Rotich (2016) evaluated the effect of marketing intelligence on sales levels of bancassurance among key financial institutions. This study employed a cross-sectional descriptive survey design. The study's target population comprised of 26 commercial banks that had implemented bancassurance by December 2015. The study utilized primary data collected using a questionnaire data analyzed using descriptive statistics using SPSS regression analysis was used to establish the effects of marketing intelligence on Bancassurance sales performance. The study's findings revealed that most banks has adopted the means of modifying strategies to increase customers value. It was further established that marketing intelligence practices that are less adopted by banks include developing and use of marketing information systems to collect market information, investment in R&D to discover new knowledge and conducting of pilot studies on new customer preferences.

2.5 Conceptual Framework

The conceptual framework is a diagrammatic representation of how the factors identified are related to each other. The elements given consideration here are bancassurance and financial performance. Independent variable will be bancassurance as measured by annual premium collected from bancassurance divided by total revenue in the same period. The control variables will be capital adequacy, liquidity and bank size. Financial performance will be measured by ROA.

Figure 2.1: The Conceptual Model



Source: Researcher (2018)

2.6 Summary of the Literature Review

From the foregoing, it is evident that bancassurance is vital in the overall performance and the resultant profitability of banks across the world. Again, reviewed literature has confirmed that firms that have greater involvement in M&As always report greater efficiency gains (revenue and operations) than those with lower or no

involvement in M&A activities. Based on the discussed literature above it is apparent that researchers and academics have largely employed different measures to assess the ex-ante and ex-post performance of retail commercial banks with extant literature confirming that bancassurance leads to both cost and revenue synergies.

The lack of consensus among international studies on the impact of bancassurance on the commercial banks' financial performance is an enough reason to conduct further studies. The reviewed studies in the Kenyan context have either failed to show how the Kenyan commercial bank's financial performance is affected by bancassurance or focused on a different aspect of bancassurance. The current study intends to fill this research gap by investigating the effect of bancassurance on financial performance of commercial banks in Kenya. The study intended to answer the following the research question; what is the effect of bancassurance on financial performance of commercial banks in Kenya?

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In order to establish the effect of bancassurance on financial performance of Kenyan commercial banks, a research methodology was necessary to outline how the research was carried out. This chapter has four sections namely; research design, data collection, diagnostic tests and data analysis.

3.2 Research Design

A descriptive cross-sectional research design was employed in this research to establish the connection between bancassurance and financial performance of Kenyan commercial banks. Descriptive design was utilized as the researcher is interested in finding out the state of affairs as they exist (Khan, 2008). This research design is appropriate for the study as the researcher is familiar with the phenomenon under investigation but want to know more in terms of the nature of relationships between the study variables. In addition, a descriptive research aims at providing a valid and accurate representation of the study variables and this helps in responding to the research question (Cooper & Schindler, 2008).

3.3 Population

According to Burns and Burns (2008), population refers to the characters of interest upon which the study seeks to draw deduction. This study's population comprised of the 42 commercial banks operating in Kenya as at 31/12/2017. Since the population is finite, a census of the 42 banks was undertaken for the study (see appendix one).

3.4 Data Collection

Secondary data was obtained solely from the published annual financial reports of the

commercial banks operating in Kenya between January 2013 and December 2017 and captured in a data collection sheet. The reports were obtained from the Central Bank Website and banks annual reports. The end result was annual information detailing the independent variables and dependent variable for the 42 commercial banks in Kenya.

3.5 Diagnostic Tests

Linearity show that two variables X and Y are connected by a mathematical equation $Y=bX$ in which b is a constant number. The linearity test was obtained through the scatterplot testing or F-statistic in ANOVA. Stationarity test is a process where the statistical properties such as mean, variance and autocorrelation structure do not change with time. Stationarity was obtained from the run sequence plot. Normality is a test for the assumption that the residual of the response variable are normally distributed around the mean. This was determined by Shapiro-walk test or Kolmogorov-Smirnov test. Autocorrelation is the measurement of the similarity between a certain time series and a lagged value of the same time series over successive time intervals. It was tested using Durbin-Watson statistic (Khan, 2008).

