

**BANCASSURANCE, SALES CHANNELS, SAVINGS MOBILIZATION AND  
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

**HENRY MOMANYI ISINTA**

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PHILOSOPHY IN BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS-  
UNIVERSITY OF NAIROBI**

**JUNE, 2019**

## **DECLARATION**

### **DECLARATION BY CANDIDATE:**

This PhD thesis is my original work and has not previously, in part or in its entirety, been presented to any other University towards the award of any degree.

Signed.....

Date.....

HENRY MOMANYI ISINTA

D80/80502/09

### **DECLARATION BY SUPERVISORS:**

This PhD thesis has been submitted with our approval as the University supervisors.

Signed.....

Date.....

Prof. Josiah Aduda, Ph.D

Department of Finance and Accounting,  
School of Business, University of Nairobi.

Signed.....

Date.....

Dr. Peterson Magutu, Ph.D

Department of Management Science,  
School of Business, University of Nairobi.

Signed.....

Date.....

Dr. Cyrus Iraya, Ph.D

Department of Finance and Accounting,  
School of Business, University of Nairobi.

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*By Henry Momanyi Isinta*

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## **ABBREVIATIONS AND ACRONYMS**

|               |   |  |
|---------------|---|--|
| <b>AHP</b>    | – | Analytical Hierarchy Process             |
| <b>AKI</b>    | – | Association of Kenya Insurers            |
| <b>CBK</b>    | – | Central Bank of Kenya                    |
| <b>CMA</b>    | – | Capital Markets Authority                |
| <b>DEA</b>    | – | Data Envelopment Analysis                |
| <b>EU</b>     | – | European Union                           |
| <b>EPS</b>    | – | Earnings Per Share                       |
| <b>GDP</b>    | – | Gross Domestic Product                   |
| <b>GLS</b>    | – | Generalized Least Squares                |
| <b>IPA</b>    | – | Importance Performance Analysis          |
| <b>IRA</b>    | – | Insurance Regulatory Authority           |
| <b>KBS</b>    | – | Kenya Bureau of Standards                |
| <b>KSFs</b>   | – | Key Success Factors                      |
| <b>NPLs</b>   | – | Non-Performing Loans                     |
| <b>NPV</b>    | – | Net Present Value                        |
| <b>OTC</b>    | – | Over The Counter Sales                   |
| <b>ROA</b>    | – | Return On Assets                         |
| <b>ROE</b>    | – | Return On Equity                         |
| <b>ROI</b>    | – | Return On Investment                     |
| <b>SACCOS</b> | – | Savings and Credit Cooperative Societies |

**SPSS** – Statistical Package for Social Science

**UK**– United Kingdom

**USA**– United States of America

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## ABSTRACT

This thesis set out to ascertain the relationship among bancassurance, sales channels, savings mobilization and financial performance of commercial banks in Kenya by addressing five key gaps observed in literature. Four specific objectives were developed and analyzed namely: to ascertain the relationship between bancassurance and financial performance of commercial banks in Kenya; to determine the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya; to establish the moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya; ultimately, to establish the joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya. A population of twenty seven (27) commercial banks undertaking bancassurance in Kenya licensed by the Central Bank of Kenya was covered whereby a sample of twenty four (24) responded therefore attaining a response rate of 88.9%. Basic statistical tests were executed encompassing reliability tests by utilizing the Cronbach's alpha, normality tests by employing Shapiro-Wilk measure and multicollinearity tests; descriptive statistics including the mean, standard deviation, coefficient of variation, skewness and kurtosis tests; correlation analysis by applying Spearman's rank order coefficient; and Data Envelopment Analysis (DEA) technique to determine the efficiency scores of sales channels. Ultimately, the hypotheses were tested by applying multiple regression analysis. The findings indicated that there is a statistically significant positive relationship between bancassurance and financial performance of commercial banks; savings mobilization has no statistically significant intervening effect on the relationship between bancassurance and financial performance of commercial banks; sales channels have no statistically significant moderating effect on the relationship between bancassurance and financial performance of commercial banks; finally, bancassurance, sales channels and savings mobilization have a statistically significant joint effect on the financial performance of commercial banks in Kenya. The study concludes that the connection between bancassurance and financial performance is positive, hence the higher the bancassurance transactions, the better the financial performance of commercial banks. This supports diversification by commercial banks into non-traditional financial intermediation activities. The findings of this study have contributed to existing knowledge in theory, practice and policy in the domain of bancassurance, sales channels, savings mobilization and financial performance by adducing evidence that the relationship between bancassurance and financial performance of commercial banks is direct without the intervention of savings mobilization and moderation by sales channels. Moreover, the joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks was examined, a relationship that had not been investigated by prior empirical studies. Methodological values are offered by virtue of measuring financial performance of commercial banks by a weighted composite index derived from pre-tax profits, return on assets and non-interest income as a ratio of total income. The managers of commercial banks will find this findings beneficial in making diversification decisions into non-traditional financial intermediation activities to improve financial performance. Government policy makers and regulators such as the Central Bank of Kenya and Insurance Regulatory Authority will gain from the findings of this study by formulating policies and regulations that allow the blurring of operational boundaries between commercial banks and insurance companies to enhance growth of the financial sector. The study encountered the limitation of less bancassurance transactions (less data) in the initial year of study of 2011, as most commercial banks in the sample did more bancassurance business as from 2012.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Emerging financial innovations have seen the advent of bancassurance globally and locally. This was precipitated by the promulgation of the financial holding company law, removal of pre-existing regulatory barriers that prohibited banks from selling insurance products, interlinkage coupled with globalization of financial markets and diversification into non-financial intermediation roles to reduce company exposure. Consequently, bancassurance concept appeared in France for the first time in the early 1980s (Staikouras, 2006; Artikis, Mutenga & Staikouras, 2008; Wu, Lin, & Lin, 2008). More so, by utilizing the banks as sales channel of insurance products, insurance companies expand their potential market by tapping into the banks' client base, increase sales by exploiting the banks' strong brand image and minimizes dependence on traditional insurance sales channels like agents and brokers that are more costly (Clipici & Bolovan, 2012). At the same time life insurance funds, pension funds, unit-linked insurance policies and mutual funds products that are sold by bancassurances have significantly contributed to gross financial savings mobilization in various countries. Furthermore the complementary nature of insurance products towards bank advances and ease of access to the bank customers results in cost efficiencies leading to improved financial performance of commercial banks (Trichet, 2005; Mishra, 2012; Chari & Jayalakshmi, 2014).

Having introduced the four variables of this study above, it is worthwhile to underscore the theories that inform their interrelationships. This study is anchored on three key theories. First, the resource dependence theory authored by Aldrich and Pfeffer (1976) and Pfeffer and Salancik

(1978) brings out overarching themes touching on organizational interrelationships, resource power within organizations and how entities manage their business environments (Davis & Cobb, 2015). Secondly, the theory of economies of scale has been utilized broadly in research starting with Marshall (1879), Graham (1923), Knight (1924) and others. This theory assumes increasing returns to scale while comparative advantage theory assumes constant returns to scale (Krugman, Obstfeld & Meltz, 2012). Finally, the theory of product bundling falls in the category of psycho-economic theories and has been applied extensively as a marketing tactic (Heeler & Nguyen, 2003). Product bundling theory has been applied widely in research starting with Adams (1976), Guiltinan (1987), Hanson and Martin (1990), among others. A comprehensive narrative of how the three theories are linked to this study alongside their benefits is captured in sections 2.2.1 to 2.2.3.

Commercial banks that practice bancassurance in Kenya form the contextual basis of this study. Kenya's insurance reach in 2015 ranked 2.79% against 2.93% in 2014. Penetration in 2014 was influenced by upward rebasing of GDP (AKI, 2015). Comparatively, insurance penetration in China was 4.4% as at 2015 (Zheng, Liu & Dickinson, 2008). A comparison with China has been applied so as to give an indication of the difference between developed economy and developing economy. The low insurance penetration in Kenya is attributed to relying on traditional insurance sales channels with little use of bancassurance sales channels over the years, unexploited insurance business potential in segments such as oil and gas, real estate, infrastructure, micro insurance and agriculture. There are 27 commercial banks practicing bancassurance in Kenya currently. The commercial banks in Kenya fulfill an important function of providing loans to other economic sectors. Gross loans extended by the banking sector in Kenya went up from kshs 2.17 trillion in 2015 to kshs 2.29 trillion in 2016 (CBK, 2015; CBK, 2016).

### **1.1.1 Bancassurance**

Hughes (1994) and Yuan (2011) defined bancassurance as an arrangement where a bank sells insurance products by utilizing their delivery framework or external distribution entities. This arrangement entails combining higher selling expertise of the insurance entities and the strength of banks of being customer focused. On the other hand, Wever (2000) and Norman (2007) argued that bancassurance is construed to mean selling of insurance policies via the avenue of bank branches to bank customers by way of collaboration between banks and insurers. According to Staikouras (2006) bancassurance refers to the joint operation of credit and insurance providers within one premises harmoniously. The dual institutions strive to meet unique but interlinked needs of their customers in terms of savings, investments and insurance. Further to this, proponents of the concept argue that bancassurance structures inculcates accountability in managers, realizes economies of scale/scope, contributes to stable financial systems, growth of national economy alongside facilitating efficient restructuring. On a broader dimension, bancassurance was triggered by market integration/globalization which signifies the extent of industries' segmentation in terms of complementing each other's functions alongside collaborations. It encompasses market flexibility to accommodate and adapt new ideas, foreign practices, innovativeness and product engineering.

Upon banks and insurance companies coming together through bancassurance, diverse alliance arrangements are created. Li (2006) and Wu et al. (2008) described various modes of bancassurance alliance arrangements comprising financial holding company, holding shareholding, joint venture, precompetitive alliance, insurance agency and insurance brokerage firm. Financial holding company arrangement involves formation of a financial conglomerate that operates in banking, security and insurance financial sectors as one umbrella body. The

challenge with this model is that it is a huge undertaking involving tremendous financing, extensive knowledge and skills but equally profitable if it realizes underwriting profits. This model has the advantages of wholesome integration, availability of all financial products under one roof and development of bundled products with uniform brand name.

Korhonen, Koskinen, and Voutilainen (2005); Li (2006); Wu et al. (2008); Teunissen (2008) and Kaushik (2015) documented that holding shareholding arrangement entails a bank buying equity stake in insurance companies. The bank must make prior indepth analysis of the targeted insurance company to be certain that the expected added benefits will be realized. The disadvantage of this model is that the bank gets dominated by the insurance company incase it acquires minority shares. Joint venture arrangement is one whereby a bank and an insurance come together to form a new insurance company. This model has the advantages of parity in relationships and decision making between the two parties as well as leveraging on each others powers. However, it is deficient in terms of employing the parent banks' distribution avenue only and not any other. Precompetitive alliance refers to a bank and an insurance collaborating through a written contract to last for a specified period and it is prohibited from forming a new company. This arrangement has a disadvantage for insurers of minimal control as to which clients should access their products. Insurance agent company is established by a bank which then enters into a contractual relationship with insurance companies to sell their insurance products. This model has the weakness of selling competing insurance products of different insurance companies hence posing conflict of interest. An insurance agency can evolve into an insurance company that produces policies upon meeting capital and prudential requirements. Finally, a bank can form an insurance brokerage firm and then enter into a broker contract with a

firm handling insurance to transact its insurance policies. Unlike an insurance agent, an insurance brokerage cannot migrate into a fullfledge insurance company.

Fields, Fraser, and Kolari (2007) employed event study method in establishing impact of mergers between insurance companies and banks upon bidder shareholder wealth by computing bidder announcement abnormal returns. Carow (2001) utilized daily stock returns to measure the financial value impact of banks joining the insurance niche. Lozano-Vivas and Pasiouras (2010) measured non-traditional banking activities (like bancassurance) by non-interest income (such as commissions earned from selling insurance products). Tiwari and Yadav (2012) measured bancassurance by the total life insurance premium income collected by banks. Bergendahl (1995) and Gujral (2014) measured bancassurance by commissions earned from selling insurance products. This study measured bancassurance by the amount of premiums realized from selling insurance products. Upon measuring bancassurance, it is expected that it will enhance the financial performance of commercial banks as a result of earning commission income from selling insurance products (Vennet, 2002; Lozano-Vivas & Pasiouras, 2010).

### **1.1.2 Sales Channels**

Sales channels are multiple entities that work together in the role of availing goods or services to customers (Gujral, 2014). They are distribution avenues for products which can be classified as agents' sales channel, bank employees/platform bankers' sales channel, corporate agencies and brokerage firms' sales channel, special advisors sales channel, internet sales channel and other sales channels. All the foregoing sales channels specify consumer awareness on how the insurance products operate as a prerequisite while bank employees/platform bankers' sales channel further presupposes training the staff cost effectively. Equally important, the factors

influencing the choice of a sales channel comprise the economic criteria whereby a suitable avenue should realize more sales than corresponding costs, it should not pose control problems (control criteria) and one that allows the producer to respond to changing business environment (adaptive criteria) (Kotler, 2000; Gonulal, Goulder & Lester, 2012; Gujral, 2014). The strategy of a bancassurance entity on the insurance product lines it desires to sell must be in tandem with the mode of sales channel it intends to employ. This is anchored on the view that the energy and experience required to sell a particular product must fit into the skills and operating costs threshold of the selected sales channel. A product that is not easy for the existing sales channel to sell, is not beneficial for a bancassurance entity on the basis of sales volumes nor profitwise (Kaushik, 2015).

Bank employees/platform bankers' sales channel (also known as over the counter sales channel) is appropriate in selling retail (household) insurance products like motor vehicle insurance bundled with credit life and medium-term savings insurance products intertwined with investment-linked contracts. A key strength of over the counter (OTC) sales channel in banks is their reliability and stability irrespective of market conditions such as stock market volatility for instance in trading investment trusts. The other sales channel of special advisors is suitable for complex insurance products such as policies focusing on financial planning and life insurance. This sales channel is more expensive to the banks because they charge high commissions. Further examination discloses that agents sales channel and brokerage firms' sales channel were widely utilized by banks during the inception of bancassurance because of their expertise, they are rated as expensive, take longer durations to attain profitability, they are associated with wastage and loss of customer confidence. Finally, internet sales channel has gained foothold in selling term insurance products that have cheaper premium values. Furthermore, Association of



Kenya Insurers assessed the suitable sales channels for insurance products in Kenya in 2010 and found out that bancassurance, web, worksite marketing, telephone marketing and partnering with non-governmental organizations were the most commonly used (Yasuoka, 2005;Gonulal et al., 2012; Chepkoech& Omwenga, 2015).

A study carried out by Yasuoka (2005) in the United States of America revealed that most commonly used bancassurance sales channels is financial consultants hired by the banks that ranked highest, followed by direct sales by the banks through internet and telephone, followed by bank employees registered for insurance sales, then senior registered insurance agents recruited by banks,then registered insurance agents recruited by the banks and lastly outside insurance agents. On the other hand, Staikouras (2006) documented that bancassurance arrangements enables banks and insurance companies to tap the strong sales attributes of each partner. Insurances are strong in creative marketing, selling in teamwork as well as giving monetary rewards. Insurers go out searching customers, engages them individually, is taught to solicit, discuss and own up risk on behalf of the organization. Whereas commercial banks are reputed with a philosophy and behaviour of nurturing relationship, minimal risk, soundness and non-performance driven compensation packages.The banker expects the customer to come to the branch office, listens and resolves needs of a batch of customers and he/she is taught to obtain risk on behalf of the bank.

Chang et al. (2011) applied Data Envelopment Analysis (DEA) technique in comparing efficiency scores of bancassurance sales channels against efficiency scores of traditional insurance sales channels.This study utilized Data Envelopment Analysis (DEA) technique in determiningefficiency of bancassurance sales channels. More so, it is envisaged that bancassurance sales channels will increase sales and improve financial performance of

commercial banks engaged in bancassurance (Clipici & Bolovan, 2012). Hence, sales channels are expected to affect the relationship between bancassurance and financial performance.

### **1.1.3 Savings Mobilization**

Savings mobilization involves collecting obligatory and voluntary savings by transferring funds from people and organizations that have surplus of available funds to people and organizations that have a shortage. It is therefore regarded as deposit mobilization (Rose & Kolari, 1995; Alamgir & Dowla, 2003). Saving at the household level achieves the following objectives; retirement and bequests savings, funding big projects in life like house acquisition, to cushion against unanticipated financial loss as well as smoothening the provision of resources to achieve uninterrupted consumption (Seguino & Floro, 2003).

According to Yasuoka (2005) over the counter (OTC) sales of annuity insurance at the banks with features of single premium payment and fixed annuity foreign currency-denominated with high guaranteed yield have tremendously increased because they are akin to time deposits. Equally, selling of investment trusts by tellers in the banks has also increased. As expressed above banks offer variable annuity insurance and fixed annuity insurance products with options of foreign currency-denominated products that can be summed up as long term savings products that contribute positively to the savings mobilization function of commercial banks. Variable annuity insurance products sold by banks are designed into two types. In the first type, paid in insurance premiums are controlled under a "special bank account" of the insurance company for the specified product within the bancassurance commercial bank. The second type is named "investment-type annuity insurance" whereby the insurance purchaser picks an associated investment trust to invest the funds in. The two types are defined as variable annuity by virtue of

the accumulated pension funds flexibility pegged on the investment trust's yield. Conversely, the fixed annuity insurance products sold by banks are those that prescribe a guaranteed death benefit amount (normally equivalent to a single premium payment) or paid-in accumulated pension funds (premiums) at the bare minimum, irrespective of the investment trust's yield. Both variable annuity insurance and fixed annuity insurance are long term savings investments sold by bancassurance institutions designed to protect an individual against the risk of outliving his/her income. Considering that both of them are long term savings insurance products whose premiums are deposited in bank accounts within commercial banks undertaking bancassurance, they therefore contribute to savings mobilization. Foreign currency-denominated fixed annuity insurance products transacted through bancassurance generated savings deposits exceeding 5 trillion yen in Japan as at 2004 (Yasuoka, 2005).

In the domain of public savings, mobilization of savings can be maximized by cutting government spending, through prudential macroeconomic policies, interest rates reforms, saving schemes with attractive interest rates, mandatory contributions by employees to provident funds and well developed banking systems (Ang, 2011). This study measured savings mobilization by commercial banks that practice bancassurance by the amount of customer deposits that relate to bancassurance. Further to this, it is expected that savings mobilization will increase financial performance of commercial banks undertaking bancassurance on the basis that long term insurance savings products (pension funds, unit-linked plans funds, annuity funds, among others) funds deposited within bancassurance entities earn interest income (Yasuoka, 2005). Therefore, savings mobilization is expected to affect the relationship between bancassurance and financial performance of commercial banks.

#### **1.1.4 Financial Performance**

Financial performance dwells on how well a firm is achieving set standards in terms of profitability by assessing how revenues relate to expenses as well as the return on investment of an entity. Financial performance seeks to gauge how well the factors of production which include labour, management and capital are employed by organizations to yield profits (Hersey & Blanchard, 1998; Parker & Bradley, 2000). By measuring the financial performance of bancassurance entities, management is able to determine their efficiency, effectiveness and the amount of savings they have been able to mobilize (Neely & Bourne, 2000). Measuring and reporting financial performance fulfills the accounting function of communicating economic information to different stakeholders of an entity like managers, shareholders and potential investors, employees, creditors and the government (Drury, 2004).

Diversification by banks into insurance business through bancassurance enhances financial performance of commercial banks by earning abnormal returns which is driven by increased cashflows, cross-selling revenues growth coupled with higher economies of scale and scope. Further analysis has revealed that improved financial performance is anchored upon pillars of large customer base, wider distribution reach availed by bank branches, reduced information and transactions costs derived from the application of superior and efficient information technology, finally, lower selling costs of insurance policies (Nicholson, 1990; Fields et al., 2007; Harissis et al., 2009). Additionally, through bancassurance banks apply the existing fixed capacity resources to sell insurance products therefore improving the financial performance of commercial banks. Furthermore, commercial banks engaged in bancassurance earn commissions from the insurance companies as consideration for selling insurance products (Bergendahl, 1995).

Analysis of financial performance of commercial banks has shifted from conventional ratios like return on assets or return on investment to more overarching approaches involving several indicators that are based on parameters like assets, revenues, profits, market values, investments, customers' satisfaction, among others (Seiford & Zhu, 1999). Muchemi (2013) measured financial performance by employing total assets and profit before tax. Vennet (2002) measured cost and profit efficiency of bancassurances by utilizing non-interest income such as fee-income earned from non-traditional banking activities. Sufian and Chong (2008) and Sreesha (2014) applied return on assets (ROA) to measure financial performance. Return on assets is employed as a financial performance indicator because it gives an indication as to whether an entity is using its assets efficiently to make profits(Horne, 2004). Chepkoech and Omwenga (2015) applied liquidity ratios to measure the effect of bancassurance on the insurance companies. This study measured financial performance of commercial banks that practice bancassurance by utilizing a composite index derived from pre-tax profits, return on assets (ROA) and non-interest income (fees & commissions) as a ratio of total income.

### **1.1.5 Commercial Banks in Kenya**

Kenya's banking segment comprised of 42 commercial banks, 1 mortgage finance company and 13 microfinance banks as at 31<sup>st</sup> December 2016. They are all regulated by the Central Bank of Kenya. Deposits by customers in banks went up by 5.3% from kshs 2.49 trillion in December 2015 to kshs 2.62 trillion in December 2016. Commercial banks extended credit totaling kshs 2.29 trillion, mobilized savings amounting to kshs 2.62 trillion and had net assets aggregating kshs 3.7 trillion as at December 2016. The number of deposit account holders increased from 35,194,496 in 2015 to 41,203,518 in 2016. The growth in savings mobilization is derived from agency banking, leveraging on mobile phone facilities and bancassurance development.

Financial services sector contributed 6.8% to Kenya's GDP in 2015(CBK, 2015; CBK, 2016; Deloitte, 2016).

Overview of Kenya's banking sector's financial performance reflected upward growth in 2016 with total net assets registering an increase of 5.8% above 2015. The growth is explained by increased volume of loans and advances which went up by 5.6%. Growth in pre-tax profits by 10.91% from kshs 134 billion in 2015 to kshs 147.4 billion in 2016 was attained. This is attributed to higher income that grew by 5.7% relative to lower expenses that increased by 3.8% in 2016. Furthermore, the sector witnessed diminishing asset quality on account of increasing non-performing loans (NPLs) ratio that went up from 6.8% in 2015 to 9.2% in 2016 as a result of harsh business environment. Finally on a positive note, the sector registered higher capitalization values that increased by 10.5% from kshs 541 billion in 2015 to kshs 598 billion in 2016 (CBK, 2016).

It is projected that more growth shall be realized in bancassurance in Kenya underpinned by policy framework formulated by Central Bank of Kenya in this segment recently. Regarding scope of commercial banks practicing bancassurance in Kenya, they are 27 currently. One of the key achievements of Central Bank of Kenya in one year in 2015 in the context of bancassurance was granting approval to seven commercial banks to undertake bancassurance which translates to 25.9% of the total 27 commercial banks undertaking bancassurance currently. The commercial banks leading in the roll-out of bancassurance is Equity bank that pioneered in collaborating with UAP insurance in insuring livestock for pastoralists in Northern Kenya. They also partnered with Madison Insurance to provide life assurance. Bundling of accident policies with bank accounts has been realized by I&M bank among others. Chase bank and Chase Assurance formed a bancassurance to offer insurance services to clients([www.chasebankkenya.co.ke](http://www.chasebankkenya.co.ke);

www.Businessmindworldblog.wordpress.com).The key drivers of insurance industry in Kenya as at 2012 had marketing ranked highest at 21% anchored on strategic partnerships with banks through bancassurance (IRA, 2014).

## **1.2 Research Problem**

Bancassurance is an innovation in financial system that has revolutionized the selling of insurance products and fulfilled the bundling of financial products. More so, deregulation and liberalization of financial services has yielded convergence of banks and insurances through bancassurance. At the same time, bancassurance has been noted as increasing insurance sales, enhancing savings mobilization and improving financial performance of commercial banks (DeYoung & Rice, 2004; Artikis et al., 2008; Hong & Lee, 2012; Mishra, 2012; Chepkoech & Omwenga, 2015). In view of the foregoing, it was important to examine the inter-relationships between bancassurance, sales channels, savings mobilization and financial performance.

Bancassurance started in Kenya in 2007 and its share in the country's niche of life insurance increased to 41% from 25% in the period 2007 and 2012. Total life insurance premium income generated through bancassurance in Kenya was kshs 2.48 billion representing 6.7% of the total life insurance premium of the insurance sector as at 2012 therefore underscoring its importance in economic development. It was therefore crucial to study commercial banks in Kenya in the bancassurance paradigm since the country is a developing economy that requires vibrant financial institutions and considering that bancassurance is a new concept in finance theory and practice (AKI, 2012 and 2014; CBK, 2014; KBS, 2015; Chepkoech & Omwenga, 2015).

This study sought to address a number of gaps. Firstly, past studies have given contradicting conclusions on the effect of sales channels and savings mobilization on the relationship between

bancassurance and financial performance of commercial banks and no attempts have been made to remedy the contradictions. Studies by Cybo-Ottone and Murgia (2000); Estrella (2001); Vennet (2002); De Young and Rice (2004); Nurullah and Staikouras (2008) and Lozano-vivas and Pasiouras (2010) documented that bancassurance and financial performance are positively related. The above studies based their conclusion on the findings that the proportion of commission income from selling insurance products and other non-interest income to all income of commercial banks engaged in bancassurance has increased tremendously. This was contradicted by De Young and Hunter (2003) and Gujral (2014) who concluded that bancassurance does not influence positively financial performance especially the profitability of commercial banks. The findings of these two latter studies are contrary to theoretical expectations that bancassurance influences positively profitability due to economies of scale, cost efficiencies and diversification benefits. Clipici and Bolovan (2012) documented that bancassurance increases sales of banks as well as profits. Their finding is reinforced by the rationale of lower per unit costs of selling insurance products through bancassurance sales channels by virtue of utilizing existing bank branches alongside current bank employees to sell new insurance products. On the contrary, Chang et al. (2011) found out that traditional insurance sales channels recorded much higher average efficiency scores than bancassurance sales channels implying that bancassurance sales does not contribute positively to profitability of banks and insurance companies. The above findings cover the moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks. Moreover, the cited contradicting conclusions have caused inconsistencies in knowledge in the relationships between bancassurance, sales channels and financial performance of



commercial banks. This gap was addressed by this study by testing hypothesis one ( $H_1$ ) and hypothesis three ( $H_3$ ) as demonstrated in the conceptual model.

Secondly, previous studies revealed insignificant or weak relationship between bancassurance, savings mobilization and financial performance. For instance, Voutilainen (2004) found out that banks and insurance companies offer products that are akin to each other hence sharing public savings leading to insignificant effect on savings mobilization. Trichet (2005) conveyed findings indicating weak relationship between savings mobilization and financial performance of bancassurances. It is observed that the findings of this study are informed by a survey carried out by Banking Supervision Committee on European Union banks' activities in credit risk transfer markets, which therefore took banks' perspectives and not wholly synchronized with insurance sector's. Further, Ang (2010) documented that insurance is negatively related to private savings, contrary to theoretical principles because the scope of the study covered the private sector of Malaysia only excluding the public sector. This gap was addressed by this study by testing hypothesis two ( $H_2$ ) as shown in the conceptual model.

Thirdly, several methodological gaps were observed in past studies. These gaps are in terms of small sample size, performance measures and indicators covering a narrow time frame and data that is not all-inclusive. Gujral (2014) analyzed a small sample of eight banks out of fifty seven in the study of bancassurance effect on banking industry in India; Bergendahl (1995) while assessing the profitability of bancassurance examined a sample of two banks. This study filled the gap in the above studies by covering a wider sample of twenty seven commercial banks out of a total of 40 operational commercial banks in Kenya. 27 commercial banks is considered to be a large sample because according to Mugenda and Mugenda (2013) a sample size of 30% is an adequate representation of the target population. Vennet (2002) utilized average financial data of

a short period between 1995 and 1996 to measure the profitability of financial holding companies, banks that undertake more functions besides financial intermediation and specialized banks. This study addressed this gap by analyzing absolute financial data for five financial years. Chang et al. (2011) utilized data for 21 life insurance companies that practice bancassurance therefore leaving out non-life insurance companies. This study filled the gap by covering a wider scope of both life insurance and non-life insurance in bancassurance context. Methodological weaknesses affect the substance and objectiveness of the findings of studies.