Multicollinearity is said to occur when there is a nearly exact or exact linear relation among two or more of the independent variables. This was tested by the determinant of the correlation matrices, which varies from zero to one. Orthogonal independent variable is an indication that the determinant is one while it is zero if there exists total linear dependence between them and as it approaches to zero then the multicollinearity becomes more intense. Variance Inflation Factors (VIF) and tolerance levels were also carried out to show the degree of multicollinearity (Burns & Burns, 2008).

3.6 Data Analysis

The SPSS software version 21 was used in the analysis of the data. The researcher quantitatively presented the findings using graphs and tables. Descriptive statistics were used to summarize and explain the variables of the study as observed in the banks. The results were presented using percentages, frequencies, measures of central tendencies and dispersion displayed in tables. Inferential statistics included Pearson correlation, multiple regressions, ANOVA and coefficient of determination. The regression model below was used:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon.$$

In which: Y = Commercial banks' financial performance as measured by ROA an annual basis

α = y intercept of the regression equation.

$\beta_1, \beta_2, \beta_3, \beta_4$ = are the regression slope

X_1 = Bancassurance as measured by the ratio of annual value of premiums sold through bancassurance to annual total revenue earned

X_2 = Capital adequacy as measured by ratio of loans and advances to total assets per year

X_3 = Bank liquidity as measured by the ratio of liquid assets to total customer deposits on an annual basis

X_4 = Bank size as measured by natural logarithm of total assets per year

ε = error term

3.6.1 Tests of Significance

The researcher carried out parametric tests to establish the statistical significance of both the overall model and individual parameters. The F-test was used to determine the significance of the overall model and it was obtained from ANOVA while a t-test was used to establish statistical significance of individual variables.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter focused on the analysis of the collected data from the Central Bank of Kenya to establish the effect of bancassurance on financial performance of the Kenyan commercial banks. Using descriptive statistics, correlation analysis and regression analysis, the results of the study were presented in table forms as shown in the following sections.

4.2 Response Rate

This study targeted the 42 commercial banks in Kenya as at 31st December 2017. Data was obtained from 41 banks representing a response rate of 97.62%. From the respondents, the researcher was able to obtain secondary data on bancassurance, bank size, liquidity, capital adequacy and financial performance of banks.

4.3 Diagnostic Tests

The researcher carried out diagnostic tests on the collected data. A test of Multicollinearity was undertaken. Tolerance of the variable and the VIF value were used where values more than 0.2 for Tolerance and values below 10 for VIF implies that Multicollinearity doesn't exist. Multiple regressions is applicable if strong relationship among variables doesn't exist. From the findings, all the variables had a tolerance values >0.2 and VIF values <10 as shown in table 4.1 showing that Multicollinearity among the independent variables doesn't exist.

Table 4.1: Multicollinearity Test for Tolerance and VIF

Variable	Collinearity Statistics	
	Tolerance	VIF
Bancassurance	0.392	1.463
Capital adequacy	0.398	1.982
Bank liquidity	0.388	1.422
Bank size	0.376	1.398

Source: Research Findings (2018)

Shapiro-walk test and Kolmogorov-Smirnov test was used to test for normality. The null hypothesis for the test was that the secondary data was not normal. If the p-value recorded was more than 0.05, the researcher would reject it. The results of the test are as shown in table 4.2.

Table 4.2: Normality Test

ROA	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Bancassurance	.176	205	.300	.892	205	.784
Capital adequacy	.175	205	.300	.874	205	.812
Bank liquidity	.174	205	.300	.913	205	.789
Bank size	.176	205	.300	.892	205	.784

a. Lilliefors Significance Correction

Source: Research Findings (2018)

Both Kolmogorov-Smirnova and Shapiro-Wilk tests recorded o-values greater than 0.05 which implies that the research data was normally distributed and therefore the

null hypothesis was rejected. The data was therefore appropriate for use to conduct parametric tests such as Pearson’s correlation, regression analysis and analysis of variance.