Fourthly, the existing empirical studies have not integrated the four variables of bancassurance, sales channels, savings mobilization and financial performance into one conceptual model. Bergendahl (1995) utilized two variables of bancassurance and profitability, Voutilainen (2004) examined two variables of bancassurance arrangements and customer's preferences, Nurullah and Staikouras (2008) analyzed two variables of risk and profitability and Chang et al. (2011) employed two variables of bancassurance sales channels and traditional insurance sales channels. This study addressed the gap by employing an expanded interlinked model of analyzing the relationship between bancassurance, sales channels, savings mobilization and financial performance. This gap was tackled by this study by testing hypothesis four (H4) as shown in the conceptual model.

Lastly, there are contextual gaps exhibited by prior studies. Empirical studies on the relationship between bancassurance and financial performance of commercial banks were carried out in foreign countries whose contextual environments are not similar to Kenya, therefore, their findings and conclusions cannot be extended to Kenya. For instance, Gujral (2014) examined in India, bancassurance's financial impact on the performance of banks, Fields et al. (2007) assessed in the U.S. the viability of bancassurance mergers between banks and insurance companies,

Vennet (2002) analyzed whether financial conglomerates and universal banks that undertake bancassurance earn higher profits than specialized banks that are not engaged in bancassurance in Europe while Bergendahl (1995) examined how bancassurance can be made a profitable strategy for European banks. The findings and conclusions of the foregoing studies apply to contexts of India, U.S. and Europe respectively and may not automatically be extended to Kenyan context.

The various studies cited in the foregoing paragraphs have highlighted gaps that this research purposed to investigate further to establish the effect of sales channels and savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya. Therefore, the fundamental question addressed by this study was: What is the relationship between bancassurance, sales channels, savings mobilization and financial performance of commercial banks in Kenya?

### **1.3 Research Objectives**

The general objective of the study was to establish the relationship among bancassurance, sales channels, savings mobilization and financial performance of commercial banks in Kenya.

The specific objectives of the study were:

- i. To ascertain the relationship between bancassurance and financial performance of commercial banks in Kenya;
- ii. To determine the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya;
- iii. To establish the moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya;

- iv. To establish the joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya.

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

The outcome of this research yields theoretical contributions in three different dimensions: the examination of moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks; investigation of the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks; finally, establishing the joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks. Prior empirical research works on the intervening effect were carried out under different contextual environments culminating in insignificant results while moderating tests conducted in other countries conveyed contradicting outcomes which this study sought to remedy. The joint effect of the three variables upon the dependent variable has not been researched on previously.

Secondly, the following methodological values are derived from this study. The DEA technique was empirically applied in determining the efficiency scores of sales channels operated by bancassurance entities. The robustness of the technique is further endorsed by the findings of this study therefore vouching for its use by both scholars and practitioners. Additionally, Financial performance of commercial banks transacting bancassurance was measured by a weighted composite index comprising of pre-tax profits, return on assets and non-interest income as a percentage of total income that is broadbased and more objective unlike earlier studies that applied single measures like return on assets (ROA). Lastly, the current study analyzed data for

five financial years unlike some prior studies that had a limitation of applying average data for two financial years.

Thirdly, the owners of banks and insurance companies as well as managers will gain knowledge that will guide them in making strategic decisions pertaining to diversification, growth, operational efficiency and enhancement of profitability. The outcome regarding the effect of bancassurance on financial performance of commercial banks will be quite helpful in this context. This study has delved into the merits of banks and insurance companies diversifying their business portfolios through bancassurance that mirrors profitability, increased sales, growth in customer base, among others.

Fourthly, the policy makers and regulators in the financial sector in the country namely; Central Bank of Kenya (CBK), Insurance Regulatory Authority (IRA), Association of Kenya Insurers (AKI) and Capital Markets Authority (CMA) will acquire knowledge from empirical findings that will assist them in formulating policies and regulations that will facilitate and control holding companies involving insurance organizations and banks, mergers, alliances and agencies. The contribution of bancassurance to commercial banks' profitability has a multiplier effect to the economic development of the country by channeling credit to other sectors that drive economic growth. This aspect of research findings is a merit beneficial to those formulating policy, regulators and practitioners.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Chapter two underpins the theories guiding this research as well as documenting empirical literature review. Various studies analyzed under empirical literature review are summarized in a table. Lastly, a conceptual framework is presented depicting the relationship between research variables ending with research hypotheses.

#### **2.2 Theoretical Foundation of the Study**

Some theories have been reviewed in the following section in an effort to expound the relationships among variables of the study. The theories comprise of resource dependence theory, theory of economies of scale and theory of product bundling.

##### **2.2.1 Resource Dependence Theory**

Resource dependence theory was developed by Aldrich and Pfeffer (1976). The theory illustrates what drives power and its outcomes in the ambit of interorganizational relationships. It explains the origins of power alongside dependence in the context of business organizations and in what ways leaders of organizations employ power and manage dependence. It upholds that corporate entities have roadmaps to strengthen their independence, social environments are important and internal alongside external operations of institutions underscores their interests and power (Davis & Cobb, 2015). The theory assumes that mutual dependence and power imbalance team up to generate interdependence (Pfeffer & Salancik, 1978). This theory is related to bancassurance in the dimensions of banks having a wide branch network resource, strong brand image, maximum

customer relations and immense customer information on creditworthiness that attracts insurance companies to enter into strategic alliances with them to sell insurance products. The cited bank resources constitute power in their favour over insurance companies. On the other hand, banks and insurance companies are interdependent because insurance companies produce insurance products to be sold, underwrite insurance risks and possess technical skills of selling insurance products.

Casciaro and Piskorski (2005) criticized the theory's notion that mutual dependency and power imbalance intertwine to result in interdependence by demonstrating that lack of power parity and acceptable synergy have divorcing impact on entities planning to enter into mergers and acquisitions. Katila, Rosenberger and Eisenhard (2008) criticized the resource dependency theory on grounds that it has dwelled on the positive aspects of cooperating in organizational relationship engagements oblivious of the fact that one entity can manipulate the other. However, this theory is supported by Davis and Cobb (2015) by arguing that it is broad enough in addressing organizational perspectives by tying together the concept of power with the notion of environmental management by organizations. Equally, Hillman, Shropshire, and Cannella (2007) empirically employed the resource dependency theory by testing one of its principles that companies tactically pick board members to mitigate uncertainty.

The resource dependence theory facilitates in grasping the relationship between bancassurance and financial performance of commercial banks. The banks' widespread branches, strong customer relations plus high brand image resource powers imply that bancassurance will increase insurance sales, maximize non-financial intermediation income for banks hence improving profitability of commercial banks undertaking bancassurance. At the same time, increased insurance sales via bancassurance will lead to higher insurance premium funds therefore causing

increased savings mobilization resulting in higher financial performance of commercial banks. This theory consequently supports that there is a positive relationship between bancassurance and financial performance of commercial banks. It therefore, addresses the gap of contradicting conclusions by prior studies on the relationship between bancassurance and financial performance of commercial banks.

The wide branch network resource of the banks and the insurance products produced by the insurance company (insurance companies resource) jointly reduces the per unit cost of producing and selling insurance products sold through bancassurance framework, through this linkage resource dependency theory fulfills the economies of scale theory. Equally, the resource dependency theory facilitates actualization of the product bundling theory by providing the wide branch network platform of the banks coupled with strong brand image of the banks that drives the selling of insurance products bundled with bank products within bancassurance paradigm.

### **2.2.2 Theory of Economies of Scale**

Economies of scale theory was developed by Marshall (1879). It states that economies of scale exist when inputs to an industry/firm increase at a certain rate, output grows at a higher rate. The unit cost of production decreases as a firm or industry increases production (Krugman et al., 2012). The theory assumes: full specialization, demand and supply are equal (equilibrium), indivisibility of products, economies of scale originate from outside the firm, lastly, economies of scale depend on the size of the firm (Ethier, 1982). Economies of scale apply to bancassurance since the per unit cost of selling insurance products is significantly reduced when they are bundled with bank products because fixed capacity resources are utilized to sell new insurance products (Bergendahl, 1995; Voutilainen, 2004). Operating costs of bancassurances are lower



compared to specialized banks due to economies of scale derived from synergies of banks and insurance companies working together and strong brand reputations of banks (Vennet, 2002). Economies of scale theory is criticized that it can lead to a breakdown of perfect competition. External economies of scale can be used to justify protectionism by advancing infant industry argument (Krugman et al., 2012). However, this theory is supported by Helpman (1984) by arguing that a firm realizes cost savings by increasing output both within a country and outside a country (world output) as a result of within-industry specialization which is spread worldwide through intra-industry exchange of intermediate inputs. On the other hand, Chepkoech and Omwenga (2015) underpinned their study of the effects of bancassurance on the performance of insurance firms in Kenya upon the theory of economies of scale.

The economies of scale theory elaborates the relationship between bancassurance, sales channels and financial performance. The per unit cost of selling products is reduced when they are sold together with bank financial products through bancassurance because existing bank branches and other fixed capacity resources are utilized to sell new insurance products which yields improved financial performance of commercial banks. Equally, agents sales channel, corporate agencies and brokerage firms sales channel will have lower efficiency scores than bank employees/platform bankers sales channel due to economies of scale. From the foregoing, it is evident that the theory upholds that there is a positive relationship between bancassurance and financial performance of commercial banks. It therefore contributes towards addressing the gap of contradicting conclusions by past studies.

### **2.2.3 Theory of Product Bundling**

Product bundling theory was developed by Adams (1976). The theory states that marginal costs are constant, the incremental cost of the next bundle is the combination of incremental costs of its sub-parts and constant costs do not exist. It assumes that consumers' reservation prices for an extra unit of the same goods are nil, zero assembly cost for a bundle, free disposal and consumers are surplus maximizing. Bundling products achieves cost synergies, realizes demand complementarities, provides added value to customers, attains leverage and product differentiation (Foubert, 1999). Through bancassurance, banks are bundling financial products with insurance products such as payment media insurance, house mortgage loans are bundled with health insurance for the householder as well as comprehensive home insurance, car loans are bundled with motor vehicle insurances and certain types of savings bank accounts are bundled with life insurance, death and disability covers (Benoist, 2002). The theory is criticized on grounds that its assumptions are not practical. The assumption of constant marginal costs with respect to output assumes that there are no economies of scale and scope, this is not tenable (Foubert, 1999). However, this theory is supported by Heeler, Nguyen, and Buff (2007) who found out that the inferred bundle savings effect is prevalent in both product and service industries. They argued that in situations where there is no vivid disclosure of bundle savings, customers infer bundle savings whenever they are presented with bundled products/services.

Product bundling theory expounds the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks. Through bancassurance, some savings bank accounts are bundled with life insurance, death and disability covers therefore increasing the demand for such savings bank accounts as well as fees income reckoning that commercial banks levy fees on such bank accounts. This implies that

bancassurance increases savings mobilization which results in superior financial performance of commercial banks. The theory asserts that there is a significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks. This aspect links the theory towards resolving the gap of findings by erstwhile studies of insignificant or weak relationship between bancassurance, savings mobilization and financial performance of commercial banks. Further to this, by bundling bank products with insurance products and selling them together, the per unit cost of selling both products is reduced since fixed resources of the bancassurance organization are employed. Through this perspective, product bundling theory helps to realize the economies of scale theory.

## **2.3 Review of Empirical Literature**

The diverse empirical literature reviewed is intended to enable us understand how previous studies researched and the findings on the thematic variables of bancassurance, sales channels, savings mobilization and financial performance of commercial banks.

### **2.3.1 Bancassurance and Financial performance**

Vennet (2002) examined financial holding companies, banks that handle more than intermediation functions and those that transact conventional businesses in the context of their comparative efficiencies in costs and profits in Europe. The objective was to determine whether financial holding companies and banks that handle more than intermediation functions are more profitable than specialized banks. 2,375 banks were analyzed by applying stochastic cost and profit frontier technique. The technique employs a cost function that determines cost efficiency by assessing the proximity of real costs of a bank to that of an excellent bank in producing similar products in uniform environment. The study found out that financial conglomerates

generate higher income and are therefore profit efficient than banks that specialize in traditional banking activities. This shows that bancassurance has significant effect on financial performance of commercial banks. The researcher however utilized average data for the years 1995 and 1996 from published financial statements, which is viewed as a very short study period.

Fields et al. (2007) analyzed the profitability of U.S. and foreign owned bancassurance combinations covering the period 1997 to 2002. Bank-insurance mergers totaling 129 formed the sample that was examined. The study found out that bancassurance combinations are profitable. At the same time, the subject mergers do not create any growth in risk. They therefore concluded that bancassurance is a viable business arrangement. This indicates that bancassurance has significant effect on financial performance of commercial banks. It was observed that the research had a weakness of covering only public companies quoted in the stock exchange. Therefore companies that were not public were left out of the study sample. Lozano-Vivas and Pasiouras (2010) analyzed the effect of non-traditional bank functions like non-interest income transactions on bank efficiency regarding costs and profitability. A set of 752 public commercial banks across eighty seven countries were examined by employing the global best-practice frontier technique that utilizes one function for measuring traditional bank activities and two other functions for non-traditional bank activities in data analysis. The study revealed that non-interest income like commissions from selling insurance products results in higher and statistically significant profit efficiency. This confirms that bancassurance has significant effect on financial performance of commercial banks. However, it was noted that this research work had a shortcoming of analyzing two variables only; non-traditional bank activities and bank efficiency, making it impossible to interrogate the joint effect of explanatory variables upon the dependent variable.

Gujral (2014) investigated the effect of bancassurance on banking business in India. The sample of the study was eight banks transacting bancassurance. The primary aims of the research encompassed examination of the financial impact of bancassurance on performance of banks, ascertain whether people were aware of bancassurance and determine whether clients preferred buying insurance products from banks. Trend analysis and descriptive statistics were applied in doing data analysis. The study found out that bancassurance does not realize significant income to banks. This finding indicates that bancassurance has no significant effect on financial performance of commercial banks. The study suffers a weakness of covering a small sample of eight banks. The foregoing studies expound the gap of contradicting conclusions discussed in the research problem.

### **2.3.2 Bancassurance, Savings Mobilization and Financial Performance**

Bergendahl (1995) investigated how bancassurance can become a profitable strategy for European banks. The study applied the net present value (NPV) model to determine whether the costs of rolling out insurance distribution network will be surpassed by the benefits from selling insurance. A sample of two banks was analyzed and findings revealed that transacting insurance products in banks clinches profitability when positive discounted net benefits are realized. Furthermore, bancassurance profitability is anchored upon the extent of branches, numeric size of insurance specialists per branch, customer size, the inter-selling percentage as well as the grasping intensity. The size of customers and cross-selling ratio influence the growth of bancassurance sales and commissions while technical reserves that constitute premium funds equivalent to the portion of premium days that have not expired drive liquidity and savings mobilization.

Bancassurance increases sales of bank and insurance products and savings mobilization through technical reserves, as a result commissions are earned by the bank for selling insurance products and the combined effect of the above factors increases financial worth of commercial banks doing bancassurance. This revelation indicates that savings mobilization has a significant intervening effect on the relationship between bancassurance and financial performance of commercial banks. It is noted that the study had a shortcoming of collecting data from a small sample of two commercial banks. The study provides more evidence on the gap of not studying the four variables in one interlinked conceptual model. The current study added to knowledge presently available by examining the joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks.

Trichet (2005) investigated how relevant insurance sector is in stabilizing Europe's financial system. The study documented sources of risk together with exposure of the banking and insurance service industries and what that portends for financial stability. Results indicated weak relationship between savings mobilization and financial performance of bancassurances. The study provides evidence that savings mobilization has no significant intervening effect on the relationship between bancassurance and financial performance of commercial banks doing bancassurance. More so, the study elaborates the gap of weak relationship between savings mobilization and financial performance of commercial banks transacting bancassurance. However, the study did not conceptualize the variables with dependent variable, independent variable, moderating variable and intervening variable. The current study contributed to knowledge by examining the interrelationships between bancassurance, sales channels, savings mobilization and financial performance.

Mishra (2012) explored the challenges of bancassurance in India and the strategies and policies of making it beneficial to customers, insurance companies and banks. The study interviewed 350 officials from large public sector banks and insurance companies from Kolkata and its environs in India. Simple convenience random sampling method was applied in selecting the sample. Results indicated that among the benefits derived from bancassurance by banks is winning new customers and better penetration in existing customer base therefore increasing savings mobilization which in turn increases profitability. The findings therefore evidences that savings mobilization has significant intervening effect on the relationship between bancassurance and financial performance of commercial banks. The current study added value to knowledge by interrogating the intervening effect of savings mobilization on the relationship between bancassurance and financial performance. On the other hand, the study has a weakness of employing convenience sampling method that is not probability driven and unreliable at the same time.

Kumari (2012) conducted a study on bancassurance arrangement models and customer attitudes towards the same in India. A sample of 115 customers for 10 banks was picked from Visakhapatnam town by convenience sampling method. Findings showed that most customers prefer buying insurance products from banks than from insurance agents. Out of 115 respondents 26 (i.e. 23%) stated that they buy pension insurance products from banks while 82 (i.e. 71%) buy unit linked insurance plans. Pension insurance products and unit linked insurance plans are long term savings products and holders of this policies open savings bank accounts with commercial banks undertaking bancassurance therefore enhancing savings mobilization and interest income levied on savings bank account holders. This testifies that bancassurance contributes positively to savings mobilization by commercial banks as well as their profitability. The findings show that

savings mobilization has significant intervening effect on the relationship between bancassurance and financial performance of commercial banks. However, the study is deficient in as far as a small sample of 10 banks was examined.

Chari and Jayalakshmi (2014) examined the perception of insurance policy holders about bancassurance and their market related attitude towards the same phenomenon in India. A sample of 10 banks that transacted bancassurance were covered while SPSS and Chi-Square technique were applied in data analysis. Findings revealed that bancassurance has grown to become an important channel of tapping household financial savings and bank clients are contented with obtaining insurance policies from banks. Life insurance funds component in total household savings in India grew from 22.3% in 2010-2011 to 23.1% in 2011-2012 whereas pension funds component increased from 14% in 2010-2011 to 15.6% in 2011-2012. Therefore, bancassurance has a significant effect on savings mobilization which in turn enhances profitability because the savings related bank accounts realize interest income. This outcome discloses that savings mobilization has a significant intervening effect on the relationship between bancassurance and financial performance of commercial banks. On the other hand, it is observed that the study has a shortcoming of covering a small sample of ten banks. The studies reviewed above explain the methodological gaps expressed in the research problem.

### **2.3.3 Bancassurance, Sales Channels and Financial Performance**

Chang et al. (2011) compared bancassurance sales channels's efficiency ratings against conventional insurance sales methods in Taiwan. The sample of the study was twenty one companies undertaking life insurance utilizing sales channels of bancassurance and traditional. Data envelopment analysis technique was employed to determine the efficiency ratings of



conventional insurance sales methods and bancassurance sales channels. The study found out that traditional insurance sales channels attained significantly superior efficiency ratings than bancassurance sales channels. Therefore, bancassurance sales channels does not influence profits of banks positively. The study confirms that sales channels have no significant moderating effect on the relationship between bancassurance and financial performance of commercial banks. It is however observed that the study utilized data for life insurance companies only while omitting non-life. The current study enriches the existing body of knowledge by covering both life and non-life insurance transacted within bancassurance paradigm.

Fan and Cheng (2011) carried out a study with the objective of determining the key success factors influencing bancassurance functioning in Taiwan and mainland China, ascertain importance weightage for every critical success factor whereas mapping out the performance gaps measured by subtracting key success factors from performance. Key success factors (KSFs) were identified by applying the modified delphi method. The weights of the key success factors were computed by the analytical hierarchy process (AHP) technique while the discrepancy between KSFs and their performance was determined by the importance performance analysis technique (IPA). The study found out that the KSFs of administration costs per insurance contract that are lower and lower set-up costs for bancassurance subsidiaries were ranked as less important even in performance of bancassurance in Taiwan while in mainland China lower administration costs per insurance contract was equally ranked lower in terms of performance and importance. Both administrative costs and bancassurance subsidiary set up costs are critical costs in determining the bancassurance sales channels' efficiency. This findings evidences that the efficiency of sales channels is not important in influencing bancassurance sales and the financial performance of bancassurance entities. This demonstrates that sales channels have no significant

moderating effect on the relationship between bancassurance and financial performance of commercial banks. The shortcoming of this study is that the analytical hierarchy process (AHP) technique utilized to analyze data is limiting because it is not applicable in studies with more than seven elements.

Clipici and Bolovan (2012) examined bancassurance as the main insurance distribution and sales channel in Europe in order to establish its efficiency and benefits. In analyzing data, the study applied descriptive statistics method. The study found out that bancassurance sales channel benefits both insurance companies and banks by increasing sales and profits. The study reveals that sales channels have a significant moderating effect on the relationship between bancassurance and financial performance of commercial banks. On the other hand, the study's disadvantage is in terms of a limited scope of two variables of bancassurance and efficiency of sales channels instead of a broader perspective of analyzing the interrelationships between four variables. The current study improves the existing body of knowledge by testing the relationships between bancassurance, sales channels, savings mobilization and financial performance. Kaushik (2015) analyzed the extent of bancassurance sales attained by bank employees in India and how motivated they were to achieve this goal. Descriptive research design was employed while data was collected by questionnaires from a sample of 50 bank employees through convenience sampling technique. The study found out that majority bank employees perceived selling of insurance policies as a secondary product and that successful bancassurance sales channels involves simple design products that do not earn high profit margins to the banks. This attests to the fact that sales channels have no significant moderating effect on the relationship between bancassurance and financial performance of commercial banks. The study is however deficient

in view of applying convenience sampling approach that is not probability based. The cited study expounds the gap of methodological weaknesses.

#### **2.3.4 Bancassurance, Sales Channels, Savings Mobilization and Financial Performance**

Empirical literature reviewed in the foregoing sections has attested that prior studies have been undertaken demonstrating the relationship between bancassurance and financial performance of commercial banks; bancassurance, savings mobilization and financial performance of commercial banks; bancassurance, sales channels and financial performance of commercial banks. However, present empirical research works have not examined the joint effect of bancassurance, sales channels, savings mobilization and financial performance of commercial banks. The following empirical studies conceptualized the variables differently and omitted to analyze the joint effect of explanatory variables upon the dependent variable. Maenpaa and Voutilainen (2011) examined the bundled selling of combined financial and insurance policies by banks in Finland. The study further investigated whether the diverse cross-selling methods created value to customers. Exploratory research design was applied while data was collected through interviews from a sample of 8 service providers (banks engaged in bancassurance) and 8 customers (small and medium sized enterprises). Content analysis was applied in carrying out data analysis. Findings revealed that bancassurance entities cross-sell combined products through three methods; products that are not related sold by distinct sales avenues, products that are not related sold under one roof framework and products that are mixed sold under one roof mode. The SME customers that buy financial and insurance products separately indicated that they do not derive value from the cited cross-selling approaches. The study therefore investigated the relationship between bancassurance, cross-selling methods and customer attitudes without interrogating the joint effect of the independent variables upon the dependent variable. The

shortcoming of this study is in terms of a small sample size of 8 bancassurance organizations. The current study addresses this gap by examining a sample of 27 commercial banks.

Sufian and Chong (2008) carried out a study in Philippines examining the determinants of profits for banks covering the years 1990-2005. A sample of 24 commercial banks was analyzed. Data that was not primary was accessed from commercial banks' published accounts statements stored in Bankscope database while data on macroeconomic variables was secured from IMF financial database. Return on assets was employed as a profitability measure. Regression analysis was applied in performing data analysis. The independent variables were; size, credit risk, non-interest income (including commissions earned from bancassurance transactions), operating expenses and shareholders' equity (representing capitalization). The findings revealed a statistically significant effect on bank profitability by all independent variables. Those that exhibited adverse relationship to bank profitability comprised size, credit risk and expenses whereas those recording positive relationship included non-interest income and capitalization. Although the study assessed the impact of the individual five independent variables on commercial banks' profitability, it did not seek to determine the joint effect of the independent variables on the dependent variable. The research had a weakness of utilizing one measure of return on assets (ROA) to represent profitability. The current study responded to this weakness by utilizing a composite score to represent financial performance.

Sreesha (2014) assessed the effect of bank size, operational efficiency and non-performing assets on financial performance of banks in India. Total assets were employed to measure bank size, percentage value of operating expenses to total interest income was utilized as a proxy for operational efficiency, non-performing assets were measured as a ratio of total funds of the bank while return on assets (ROA) and Tobin's Q model (P/B ratio) were utilized as indicators of

financial performance. Descriptive research design was applied by examining a sample of one bank - State bank of India. Non-primary data was obtained from the audited accounts statements of the bank covering 2008-2012. Data analysis was undertaken by correlation and multiple regression. The study found a significant effect of size, operational efficiency and non-performing assets on the financial performance of commercial banks represented by return on assets. Conversely, the study evidenced that there is insignificant effect of size, operational efficiency and non-performing assets on financial performance of commercial banks measured by Tobin's Q model. The study analyzed the individual impact of the three explanatory variables upon the dependent variable without examining the joint effect. The study is deficient because it utilized a sample of one bank. The current study addresses this shortcoming by examining a wider sample of 27 commercial banks.

#### **2.4 Summary of Empirical Literature and Knowledge Gaps**

A synopsis of various empirical literature reviewed on the study variables of bancassurance, sales channels, savings mobilization and financial performance is documented in table 2.1. The knowledge gaps exhibited in prior studies are also presented together with how the current study seeks to address them. There are a number of gaps that were discovered in the empirical studies examined as summarized in table 2.1. The foremost major research gap that emerged is that most past studies collected data from a small sample of banks. This jeopardizes drawing inferences from findings and generalizing the same to entire population. The current study addressed this gap by utilizing a wider sample of 27 commercial banks practicing bancassurance.

The second gap that was observed in previous empirical studies reviewed is that they analyzed two variables only designated as independent and dependent variables therefore failing to

consider moderating and intervening variables. Omitting moderator and intervening variables in a study weakens the predictive power of outcome. The current study resolved this shortcoming by incorporating independent variable (bancassurance), moderating variable (sales channels), intervening variable (savings mobilization) and dependent variable (financial performance) in one conceptual model.

The third key gap is that prior studies reviewed utilized average data covering a short time frame of two financial years confined to life insurance segment while omitting non-life insurance and data for public companies listed in the stock exchange therefore ignoring private companies. The current study utilized absolute data for five financial years for both life insurance and non-life insurance components alongside an expanded scope covering both public and private companies. The fourth substantive gap is in terms of past empirical studies employing convenience sampling approach that does not embody the attributes of probability and considered to be unreliable at the same time. The current study applied survey method.