Autocorrelation tests were run in order to check for correlation of error terms across time periods. Autocorrelation was tested using the Durbin Watson test. A durbin-watson statistic of 1.912 indicated that the variable residuals were not serially correlated since the value was within the acceptable range of between 1.5 and 2.5.

Table 4.3: Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.580 ^a	.337	.323	.015900	1.912

ssa. Predictors: (Constant), Bank Size, Capital adequacy, Bancassurance, Liquidity

b. Dependent Variable: ROA

Source: Research Findings (2018)

4.4 Descriptive Analysis

Descriptive statistics gives a presentation of the average, maximum and minimum values of variables applied together with their standard deviations in this study.

Table 4.4 shows the descriptive statistics for the variables applied in the study. An analysis of all the variables was obtained using SPSS software for the period of five years (2013 to 2017) for all the 41 banks that provided data for this study. The mean, standard deviation, minimum and maximum for all the variables selected for this study are as shown below.

Table 4.4: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	205	-.053	.067	.02389	.019329
Bancassurance	205	.079	.480	.21323	.074914
Capital adequacy	205	.025	.969	.46090	.217898
Liquidity	205	.140	.948	.38181	.129532
Bank Size	205	6.794	8.703	7.68560	.534062
Valid N (listwise)	205				

Source: Research Findings (2018)

4.5 Correlation Analysis

The association between any two variables used in the study is established using correlation analysis. This relationship ranges between (-) strong negative correlation and (+) perfect positive correlation. Pearson correlation was employed to analyze the level of association between the commercial banks' financial performance and the independent variables for this study (bancassurance, bank liquidity, bank size and capital adequacy).

The study found out that bancassurance, capital adequacy, liquidity and bank size have a positive and statistically significant correlation with the commercial banks' financial performance as shown by ($r = .275, p = .000$; $r = .167, p = .017$; $r = .147, p = .036$; $r = .530, p = .000$) respectively.

Table 4.5: Correlation Analysis

		ROA	Bancassurance	Capital adequacy	Liquidity	Bank Size
ROA	Pearson Correlation	1				
	Sig. (2-tailed)					
Bancassurance	Pearson Correlation	.275**	1			
	Sig. (2-tailed)	.000				
Capital adequacy	Pearson Correlation	.167*	.037	1		
	Sig. (2-tailed)	.017	.603			
Liquidity	Pearson Correlation	.147*	.389**	-.117	1	
	Sig. (2-tailed)	.036	.000	.095		
Bank Size	Pearson Correlation	.530**	.172*	.032	.138*	1
	Sig. (2-tailed)	.000	.013	.644	.048	

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

c. Listwise N=205

Source: Research Findings (2018)

4.6 Regression Analysis

Financial performance was regressed against four predictor variables; bancassurance, bank liquidity, bank size and bank capital adequacy. The regression analysis was executed at a significance level of 5%. The critical value obtained from the F – table was measured against the one acquired from the regression analysis.

The study obtained the model summary statistics as shown in table 4.6 below.

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.580 ^a	.337	.323	.015900	1.912

a. Predictors: (Constant), Bank Size, Capital adequacy, Bancassurance,

Liquidity

b. Dependent Variable: ROA

Source: Research Findings (2018)

From the outcome in table 4.6 above, the value of R square was 0.337, a discovery that 33.7percent of the deviations in financial performance of commercial banks is caused by changes in bancassurance, bank liquidity, bank size and bank capital adequacy. Other variables not included in the model justify for 66.3 percent of the variations in financial performance of the Kenyan commercial banks. Also, the results revealed that there exists a strong relationship among the selected independent variables and the financial performance as shown by the correlation coefficient (R) equal to 0.580. A durbin-watson statistic of 1.912 indicated that the variable residuals were not serially correlated since the value was more than 1.5.