**Table 2.1: Summary of Empirical Literature and Knowledge Gaps**

| <b>Study</b>       | <b>Context and Focus</b>  | <b>Methodology Employed</b>   | <b>Key Findings</b>   | <b>Research Gaps</b>                                | <b>How Current Study Addressed the Gaps</b>                               |
|--------------------|---|---|---|---|---|
| Bergendahl (1995). | Europe.<br>Investigated how bancassurance can become a profitable strategy for banks. | Utilized case study research design. A sample of two banks. Net present value (NPV) technique was employed. | Bancassurance Profitability depends on the extent of branches, numeric size of insurance specialists per branch, customers size, the inter-selling ratio as well as the grasping intensity. | A small sample of two commercial banks was covered. | The current study covered a wider sample of 27 commercial banks in Kenya. |

|                       |   |  |   |   |   |
|-----------------------|---|--|---|---|---|
| Vennet (2002).        | Europe.<br>Comparative efficiencies in costs and profits for financial holding companies, banks that handle more than intermediation functions and those that transact conventional businesses. | A total of 2,375 EU banks were sampled. Stochastic cost and profit frontier technique. Secondary data from published annual financial statements was used.   | Financial holding companies generate more revenue than banks that transact conventional businesses. Banks that handle more than intermediation functions are more efficient than those that transact conventional businesses. | Utilized average data for the years 1995 and 1996 from published financial statements, which is limiting.                                   | The current study utilized absolute data (not average) for five financial years, i.e. 2011, 2012, 2013, 2014 and 2015 |
| Trichet (2005).       | Europe. Investigated the relevance of the insurance sector in achieving stability of the financial system.  | Observation and general review of literature.  | Findings indicated weak relationship between savings mobilization and financial performance of bancassurances.  | Did not conceptualize study variables with dependent variable, independent variable, moderating variable and intervening.                   | The current study had independent variable, moderating variable, intervening variable and dependent variable.         |
| Fields et al. (2007). | U.S.<br>Examined the profitability of U.S. and foreign owned bancassurance combinations covering the period 1997 to 2002.   | A sample of 129 bank-insurance mergers were analyzed. Computed descriptive statistics like mean and median. Carried out event study analysis. Measured abnormal returns by applying various approaches. Multivariate analysis was also done. | Bancassurance combinations are profitable at the same time they do not result in any risk growth. Bancassurances are therefore viable business alliances.   | The study covered only public companies quoted in the stock exchange. Therefore companies that were not public were left out of the sample. | The current study encompassed both public and non-public commercial banks.  |

|                                  |  |   |  |   |  |
|----------------------------------|--|---|--|---|--|
| Sufian & Chong (2008).           | Philippines.<br>Examined the profitability determinants of banks in Philippines covering the period 1990-2005.               | A sample of 24 commercial banks was analyzed. Non-primary data was accessed from commercial banks' published accounts statements stored in Bankscope database while data on macroeconomic variables was secured from IMF financial database. Regression analysis was applied in performing data analysis. | Independent variables had a statistically significant effect on bank profitability. Size, credit risk and expenses were negatively related to bank profitability while non-intermediation income and capitalization were positively related to bank profitability. | The study utilized one measure of return on assets (ROA) to represent profitability.        | The current study utilized a composite score to represent financial performance. |
| Lozano-vivas & Pasiouras (2010). | 87 countries.<br>Analyzed the effect of non-traditional bank functions on bank efficiency regarding costs and profitability. | Public commercial banks quoted in stock exchange and captured in Bankscope formed the population. The scope covered 87 countries with a sample of 752 commercial banks. Global best-practice frontier technique was applied.  | Income from non-conventional bank activities creates more profit efficiency that is statistically significant.   | The study examined two variables only: non-traditional bank activities and bank efficiency. | The current study investigated four variables.                                   |



|  |  |  |   |  |   |
|--|--|--|---|--|---|
| <p>Maenpaa &amp; Voutilainen (2011).</p> | <p>Finland.<br/>Examined the cross-selling of combined financial and insurance products by banks and whether the cross-selling methods created value to customers.</p> | <p>Exploratory research design was applied. Data was collected from 8 bancassurance entities alongside 8 customers. Content analysis was undertaken.</p> | <p>Three cross-selling methods are applied: products that are not related sold by distinct sales avenues, products that are not related sold under one roof and products that are mixed sold under one roof. Customers that purchase financial and insurance products separately do not derive value from the cross-selling approaches.</p> | <p>The study utilized a small sample size of 8 bancassurance entities and 8 customers.</p>   | <p>The current study analyzed a wider sample of 27 commercial banks.</p>  |
| <p>Chang et al. (2011).</p>              | <p>Taiwan.<br/>Compared bancassurance sales channels against traditional insurance sales channels.</p>   | <p>Employed census survey research design. A sample of 21 life insurance companies was covered. Data envelopment analysis technique was used.</p>        | <p>The conventional insurance sales methods recorded superior efficiency ratings than bancassurance sales channels.</p>   | <p>The study utilized data for 21 life insurance companies that practice bancassurance in Taiwan. It therefore omitted non-life insurance companies.</p> | <p>This study utilized a sample of commercial banks that practice bancassurance by selling both life and non-life insurance products.</p> |

|                           |  |  |   |  |   |
|---------------------------|--|--|---|--|---|
| Fan & Cheng (2011).       | Taiwan and mainland China. Examined the key success factors that drives bancassurance functioning. | Applied the modified delphi method, analytical hierarchy process technique and importance performance analysis method to analyze data. | The KSFs that were ranked less important in the performance of bancassurance alliances is lower per unit administration costs and small costs of establishing subsidiaries. This implies that sales channels' efficiency ratings is not important in influencing bancassurance sales and financial performance of bancassurance entities. | The analytical hierarchy process technique utilized to analyze data is limiting because it is not applicable in studies with more than seven elements. | The current study employed descriptive statistics, regression analysis and data envelopment analysis technique to analyze data. |
| Clipici & Bolovan (2012). | Europe. Examined bancassurance as the main insurance sales channel.                                | Descriptive statistics method.   | Bancassurance sales channel benefits both insurance companies and banks by increasing sales and profits.  | The study did not cover a wider scope of four variables in one interlinked model.  | The current study covered four variables in one integrated model.   |
| Mishra (2012).            | India. The challenges of bancassurance and the strategies of making it beneficial.                 | Simple convenience random sampling. A sample of 350 officials. Sales model of John Lensi, descriptive statistics and trend analysis.   | Bancassurance brings in new customers and improves customer penetration for banks therefore enhancing savings mobilization which in turn increases profitability.   | Employed convenience sampling method that is non-probability and unreliable (Cooper et al., 2003).   | The current study utilized survey method.   |

|                             |  |  |   |   |   |
|-----------------------------|--|--|---|---|---|
| Kumari (2012).              | India.<br>Analyzed bancassurance arrangements and customer attitudes.  | Convenience sampling method. A sample of 10 banks. Rank correlation technique, descriptive statistics and five-point likert scale.   | 23% respondents bought pension insurance products and 71% unit linked insurance plans from bancassurance.   | A small sample of 10 banks was utilized.                                  | The current study covered a wider sample of 27 commercial banks.            |
| Chari & Jayalakshmi (2014). | India.<br>Examined the perception of insurance policy holders about bancassurance and the market.  | A sample of 10 banks was covered. 315 customers were issued with questionnaire. Chi-square analytical technique was used.  | Bancassurance is important in tapping household financial savings and bank customers are satisfied with bancassurance.  | The study covered a small sample of 10 banks that transact bancassurance. | This study covered a wider sample of 27 commercial banks.                   |
| Gujral (2014)               | India. Examined the impact of bancassurance on banking.  | The population was 57 banks while the sample was 8 banks. Trend analysis, descriptive statistics and survey analysis.  | Bancassurance does not realize significant income for commercial banks.   | Small sample of eight banks was utilized.                                 | The current study examined a bigger sample of 27 commercial banks in Kenya. |
| Sreesha (2014).             | India.<br>Assessed the effect of size of bank, scale of operating efficiency and non-performing assets on financial performance of banks in India. | Descriptive research design was applied by examining a sample of one bank - State bank of India. Non-primary data was secured from the audited published accounts of the bank covering 2008-2012. Data analysis was undertaken by correlation and multiple regression. | Size, operational efficiency and non-performing assets have a significant effect on the financial performance of commercial banks measured by return on assets. Conversely, there is insignificant effect of size, operational efficiency and non-performing assets on financial performance of commercial banks measured by Tobin's Q model. | The study is deficient because it utilized a sample of one bank.          | The study examined a wider sample of 27 commercial banks.                   |

|                 |   |  |   |   |   |
|-----------------|---|--|---|---|---|
| Kaushik (2015). | India.<br>Examined the general level of bancassurance sales achieved by bank employees and how motivated they were. | Utilized descriptive research design. Convenience sampling technique with a random sample size of 50 bank employees was applied. Primary data was collected by questionnaires. | 65% of bank employees regarded selling of insurance policies as secondary product line. Successful bancassurance sales channels are those that sell simple design insurance products that do not yield high profit margins. | Applied convenience sampling approach that is not probability based and unreliable (Cooper et al., 2003). | The current study employed survey method. |
|-----------------|---|--|---|---|---|

**Source: Researcher, 2019**

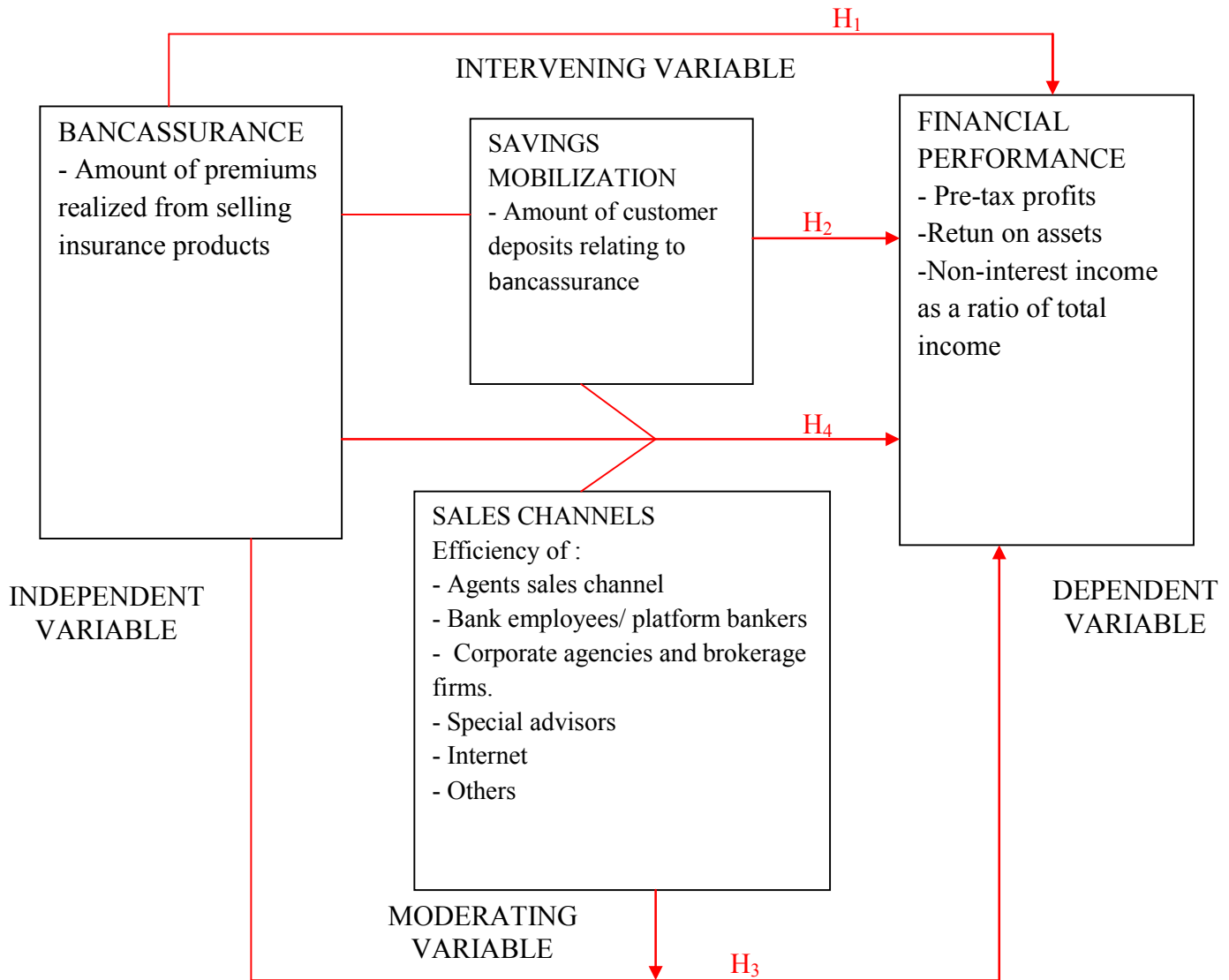
## 2.5 Conceptual Framework

The study is premised upon four variables that are expressed in the conceptual model. Bancassurance is the independent variable, financial performance of commercial banks that practice bancassurance is the dependent variable, Sales channels is the moderating variable while Savings mobilization forms the intervening variable. Three variables impact financial performance of commercial banks that transact bancassurance as follows. Bancassurance has key influence on the financial performance of commercial banks undertaking bancassurance as supported by literature reviewed. Various sales channels employed to sell insurance products by banks theoretically strengthen the relationship between bancassurance and financial performance. Furthermore, savings mobilization emerges as an additional variable that augments the relationship between bancassurance and financial performance of commercial banks.

According to Bauman et al. (2002) a moderating variable (effect modifier) is one that varies the power of the relationship between a predictor variable and a criterion variable. It is an additional external factor or force. Consequently, sales channels were configured as moderating variable on

the expectation that those with high efficiency scores (generates high income relative to attributable operating expenses) will strengthen (modify the effect) the relationship between bancassurance and financial performance of commercial banks. On the other hand, Bauman et al. (2002) characterizes an intervening variable (mediating variable) as an important mechanism through which an independent variable exerts its effects upon the dependent variable. As a result, savings mobilization was designated as an intervening variable on the basis that it increases interest income hence enabling bancassurance to exert its effects upon financial performance of commercial banks.

**Figure 2.1: Conceptual Model.**



**Source: Researcher, 2019**

## 2.6 Research Hypotheses

According to Cooper and Schindler (2006) the null hypothesis is utilized for testing. They uphold that researchers normally test to establish whether there has been no change in the target population or indeed actual difference is present. Iraya (2014) and Mwangi (2014) tested null hypotheses in their studies. Further to this, hypothesis one tests the relationship contained in objective one, hypothesis two tests the intervening effect captured in objective two, hypothesis three tests the moderating effect covered by objective three while hypothesis four tests the joint effect captured in objective four.

The first null hypothesis (H1) is based on empirical literature review in section 2.3.1 while the alternative hypothesis (H1<sub>A</sub>) is premised upon the theoretical basis of resource dependency theory and empirical literature review in section 2.3.1. The second null hypothesis (H2) is anchored on empirical literature review in section 2.3.2 while the alternative hypothesis (H2<sub>A</sub>) is founded on the theory of product bundling and empirical literature review in section 2.3.2. The third null hypothesis (H3) is based on empirical literature review in section 2.3.3 whereas the alternative hypothesis (H3<sub>A</sub>) is backed by the theoretical basis of economies of scale theory and strong assumptions that sales channels with high efficiency scores (output is higher than input, i.e. sales channels realizing higher income than operating costs attributable to them) will influence positively the relationship between bancassurance and financial performance of commercial banks. Ultimately, hypothesis four alternative (H4<sub>A</sub>) is anchored on the combined theoretical basis of resource dependence theory, economies of scale theory and product bundling theory. From the foregoing, expressed below are four null hypotheses that were tested:

**H1:** There is no significant relationship between bancassurance and financial performance of commercial banks in Kenya.

**H2:** There is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya.

**H3:** There is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya.

**H4:** There is no significant joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section covers comprehensively aspects of how the research was executed commencing with the philosophy adapted to practical methods employed. Research design, population of the study, data collection instruments and data analysis techniques are discussed.

#### **3.2 Research Philosophy**

Positivism and phenomenology are the two most commonly applied philosophies in social research. Positivism has been used in guiding research over the years since Comte's (1965) findings that all phenomena are subject to invariable natural laws. The basic principles of positivism are: the human interaction world is considered to be objective and it survives externally, the researcher has no personal gain in the study and is impartial. According to positivism, knowledge is nurtured through critical interrogation of the social phenomena by watching facts that are not biased. This understanding guides research by setting hypotheses and determining the type of gathered facts that uphold or reject the hypothetical propositions (Cooper et al., 2011). More so, Ponterotto (2005) characterizes positivism as a paradigm that abides tightly to the "hypothetico-deductive method" (scientific research method). The method entails systematic monitoring and explanation of phenomena premised upon a theory or model, development of hypotheses, collection of data, application of inferential statistics to test hypotheses, ultimately, draw conclusions based on the statistical outcome. Moreover, positivism is utilized in exploratory research to guide in creating concepts, set up priorities, define variables

properly, lay down operational definitions and develop hypotheses in order to improve the final research.

Phenomenology was coined by Edmund and Husserl between 1859-1938 and is premised upon direct observation of phenomena. It is divergent from positivism by the stance that phenomenologists believe in sensing reality and explaining it in words but not in numbers because words express consciousness and perception (Bernard, 2000). Further to this, Pettit (1969) asserts that phenomenology is about describing phenomena. Whereas, Moran (2000) terms phenomena as anything that comes to sight or visualized in the consciousness of a person. On the other hand, Bogdan and Taylor (1975) contends that phenomenologists perceive human behaviour as originating from how individuals interpret the world. In addition, Moran (2000) upholds that all description is an integral part of interpretation. The foregoing arguments supports categorization of phenomenology as one of the branches of interpretivism.

Interpretivism philosophy upholds that reality is formed in the mind of the individual as opposed to being an outward unique independent body (Hansen, 2004). Moreover, interpretivists hold the view that meaning is hidden and can only be manifested via immense reflection achievable through researcher-participant dual interaction (Schwandt, 2000). Positivism is distinct from interpretivism primarily due to its position on realism of one impartial outward reality while the latter focuses on a stance of comparability that believes in numerous, understandable and uniform rational realities. Secondly, unlike positivism, interpretivism underscores researcher-participant intermingling to unearth intensive meaning (Ponterotto, 2005).

This study embraced positivist philosophical dichotomy. This philosophy is suitable for this research because the study explored the effect of independent variable, moderating variable and

intervening variable on the dependent variable. Mukherji and Albion (2010) documented that positivism philosophy is suitable for survey types of research, therefore, making it appropriate for this study because a descriptive survey was undertaken. Furthermore, positivism philosophy was appropriate because it embodies the scientific research approach which was employed by this study through systematically observing commercial banks engaged in bancassurance and describing them in terms of the four study variables underpinned by three theories, formulated four hypotheses, collected both primary and secondary data, utilized inferential statistics to test hypotheses, finally, drew conclusions informed by the findings of statistical analysis.

### **3.3 Research Design**

Research design is a blueprint with timeframes together with research question as its foundation, gives direction on the choice of information and sources, specifies the study variables' inter-relationships and defines each research activity's process. It is therefore a manual that spells out collection, measurement and analysis of data in such a way that it is broadly termed as a comprehensive scheme or program of research (Cooper & Schindler, 2003). Research design is classified into three main types namely; exploratory, causal and descriptive. Exploratory research is undertaken to create concepts clearly, set up priorities and lay down operational definitions in order to improve the final research. Furthermore, the subject to be examined by be new or vague necessitating exploration, key variables may not be understood and hypotheses lacking, hence the need for exploration. Causal research aims at determining how one variable creates changes in another. Descriptive research focuses on describing phenomena or attributes of a particular population, approximating the extent of the population that possess the attributes and discerning associations among different variables. Furthermore, this research design contains investigative questions inquiring about the magnitude, nature, distribution or presence of a variable. It

therefore endeavours to ascertain who, what, where, when or how much of a certain theme (Cooper & Schindler, 2003; Cooper & Schindler, 2006).

Descriptive research design can be further crystallized into survey studies, correlational studies, developmental studies, cross-sectional studies and longitudinal studies. Survey research design is one that examines the attributes of large populations while assessing the nature of two or more variables (Mugenda & Mugenda, 2003). On the other hand, correlational studies aim at establishing relationships among different variables by utilizing immensely structured statistical analysis, developmental studies focus on ascertaining changes over time, cross-sectional research studies are carried out once by measuring variables at a particular moment while longitudinal studies are those that are carried out repeatedly for a long period of time. Cross-sectional research design avoids the risk of bias that can arise out of asking the same question from the same person repeatedly, cuts on budgetary costs, satisfies the requirements of timeliness and attains the benefits of longitudinal studies by incorporating questions regarding erstwhile attitudes, history and forthcoming scenarios (Sekaran, 1992; Cooper & Schindler, 2003; Collis & Hussey, 2003; Cooper & Schindler, 2006).

This study employed descriptive correlational research design. The choice of descriptive plan was deemed suitable for this research because the characteristics, the extent, magnitude, distributions and trends of bancassurance, sales channels, savings mobilization and financial performance of commercial banks undertaking bancassurance in Kenya were all described in detail. Equally, the design was appropriate owing to the objective of determining the interrelationships among bancassurance, sales channels, savings mobilization and financial performance of commercial banks in Kenya. The research design was further suitable to this study because the questionnaire contained questions enquiring about magnitudes, nature and how

much of the measures of the variables. Data for commercial banks transacting bancassurance for five financial years (t) was analyzed. Iraya (2014) employed correlational descriptive research design in establishing portfolio management's mediating effect on the relationship between socially responsible investment and performance of mutual funds in Kenya as well as institutional characteristics's moderating effect on the relationship between socially responsible investment and portfolio management. Magutu (2013) adopted descriptive, survey and cross-sectional research design in examining the interrelationships among supply chain strategies, technology and performance of large-scale manufacturing firms in Kenya. Mwangi (2014) applied descriptive and cross-sectional research design in studying the influence of members' income and conduct of SACCOS in the relationship between characteristics and efficiency of SACCOS in Kenya.

### **3.4 Population and Sample**

The entire collection of elements from which inferences are drawn constitutes a population. On the other hand, a population element is the subject to be measured. In simple terms, it is the unit of study (Cooper & Schindler, 2003).

The focus population was all the licensed commercial banks practicing bancassurance in Kenya. The list of all commercial banks undertaking bancassurance in Kenya according to Central Bank of Kenya bank supervision annual report of 2016 was twenty seven. Each commercial bank engaged in bancassurance forms the element of the population. The entire 27 commercial banks undertaking bancassurance in Kenya were surveyed.

### **3.5 Data Collection**

According to Blumberg, Cooper, and Schindler (2005) the authenticity of a study can be compromised by employing incorrect data collection methods. To cushion this study from such anomaly, valid data collection methods were applied. In testing hypothesis, the study utilized both primary and secondary data. Original data was gathered to facilitate testing of hypotheses in the context of bancassurance, sales channels and savings mobilization variables while secondary data addressed financial performance. Regarding bancassurance, ratio category of data was collected on the amount of premiums realized from selling insurance products, sales channels ratio type of data was collected to aid in computing efficiency scores specifically amount of premiums generated by each sales channel (output) and operating expenses amount attributable to each sales channel (input) while for savings mobilization kind of data was collected on the amount of customer deposits relating to bancassurance. The primary data defined above was collected by semi-structured questionnaire containing closed end questions together with likert scale kind of statements in certain cases. The questionnaire mirrors the objectives of this study and were formulated through knowledge gained from relevant literature review and consultations with supervisors of this study. The questionnaire was self-administered by the researcher and delivered to commercial banks engaged in bancassurance in Nairobi city. Respondents were managers in charge of banking services and operations managers.

Secondary data was obtained from Central Bank of Kenya bank supervision yearly publication of 2016 and published financial statements information of commercial banks. Muchemi (2013) applied data that is not original in nature from Central bank of Kenya annual survey publications while Gujral (2014) employed data obtained from annual reports of banks in India. This study utilized data for five financial years;2011-2015. On the other hand, data for bancassurance

variable was classified as ratio because it involves money values. Data for sales channels variable was also ratio on the consideration that it comprises of money values, population counts and productivity rates. Data for savings mobilization was similarly ratio since it involves money values. Finally, data for financial performance was ratio reckoning that it encompasses money values, return rates and productivity rates.

### **3.6 Data Validity and Reliability**

Validity (accuracy) of an instrument is the extent to which it assesses what it is intended to gauge (Kramer et al., 2009). Validity tests of the data collection instrument was performed by requesting the supervisors of the researcher from the University of Nairobi to carefully examine the questionnaire for correctness, completeness, consistency and clarity. According to Gupta (2008) 10 % of the sample elements can be selected for pilot testing of the questionnaire to identify drawbacks with a view of correcting them. Three commercial banks engaged in bancassurance being 11% of the sample were issued with preliminary questionnaire that was completed on a pilot basis. Some suggested changes arose from pre-testing the instrument for data collection and corrections were effected accordingly.

Reliability is the extent to which a measurement gives results that are consistent (Kramer et al., 2009). The study employed Cronbach's alpha to test reliability of data gathering instrument. The value of alpha coefficient zero signifies no internal consistency while one is complete internal consistency. A value of not less than 0.70 is acceptable as a quick criteria of how large the alpha coefficient should be (Cronbach & Shavelson, 2004). Kothari (2004) upholds that reliability of an instrument can be anchored on who collected the data, the sources of the data and the methods used. The researcher himself collected primary data from the twenty seven

commercial banks in Kenya covering the variables of bancassurance, sales channels and savings mobilization.

### 3.7 Operationalization of Variables

Operationalization is the act of ascribing meanings to the terminologies of variables embodied in the conceptual model of a research (Sekaran, 1992).

**Table 3.1: Operationalization of Variables**

| <b>Construct</b>            | <b>Operational Definitions</b>  | <b>Measure</b>   | <b>Questionnaire Reference</b> |
|-----------------------------|---|--|--------------------------------|
| <b>Bancassurance</b>        | <b>(Independent variable).</b>  |  |                                |
| Bancassurance               | The selling of insurance products by commercial banks.  | Amount of premiums realized from selling insurance products. Premiums were computed by summing up amounts realized from all categories of insurance. Data was obtained by questionnaire.   | Q6                             |
| <b>Savings mobilization</b> | <b>(Intervening variable)</b>   |  |                                |
| Savings mobilization.       | The deposits relating to bancassurance made by customers in the commercial banks.                 | Amount of customer deposits relating to bancassurance. Data was obtained by questionnaire.   | Q9                             |
| <b>Sales channels</b>       | <b>(Moderating variable)</b>  |  |                                |
| Sales channels              | The delivery avenues utilized by bancassurance entities to avail insurance products to customers. | Efficiency scores of the following sales channels: Agents, bank employees /platform bankers, corporate agencies & brokerage firms, special advisors, internet and others. Efficiency scores as per data envelopment analysis = Outputs i.e. Premiums amount ÷ Inputs i.e. (agency fees & commissions expenses + Number of bancassurance sales outlets + Number of workforce in bancassurance + operating | Q8                             |



|                              |  |  |      |
|------------------------------|--|--|------|
|                              |  | expenses related to selling insurance). Overall average efficiency score was obtained by summing individual efficiency scores of each commercial bank and then dividing by the total number of commercial banks . Data was obtained by questionnaire.  |      |
| <b>Financial performance</b> | <b>(Dependent variable)</b>                                      |  |      |
| Financial performance        | The profitability of commercial banks undertaking bancassurance. | Amount of pre-tax profits, return on assets and non-interest income as a ratio of total income. Return on assets=<br>$\frac{\text{pre-tax profits}}{\text{total net assets}}$<br>Non-interest income ratio<br>$= \frac{\text{non-interest income}}{\text{total income}}$<br>Data was obtained from financial statements. | Q 10 |

**Source: Researcher, 2019**

Data pertaining to bancassurance could not be obtained from secondary sources because the published audited financial statements of commercial banks do not report explicitly the amount of premiums generated from the categories of insurance policies outlined in question six of the questionnaire namely; general insurance policies, ordinary life insurance policies, credit life insurance policies and other insurance policies. Equally, data concerning savings mobilization was not obtained from secondary records since the amount of customer deposits relating to bancassurance is not expressly disclosed in the published audited financial statements of commercial banks. On the other hand, the research separated normal bank deposits from customer deposits relating to bancassurance by use of the questionnaire. Question 9 in the questionnaire was specific; "what was the amount of customer deposits relating to bancassurance that was made into your commercial bank in the five years period?" Regarding sales channels defined in table 3.1 above, the data obtained through question 8 of the questionnaire was fed into

the Data Envelopment Analysis model using the SPSS software to compute efficiency scores of sales channels. The detailed procedure of Data Envelopment Analysis model is furnished in sub-section 3.9.5 and section 4.6. Additionally, question 7 of the questionnaire has specified the sales channels into agents, bank employees, corporate agencies & brokerage firms, special advisors, internet and others. Lastly, the composite scores for financial performance were derived as explained in sub-section 4.9.1.

### **3.8 Diagnostic Statistics**

This section covers the aspects of multicollinearity tests between the three independent variables of this study as well as normality and skewness tests as explained below.

#### **3.8.1 Multicollinearity Tests**

Multicollinearity is the problem caused by one independent variable being almost synonymous to other independent variables in a regression model. It arises when there is high correlation among independent variables in regression analysis (Aczel, 2009; Jayakumar & Sulthan, 2014). Neter, Wasserman, and Kutner (1989) and Efron (2004) argued that multicollinearity does not breach the pillars of regression analysis but poses challenges of excessively high variances of parameter estimates, insignificant parameter estimates and signs of parameter estimates that are contrary to the norm. In addition, Bowerman, O'Connell, and Richard (1993) and Field (2009) documented that multicollinearity can be checked by employing the correction matrix tool while dropping some independent variables from the regression model will alleviate the problem. This study did not find multicollinearity problem and therefore did not drop any independent variable.