Table 4.7: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.026	4	.006	25.370	.000 ^b
Residual	.051	200	.000		
Total	.076	204			

a. Dependent Variable: ROA

b. Predictors: (Constant), Bank Size, Capital adequacy, Bancassurance, Liquidity

Source: Research Findings (2018)

The significance value is 0.000 which is less than $p=0.05$. This implies that the model was statistically significant in predicting how bancassurance, bank liquidity, bank size and bank capital adequacy affects the Kenyan commercial banks' financial performance.

Coefficients of determination were used as indicators of the direction of the association between the independent variables and the commercial banks' financial performance. The p-value under sig. column was used as an indicator of the significance of the association between the dependent and the independent variables. At 95% confidence level, a p-value of less than 0.05 was interpreted as a measure of statistical significance. As such, a p-value above 0.05 indicates that the dependent variables have a statistically insignificant association with the independent variables.

The results are indicated in table 4.5

Table 4.8: Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.130	.016		-8.009	.000
Bancassurance	.045	.016	.174	2.744	.007
Capital adequacy	.013	.005	.148	2.542	.012
Liquidity	.004	.009	.028	.449	.654
Bank Size	.018	.002	.491	8.364	.000

a. Dependent Variable: ROA

Source: Research Findings (2018)

From the above results, it is evident that apart from liquidity, all the other three independent variables produced positive and statistically significant values for this study (high t-values, $p < 0.05$). Liquidity was found to be a statistically insignificant determiner of financial performance among commercial banks as shown by a p value above 0.05.

The following regression equation was estimated:

$$Y = -0.130 + 0.045X_1 + 0.013X_2 + 0.018X_3$$

Where,

Y = Financial performance

X₁ = Bancassurance

X₂ = Capital adequacy

X₃= Bank size

On the estimated regression model above, the constant = -0.130 shows that if selected dependent variables (bancassurance, bank liquidity, bank size and bank capital adequacy) were rated zero, the commercial banks' financial performance would be -0.130. A unit increase in banc assurance, capital adequacy, or bank size will result in an increase in financial performance by 0.045, 0.013 and 0.018 respectively.

4.7 Interpretation of the Research Findings

The study sought to determine the association between bancassurance and financial performance of the Kenyan commercial. Bancassurance in this study was the independent variable in this study and was measured by the ratio of revenue received from bancassurance to total revenue. The control variables were liquidity as measured by the current ratio, firm size as measured by natural logarithm of total assets and capital adequacy as measured by ratio of loans and advances to assets total per year. Financial performance was the dependent variable which the study sought to explain and it was measured by return on assets.

The Pearson correlation coefficients between the variables revealed that bancassurance have a positive and statistically significant correlation with the commercial banks' financial performance. The study also found out that a positive and significant correlation exists between capital adequacy and liquidity with financial performance of commercial banks in Kenya. Bank size exhibited a strong positive and significant association with financial performance of insurance firms in Kenya.

The model summary revealed that the independent variables: bancassurance, bank liquidity, bank size and bank capital adequacy explains 33.7% of shifts in the dependent variable as revealed by R² value meaning this model doesn't include other

factors that account for 66.3% of changes in the commercial banks' financial performance. The model is fit at 95% level of confidence since the F-value is 25.370. This shows that the overall multiple regression model is statistically significant and is an adequate model for predicting and explaining the influence of the selected independent variables on the Kenyan commercial banks' financial performance.

The results concur with Mwati (2013) who explored the effect of bancassurance on Kenyan banks' financial performance. A descriptive research survey was employed for the study. The study looked at nine Kenyan commercial banks which have taken up bancassurance. Due to the population size of Kenya's commercial banks that have taken up bancassurance, the research took the census approach. The SPSS software was used for data analysis and the findings revealed that bancassurance exhibit a weak positive but significant effect on the Kenya's commercial banks financial performance.