#### **3.8.2 Normality Tests**

Normal distribution is the most fundamental theoretical distribution for continuous variables. Normal distribution was first discovered by Demoisire (1667-1754). Subsequently, Gauss (1809)

and Laplace (1812) contributed to normal distribution as they were working on the theory of errors of observations. During 18th and 19th centuries scholars devoted time to develop the normal model as the primary law guiding all continuous random variables, hence the name normal (Gupta, 2008). In this regard, it was envisaged that data utilized in this study would be normally distributed underpinned by the multiple regression analysis technique that was employed. Saunders, Lewis, and Thornbill (2003) documented that Shapiro - Wilk test is applied in conducting normality tests in situations where the sample size threshold is between 3 and 2000. This study therefore applied Shapiro - Wilk test in undertaking normality tests reckoning that the sample size of this research was 27 commercial banks.

### **3.8.3 Tests for Skewness and Kurtosis**

Tests for skewness were carried out to ascertain whether the variables of the study were symmetrical or asymmetrical. Symmetrical pattern of a variable signifies normal distribution while asymmetrical shape mirrors skewed distribution (Gupta, 2008). Skewness provides an assessment of the extent of departure of a distribution from symmetry. Distributions with mean, median and mode falling in identical side are termed as symmetrical whereas distributions with shapes manifesting tails protruding towards one horizon are referred to as skewed (Cooper & Schindler, 2003). In terms of frequencies, positively skewed distributions demonstrate the spread of frequencies that is biased more to the right hand side of the focal point of the curve while negatively skewed distributions tilt more to the left hand side. In terms of numeric values, symmetrical distribution is signified by a zero skewness value, a positive value represents asymmetrical distribution that is positively skewed whereas a negative value indicates asymmetrical distribution that is negatively skewed. The concept of skewness draws its merit from the key assumption of normality in statistical theorem (Gupta, 2008).

Tests of kurtosis were also conducted to determine the degree of peakedness of the distribution of the variables of the study. Kurtosis defines the extent of flatness or peakedness around the mode of a frequency curve compared to a normal distribution curve. It therefore measures the extent of higher peakedness or flatness of a distribution than the normal curve. A distribution that is highly peaked than a normal distribution is called leptokurtic, a highly flat-topped curve is referred to as platykurtic while mesokurtic is synonymous to a normal curve (Gupta, 2008). In terms of numerical values, kurtosis that is closer to zero is classified as mesokurtic (normal) distribution, greater than zero is termed as leptokurtic distribution while lesser than zero is referred to as platykurtic distribution (Cooper & Schindler, 2003). Iraya (2014) applied skewness and kurtosis to assess the distribution's shape of the variables in the study of socially responsible investment, portfolio management, institutional characteristics and performance of mutual funds in Kenya.

### **3.9 Data Analysis**

The study employed diverse statistical techniques to analyze the data collected. This encompassed: (a) descriptive statistical analysis of variables, (b) correlation analysis among variables, (c) internal consistency reliability analysis using Cronbach's alpha (e) simple and multiple linear regression analysis and (f) data envelopment analysis (DEA). Descriptive statistics were calculated to demonstrate the attributes of the variables of this study. Correlation analysis was performed to determine the associations among study variables. Regression analysis was applied with two or more variables in combination to predict a criterion. Finally, cross-sectional research was employed since data was gathered through questionnaires at one point in time and then analyzed (Gupta, 2008). The study utilized SPSS version 20 software to conduct data analysis. DeYoung et al. (2004), Bolo (2007), Muchemi (2013) and Mwangi (2014)

employed similar analytical techniques. The regression analysis functions applied in testing each hypothesis are defined in the following section.

### 3.9.1 Regression Model for Bancassurance and Financial Performance

The first hypothesis which purposed to establish the relationship between bancassurance and financial performance was tested by applying the following hierarchical multiple regression analysis;

$$F_t = a + \beta_1 GI_t + \beta_2 OL_t + \beta_3 CL_t + \varepsilon_i \dots \dots \dots (3.1)$$

Whereby:

$F_t$  is the financial performance.

$a$  = intercept.

$\beta_1, \beta_2, \beta_3$  = standardized regression coefficients.

$GI$  = amount of general insurance premiums.

$OL$  = amount of ordinary life insurance premiums.

$CL$  = credit life insurance premiums's amount.

$t$  = time period (year 1 to 5).

$\varepsilon_i$  is the error term.

### 3.9.2 Regression Model for Bancassurance, Savings Mobilization and Financial Performance

The second hypothesis which purposed to ascertain the intervening effect of savings mobilization on the relationship between bancassurance and financial performance was tested by applying the following four step regression functions advocated by Baron and Kenny (1986):

$$F_{1t} = a + \beta_1 X_{1t} + \varepsilon_i \dots\dots\dots(3.2a)$$

Whereby:

$F_1$  is financial performance.

$a$  is the intercept.

$\beta_1$  is standardized regression coefficient.

$X_1$  is bancassurance.

$t$  is the time period (year 1 to 5).

$\varepsilon_i$  is the error term.

$$Y_{2t} = a + \beta_2 X_{2t} + \varepsilon_i \dots\dots\dots(3.2b)$$

Whereby:

$Y_2$  is the savings mobilization,

$a$  is the intercept,

$\beta_2$  is standardized regression coefficient,

$X_2$  is bancassurance,

$t$  is the time period (year 1 to 5), and

$\varepsilon_i$  is the error term

$$F_{3t} = a + \beta_3 X_{3t} + \varepsilon_i \dots\dots\dots(3.2c)$$

Whereby:

$F_3$  is financial performance,

$a$  is the intercept,

$\beta_3$  is standardized regression coefficient,

$X_3$  is savings mobilization,

$t$  is the time period (year 1 to 5), and

$\varepsilon_i$  is the error term.

$$F_{4t} = a + \beta_4 X_{4t} + \beta_5 X_{5t} + \varepsilon_i \dots\dots\dots(3.2d)$$

Whereby:

$F_{4t}$  is financial performance,

$a$  is the intercept,

$\beta_4, \dots, \beta_5$  are standardized regression coefficients,

$X_{4t}$  is savings mobilization,

$X_5$  is bancassurance,

$t$  is the time period (year 1 to 5), and

$\varepsilon_i$  is the error term.

### **3.9.3 Regression Model for Bancassurance, Sales Channels and Financial Performance**

The third hypothesis which focused at assessing the moderating effect of sales channels on the relationship between bancassurance and financial performance was tested by employing the following multiple regression technique recommended by Baron and Kenny (1986);

$$F_t = a + \beta_3 BA_t + \beta_4 SC_t + \beta_5 (BA_t * SC_t) + \varepsilon_i \dots\dots\dots(3.3)$$

Whereby:

$F$  is financial performance,

$a$  is the Intercept,

$\beta_3, \dots, \beta_5$  are standadized regression coefficients ,

$BA$  is bancassurance,

$SC$  is sales channels,

$t$  is the time period (year 1 to year 5), and

$\varepsilon_i$  is the error term

### **3.9.4 Regression Model for Bancassurance, Sales Channels, Savings Mobilization and Financial performance**

The fourth hypothesis which sought to establish the joint effect of bancassurance, sales channels and savings mobilization on financial performance was tested by applying the following multiple regression analysis function;

$$F_t = a + \beta_1 GI_t + \beta_2 OL_t + \beta_3 CL_t + \beta_4 SC_t + \beta_5 SM_t + \varepsilon_i \dots \dots \dots (3.4)$$

Whereby:

F is financial performance,

a = Intercept,

$\beta_1 \dots \dots \dots \beta_5$  = standadized regression coefficients,

GI = amount of general insurance premiums,

OL = amount of ordinary life insurance premiums,

CL = credit life insurance premiums's amount,

SC = sales channels,

SM = savings mobilization,

t = time period (year 1 to year 5), and

$\varepsilon_i$  is the error term

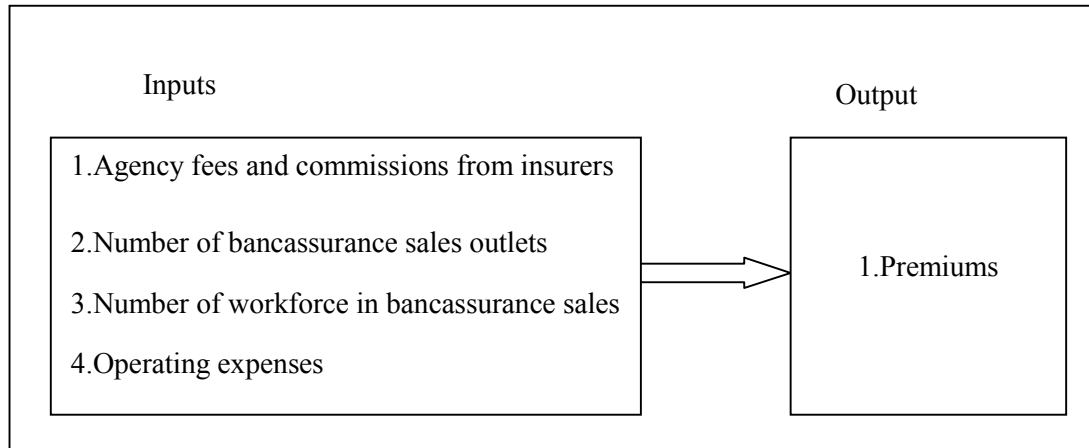
### **3.9.5 Data Envelopment Analysis Technique**

Data Envelopment Analysis (DEA) technique was applied to assess the efficiency of bancassurance sales channels. Data Envelopment Analysis technique is a statistical analytical tool



for modelling linkages between diverse inputs and diverse performance based outputs (Seiford & Zhu, 1999). The technique is commonly utilized in comparing the efficiency of bancassurance sales channels against traditional insurance sales channels, to study banking efficiency and life insurance (McCune, 2007; Yao et al., 2007; Chang et al., 2011). For instance, Seiford and Zhu (1999) applied DEA technique to examine the performance of the 55 top United States of America commercial banks. In the study of Chang et al. (2011) DEA model derived efficiency scores for each sales channel and then worked out an overall average efficiency score for all sales channels that was utilized in the regression analysis model. Efficiency entails a relative ratio of end products or their worth per unit of the production raw materials or manufacturing cost (Hwang et al., 2006). This study measured efficiency of each sales channel by dividing the output by the input. The inputs of sales channels comprised of agency fees and commissions, number of bancassurance sales outlets, number of workforce in bancassurance sales and operating expenses. The output of sales channels was the amount of premiums realized from bancassurance channels together with renewed and 1st year premiums. Chang et al. (2011) applied similar methodology and recommended an efficiency score of 1 as highly efficient. The data envelopment analysis model is demonstrated in figure 3.1:

**Figure 3.1: DEA Framework**



Source: Researcher, 2019

The regression functions that were applied in this study are demonstrated in table 3.2.

**Table 3.2: Regression Functions**

|             |  |
|-------------|--|
| Objective 1 | To ascertain the relationship between bancassurance and financial performance of commercial banks in Kenya.  |
| H1.         | There is no significant relationship between bancassurance and financial performance of commercial banks in Kenya.   |
| Analysis.   | <p>Simple regression analysis:</p> $F_t = a + \beta_1 GI_t + \beta_2 OL_t + \beta_3 CL_t + \epsilon_i \dots \dots \dots i$ <p>Whereby:</p> <p><math>F_t</math> is the dependent variable- financial performance of period <math>t</math> (pre-tax profits, return on assets, non-interest income as a ratio of total income).</p> <p><math>a</math> = intercept or constant.</p> <p><math>\beta_1 \dots \dots \dots \beta_3</math> = standardized regression coefficients.</p> <p><math>GI</math> = amount of general insurance premiums at period <math>t</math>.</p> |

|   |   |
|---|---|
|   | <p><b>OL</b> = amount of ordinary life insurance premiums at period <math>t</math>.</p> <p><b>CL</b> = amount of credit life insurance premiums at period <math>t</math>.</p> <p><math>t</math>= Time period (year 1 to year 5).</p> <p><math>\epsilon_i</math> is the error term.</p>  |
| <p>Objective 2.</p> <p>H2.</p> <p>Analysis.</p> | <p>To determine the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya.</p> <p>There is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya.</p> <p>To test the hypothesis, regression analysis involving four steps was employed as follows:</p> <p><math>F_{1t} = a + \beta_1 X_{1t} + \epsilon_i \dots \dots \dots i</math></p> <p>Where:</p> <p><math>F_1</math>= Dependent variable - Financial performance (pre-tax profits, return on assets, non-interest income as a ratio of total income).</p> <p><math>a</math> = Intercept.</p> <p><math>\beta_1</math>= Standardized regression coefficient</p> <p><math>X_1</math>= Independent variable - Bancassurance (amount of premiums realized from selling insurance products).</p> <p><math>t</math>= Time period (year 1 to year 5).</p> <p><math>\epsilon_i</math> = Error term.</p> <p><math>Y_{2t} = a + \beta_2 X_{2t} + \epsilon_i \dots \dots \dots ii</math></p> <p><math>Y_2</math>= Dependent variable - Savings mobilization</p> <p><math>a</math> = Intercept.</p> <p><math>\beta_2</math>= Standadized regression coefficient</p> <p><math>X_2</math> = Independent variable - Bancassurance (amount of premiums realized from selling</p> |

|                              |   |
|------------------------------|---|
|                              | <p>insurance products).</p> <p>t= Time period (year 1 to year 5).</p> <p><math>\epsilon_i</math>= Error term.</p> <p><math>F_{3t} = a + \beta_3 X_{3t} + \epsilon_i</math>.....iii</p> <p><math>F_3</math>= Dependent variable - Financial performance (pre-tax profits, return on assets, non-interest income as a ratio of total income).</p> <p>a = Intercept</p> <p><math>\beta_3</math>= Standadized regression coefficient</p> <p><math>X_3</math> = Savings mobilization</p> <p>t= Time period (year 1 to year 5).</p> <p><math>\epsilon_i</math> = Error term.</p> <p><math>F_{4t} = a + \beta_4 X_{4t} + \beta_5 X_{5t} + \epsilon_i</math> .....iv</p> <p><math>F_4</math>= Dependent variable - Financial performance (pre-tax profits, return on assets, non-interest income as a ratio of total income).</p> <p>a = Intercept.</p> <p><math>\beta_4</math>..... <math>\beta_5</math>= Standadized regression coefficient</p> <p><math>X_4</math> = Savings mobilization</p> <p><math>X_5</math> = Independent variable - Bancassurance (amount of premiums realized from selling insurance products).</p> <p>t= Time period (year 1 to year 5).</p> <p><math>\epsilon_i</math> = Error term.</p> |
| <p>Objective 3</p> <p>H3</p> | <p>To establish the moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya.</p> <p>There is no significant moderating effect of sales channels on the relationship between</p>  |