The findings are also in line with Muunda (2013) who explored the impact of bancassurance Kenyan commercial banks' performance and noted that Kenyan banks operate in a highly profitable and dynamic and Investment Avenue with reducing cost to income ratio, declining asset to liability ratio and a return on assets ratio that is increasing. When the success of bancassurance was analyzed, the results revealed that increasing return on investment, increasing profitability and increasing return on assets with 96% of the banks that have adopted bancassurance showing profits at the time of the study. It was concluded from the study that bancassurance profitability significantly affects the overall banking industry's profitability.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The summary of the results of the former chapter, conclusion and the limitations of the study are given in this chapter. The chapter also elucidates the policy recommendations that policy makers can implement to achieve the expected financial performance of the Kenyan commercial banks. Finally, suggestions for further research, which could be of great use to future researchers, are presented.

5.2 Summary

The study sought to examine the impact of bancassurance on the Kenyan financial bank's financial performance. The independent variables for the study were bancassurance, bank liquidity, bank size and bank capital adequacy. A descriptive cross-sectional research design was employed in the study. Secondary data was obtained from the Central Bank of Kenya and was analyzed using SPSS software version 21. The study used annual data for 41 commercial banks covering a period of five years from January 2013 to December 2017.

Based on correlation analysis results bancassurance was found to have a positive and statistically significant correlation with the commercial banks' financial performance. It was also discovered that a positive and significant correlation exists between capital adequacy and liquidity with financial performance while firm size exhibited a strong and significant association with commercial banks' financial performance.

The co-efficient of determination R-square value was 0.337 which means that about 33.7percent of the variation in financial performance of the Kenyan commercial banks

can be explained by the four selected independent variables while 66.3 percent in the variation of financial performance was associated with other factors not covered in this research. The study also found a strong correlation between the independent variables and the commercial banks' financial performance ($R=0.580$). ANOVA results indicate that the F statistic was at 5% significance level with a $p=0.000$. Therefore the model was fit in explaining the association between the selected variables.

The regression results show that when all the independent variables selected for the study have zero value the commercial banks' financial performance will be -0.218 . A unit increase in capital adequacy, liquidity or bank size will result in an increase in financial performance as indicated by 0.130 . A unit increase in banc assurance, capital adequacy, or bank size will result in an increase in financial performance by 0.045 , 0.013 and 0.018 respectively.

5.3 Conclusion

It can be concluded from the findings that the Kenyan commercial banks' financial performance is significantly affected by bancassurance, capital adequacy and bank size. Thus a conclusion is made that that a unit increase in these variables leads to a significant increase in financial performance of commercial banks. The study found that liquidity is a statistically insignificant determinant of financial performance and therefore this study concludes that this variable does not influence to a large extent the Kenyan commercial bank's financial performance

This study concludes that independent variables selected for this study bancassurance, bank liquidity, bank size and bank capital adequacy influence to a large extent financial performance of commercial banks in Kenya. Thus, it's adequate to make a

conclusion that these variables greatly affect financial performance of commercial banks as shown by the p value in ANOVA summary. The fact that the four independent variables explain 33.7% of changes in financial performance imply that the variables not included in the model explain 66.3% of changes in financial performance the commercial banks

This finding concurs with Mwati (2013) who explored the effect of bancassurance on Kenyan banks' financial performance. A descriptive research survey was employed for the study. The study looked at nine Kenyan commercial banks which have taken up bancassurance. For the reason of the population size of Kenya's commercial banks that have taken up bancassurance, census approach was adopted. The SPSS software was used for data analysis and the findings revealed that bancassurance exhibit a weak positive but significant effect on the Kenya's commercial banks financial performance.

5.4 Recommendations for Policy and Practice

The study established that bancassurance have a positive and significant effect on financial performance of commercial banks in Kenya. Thus the study wishes to make the following recommendations for policy change: Commercial banks in Kenya should diversify their income sources by increasing their bancassurance activities since this will lead to enhanced financial performance. The Kenyan Government through the Central bank should come up with policies that create a conducive environment for commercial banks to operate in since it will translate to economic growth of the country.

The study found out that a positive relationship exists between financial performance and capital adequacy. This study recommends that a comprehensive assessment of a

firm's immediate capital adequacy should be undertaken to ensure that banks are operating at the required levels of capital as bank's capital adequacy has been found to be a significant determiner of financial performance.

The study found out that a positive relationship exists between financial performance and size of a bank. This study recommends that banks' management and directors should aim at increasing their asset base by coming up with measures and policies aimed at enlarging the banks' assets as this will eventually have a direct effect on financial performance. From the findings of this study, big banks in terms of asset base are expected to perform better than small banks and therefore banks should strive to grow their asset base.

5.5 Limitations of the Study

The scope of this research was for five years 2013-2017. It has not been determined if the results would hold for a longer study period. Furthermore it is uncertain whether similar findings would result beyond 2017. A longer study period is more reliable as it will take into account major economic conditions such as booms and recessions.

Data quality is one of the study limitations. From this research, it is hard to conclude whether the results present the true facts about the situation. The data that has been used is only assumed to be accurate. There is also a great inconsistency in the measures used depending on the prevailing conditions. Secondary data was employed in the study which was already in existent as opposed to primary data which was raw information. The study also considered selected determinants of and not all the factors affecting financial performance of commercial banks mainly due to limitation of data availability.

For data analysis purposes, the researcher applied a multiple linear regression model. Due to the shortcomings involved when using regression models such as erroneous and misleading results when the variable values change, the researcher cannot be able to generalize the findings with certainty. If more and more data is added to the functional regression model, the hypothesized relationship between two or more variables may not hold.

5.6 Suggestions for Further Research

This study focused on bancassurance and financial performance of commercial banks in Kenya and depended on secondary data. A research study where data collection depends on primary data i.e. in depth questionnaires and interviews covering all the 42 commercial banks registered with the Central Bank of Kenya is recommended so as to compliment this research.

The study was not exhaustive of the independent variables affecting financial performance of commercial banks in Kenya and it's recommended that further studies be carried out to incorporate other variables like management efficiency, growth opportunities, industry practices, age of the firm, political stability and other macro-economic variables. Establishing the effect of each variable on financial performance will enable policy makers know what tool to use when controlling the financial performance.

The study concentrated on the last five years since it was the most recent data available. Future studies may use a range of many years e.g. from 2000 to date and this can be help confirm or disapprove this study's findings. The study limited itself by focusing on financial institutions. The recommendations of this study are that further studies be conducted on other non-financial institutions operating in Kenya.

Finally, due to the inadequacies of the regression models, other models such as the Vector Error Correction Model (VECM) can be used in explaining the different associations between the variables.

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APPENDICES

Appendix I: List of Commercial Banks in Kenya as at 31st December 2017

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
9. Commercial Bank of Africa Ltd.
10. Consolidated Bank of Kenya Ltd.
11. Co-operative Bank of Kenya Ltd.
12. Credit Bank Ltd.
13. Development Bank of Kenya Ltd.
14. Diamond Trust Bank (K) Ltd.
15. Dubai Bank Kenya Ltd.
16. Ecobank Kenya Ltd
17. Equatorial Commercial Bank Ltd.
18. Equity Bank Ltd.
19. Family Bank Ltd
20. Fidelity Commercial Bank Ltd
21. First community Bank Limited
22. Giro Commercial Bank Ltd.
23. GTB Ltd

24. Guardian Bank Ltd
25. Gulf African Bank Limited
26. Habib Bank A.G Zurich
27. Habib Bank Ltd.
28. Housing Finance
29. Imperial Bank Ltd
30. Investment & Mortgages Bank Ltd
31. Jamii Bora Bank.
32. Kenya Commercial Bank Ltd
33. Middle East Bank (K) Ltd
34. National Bank of Kenya Ltd
35. NIC BANK
36. Oriental Commercial Bank Ltd
37. Paramount Universal Bank Ltd
38. Prime Bank Ltd
39. Sidian Bank Ltd
40. Standard Chartered Bank (K) Ltd
41. Trans-National Bank Ltd
42. UBA Kenya Bank.