|   |   |
|---|---|
| <p>Analysis.</p>                                | <p>bancassurance and financial performance of commercial banks in Kenya.</p> <p>Multiple regression analysis:</p> $F_t = a + \beta_3 BA_t + \beta_4 SC_t + \beta_5 (BA_t * SC_t) + \varepsilon_i \dots \dots \dots iii$ <p>Where:</p> <p>F= Dependent variable - Financial performance of commercial banks (pre-tax profits, return on assets, non-interest income as a ratio of total income).</p> <p>a = Intercept.</p> <p><math>\beta_3 \dots \dots \dots \beta_5</math> = Standadized regression coefficient</p> <p>BA = Independent variable - Bancassurance (amount of premiums realized from selling insurance products).</p> <p>SC = Moderatingvariable - Sales channels (efficiency score of sales channels).</p> <p>t = Time period (year 1 to year 5).</p> <p><math>\varepsilon_i</math> = Error term.</p> |
| <p>Objective 4.</p> <p>H4.</p> <p>Analysis.</p> | <p>To establish the joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya.</p> <p>There is no significant joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya.</p> <p>Multiple regression analysis:</p> $F_t = a + \beta_1 GI_t + \beta_2 OL_t + \beta_3 CL_t + \beta_4 SC_t + \beta_5 SM_t + \varepsilon_i \dots \dots \dots iv$ <p>Where:</p> <p>F = Dependent variable - Financial performance (pre-tax profits, return on assets, non-interest income as a ratio of total income).</p> <p>a = Intercept.</p> <p><math>\beta_1 \dots \dots \dots \beta_5</math> = Standadized regression coefficient</p>   |

|  |  |
|--|--|
|  | <p>GI= General Insurance Premiums</p> <p>OL = Ordinary Life Insurance Premiums</p> <p>CL = Credit life insurance premiums</p> <p>SC = Moderating variable - Sales channels (Efficiency score of sales channels).</p> <p>SM =Intervening variable - Savings mobilization (amount of customer deposits relating to bancassurance).</p> <p>t= Time period (year 1 to year 5).</p> <p><math>\varepsilon_i</math> = Error term.</p> |
|--|--|

Source: Research Data, 2019

## **CHAPTER FOUR**

### **DESCRIPTIVE DATA ANALYSIS, FINDINGS AND INTERPRETATION**

#### **4.1 Introduction**

The study's goal was to establish the relationship among bancassurance, sales channels, savings mobilization and financial performance of commercial banks in Kenya. To fulfill this objective, data was gathered from managers in charge of banking services and operations managers working in commercial banks.

This chapter is arranged into two main parts. The first part captures the response rate, presents the outcome of descriptive data analysis of bancassurance, sales channels, savings mobilization and financial performance of commercial banks in Kenya by employing frequency distribution tables, trend graphs, arithmetic means, overall means, tables containing cumulative totals and grand totals of certain variables as well as composite financial performance index tables. It further captures Data Envelopment Analysis (DEA) efficiency scores of the sales channels. The second part provides the results of correlation analysis among study variables in matrix tables, reliability statistics and tests for multicollinearity.

#### **4.2 Pilot Testing of Research Instrument**

Prior testing of the research questionnaire was undertaken within 3 commercial banks to determine the effectiveness of the instrument in gathering data. A draft questionnaire was first interrogated by supervisors to assess adequacy as a precursor to piloting. Thereafter an introductory letter together with preliminary questionnaires were delivered to 3 commercial banks in Nairobi with clear instructions seeking their indulgence in pre-testing the data

collection tool. The responses obtained from the pre-testing detected some questions that needed clarity. Necessary corrections were effected to eliminate ambiguities.

Pilot testing of research instrument is fundamental in achieving questionnaire comprehension as it facilitates scrutiny of the questions in the spheres of format, content, wording and sequence. The trial run saves studies from disaster by utilizing the input realized from respondents to locate and refine questions and techniques that are ambiguous and offensive (Cooper & Schindler, 2003).

### 4.3 Response Rate

Twenty seven (27) questionnaires were availed back, however, three (3) of them were disqualified and expunged from further analysis because they were incomplete. The three commercial banks' questionnaires that were utilized in pilot testing formed part of the 27 respondents. Table 4.1 below furnishes the response rate.

**Table 4.1: Response Rate**

| <b>QUESTIONNAIRES</b>   | <b>NUMBER</b> | <b>PERCENTAGE</b> |
|-------------------------|---------------|-------------------|
| Served                  | 27            | 100               |
| Returned                | 27            | 100               |
| Returned but incomplete | 3             |                   |
| Returned and complete   | 24            |                   |
| <b>Response rate</b>    | <b>24/27</b>  | <b>88.9</b>       |

Source: Research Data, 2019

The response rate of 88.9% is deemed sufficient compared to prior studies such as Magutu (2013) that attained a response rate of 75% in a study of supply chain strategies, technology and



performance of large scale manufacturing firms in Kenya, Iraya (2014) in a study of socially responsible investment, portfolio management, institutional characteristics and performance of mutual funds in Kenya achieved a response rate of 60.5% and Mwangi (2014) in a study of the influence of members' income and conduct of SACCOS in the relationship between characteristics and efficiency of SACCOS in Kenya obtained 67% response rate. Moreover, according to Mugenda and Mugenda (2013) in instances where the size of a research population is below 10,000 elements, a sample threshold ranging from 10% to 30% is acceptable as a true representation of the focus population.

#### **4.4.1 Reliability Test**

The results of reliability test applying Cronbach's Alpha measurement for the extent of insurance policies sold by commercial banks in Kenya registered an alpha coefficient of 0.644 for the four scale items used in the questionnaire. The alpha coefficient is slightly lower than ideal standard set at 0.7 although it meets the minimum set threshold of being above 0.5 as advised by George and Mallery (2003). However, this does not necessarily mean that internal consistency of the data was compromised. Low Alpha coefficient may be explained by the small number of scale questions considered in the test (Tavakol, 2011), this study utilized 4 items.

#### **4.4.2 Normality Tests**

Shapiro-Wilk test is utilized to authenticate whether a sample was derived from a normally distributed population by applying the null hypothesis principle (Shapiro & Wilk, 1965). The test employs the analysis procedure involving matching the score values in a sample to normally distributed score values with similar mean and standard deviation. In circumstances where the outcome of checking is not significant ( $P > 0.05$ ), it implies that the sample spread is akin to a

normal distribution. However, in cases where the result of checking is significant ( $P < 0.05$ ), then the spread is termed not normal (Field, 2009).

**Table 4.2: Results of Normality Tests**

|                      | Kolmogorov-Smirnov <sup>a</sup> |    |       | Shapiro-Wilk |    |       |
|----------------------|---------------------------------|----|-------|--------------|----|-------|
|                      | Statistic                       | Df | Sig.  | Statistic    | Df | Sig.  |
| Savings Mobilization | 0.201                           | 24 | 0.013 | 0.824        | 24 | 0.001 |
| Sales Channels       | 0.111                           | 24 | .200* | 0.961        | 24 | 0.463 |
| Bancassurance        | 0.304                           | 24 | 0     | 0.644        | 24 | 0     |

\* This is a lower bound of the true significance.

a Lilliefors Significance Correction

Source: Research Data, 2019

The outcome presented in table 4.2 above manifests that the P value of savings mobilization of 0.001 and of bancassurance of 0 are all less than 0.05 ( $P < 0.05$ ), implying that their samples are not normally distributed. Bancassurance was measured by the amount of premiums generated from selling insurance products while savings mobilization was measured by the amount of customer deposits relating to bancassurance. The two variables are not normally distributed because the study found out that most commercial banks forming the sample started bancassurance business at different years and that the volume of bancassurance transactions significantly varies from one bank to another. On the other hand, the variable of sales channels which was measured by the efficiency scores had P worth 0.463 that is higher than 0.05 ( $P > 0.05$ ). This indicates that its sample was drawn from a population that was normally distributed.

#### 4.4.3 Tests for Skewness and Kurtosis

**Table 4.3: Skewness and Kurtosis of Insurance premiums realized**

|                                  | <b>N</b> | <b>Mean</b> | <b>SD</b> | <b>CV</b> | <b>KU</b> | <b>SK</b> |
|----------------------------------|----------|-------------|-----------|-----------|-----------|-----------|
| General insurance premiums       | 24       | 204.1862    | 450.6551  | 2.207079  | 18.679    | 4.145     |
| Ordinary life insurance premiums | 21       | 11.055      | 22.02959  | 1.992726  | 12.638    | 3.33      |
| Credit life insurance premiums   | 24       | 144.0419    | 245.4909  | 1.704302  | 6.068     | 2.422     |
| Other insurance premiums         | 5        | 63.0185     | 101.5296  | 1.611108  | 0.302     | 1.435     |

N- valid number of observations, SD -standard deviation, CV -coefficient of variation, KU - kurtosis, SK -skewness.

Source: Research Data, 2019

Table 4.3 above depicts that the bancassurance indicator of general insurance premiums recorded a mean of 204.1, standard deviation of 450.6, coefficient of variation of 2.2, kurtosis of 18.6 and skewness of 4.1. Ordinary life insurance premiums had a mean of 11, standard deviation of 22, coefficient of variation of 1.9, kurtosis of 12.6 and skewness of 3.3, credit life insurance premiums had a mean of 144, standard deviation of 245.4, coefficient of variation of 1.7, kurtosis of 6 and skewness of 2.4. Other insurance premiums had a mean of 63, standard deviation of 101.5, coefficient of variation of 1.6, kurtosis of 0.3 and skewness of 1.4. The results imply that bancassurance indicators of general insurance policies and credit life insurance policies are the dominant products sold by commercial banks. The bancassurance indicator of other insurance category recorded moderate degree sales while ordinary life insurance policies were the least sold products by commercial banks. All the four-bancassurance indicators of insurance premiums had positively skewed asymmetrical distribution. On the other hand, kurtosis of bancassurance indicators of general insurance premiums, ordinary life insurance premiums and credit life insurance premiums exhibited leptokurtic distribution whereas other insurance premiums manifested platykurtic distribution.

#### 4.4.4 Tests for Multicollinearity

The correlation between the three independent variables of this study is presented in table 4.4 below;

**Table 4.4: Correlations between Independent Variables to Test Multicollinearity**

|                      | Bancassurance | Sales Channels | Savings Mobilization |
|----------------------|---------------|----------------|----------------------|
| Bancassurance        | 1             |                |                      |
| Sales Channels       | 0.312         | 1              |                      |
| Savings Mobilization | 0.443*        | 0.315          | 1                    |

\*\* P< 0.01 (2-tailed), \* p< 0.05 level

Source: Research Data, 2019

Results contained in table 4.4 above indicate that there only exists positive correlation between the three explanatory study variables. The correlation coefficients of the three variables fall within the acceptable range of  $r < 0.9$ . This indicates that sales channels, savings mobilization and bancassurance are eligible for a multiple regression analysis because there is no multicollinearity amongst the three variables. On the other hand, correlation tests are undertaken at a significance level of 0.05 in consonance with prior research works like Magutu (2013), Iraya (2014) and Mwangi (2014). In testing the first hypothesis, correlation was performed between the four indicators of bancassurance. The indicators were general insurance premiums, ordinary life insurance premiums and credit life insurance premiums. Outcome of correlation assessment is conveyed in table 4.5 below.

**Table 4.5: Correlation between Indicators of Bancassurance**

|                                  | Beta  | T     | Sig.  | Collinearity Statistics |       |
|----------------------------------|-------|-------|-------|-------------------------|-------|
|                                  |       |       |       | Tolerance               | VIF   |
| (Constant)                       |       | 2.580 | 0.017 |                         |       |
| General Insurance Premiums       | 0.06  | 0.297 | 0.769 | 0.789                   | 1.268 |
| Ordinary Life Insurance Premiums | 0.032 | 0.181 | 0.858 | 0.982                   | 1.018 |
| credit life insurance            | 0.543 | 2.693 | 0.014 | 0.781                   | 1.280 |

a. Dependent Variable: Financial Performance

Source: Research Data, 2019

Further to Correlation matrices, Tolerance and Variable Inflation Factor (VIF) are also applied as standards for checking for multicollinearity. VIF measures the strength of multicollinearity while tolerance indicates the magnitude of variation caused by a particular predictor variable that is not accounted for by other predictor variables. Tolerance coefficient that falls below 0.20 and VIF that has a high value imply that multicollinearity is prevalent (O' Brien, 2007). Cooper and Schindler (2003) guided that VIFs of threshold of 10.0 and above is high therefore evidencing multicollinearity problem. All the indicators in table 4.5 above have met the criteria of Tolerance and VIF of acceptable collinearity and therefore categorized as not posing any multicollinearity problem.

#### **4.5 Institutional Characteristics of Commercial Banks in Kenya**

The findings of various characteristics of commercial banks in Kenya are presented and discussed under various themes below.

##### **4.5.1 Sale of Insurance Products by Commercial Banks**

General insurance, ordinary life insurance, credit life insurance and other insurances form the broad classes of insurance products sold by commercial banks undertaking bancassurance in

Kenya. The officers completing the questionnaires were requested to state to what degree commercial banks sold insurance products in the classifications of general insurance, ordinary life, credit life and others on a five-point Likert Scale (5=very great extent, 4=great extent, 3=average (moderate) extent, 2=small extent and 1=very small extent). The research findings are presented in Tables 4.6 below with resultant means and standard deviations.

**Table 4.6: Sale of Insurance Products by Commercial Banks**

| Sale of Insurance Products | Descriptive Statistics |                | Rank            |
|----------------------------|------------------------|----------------|-----------------|
|                            | Mean                   | Std. Deviation |                 |
| General insurance          | 3.9583                 | 1.0416         | Great Extent    |
| Credit life insurance      | 3.5833                 | 1.0597         |                 |
| Other insurances           | 2.9                    | 0.8571         | Moderate Extent |
| Ordinary life insurance    | 2.2857                 | 1.1474         |                 |
| <b>Overall mean</b>        | <b>3.1818</b>          |                |                 |

Source: Research Data, 2019

From the research findings in table 4.6 above, general insurance and credit life insurance are the two key insurance products that commercial banks are selling to a great extent ( $3.96 \leq \text{Mean} \leq 3.5$  with a very significant  $1.05 \leq \text{standard deviation} \leq 1.04$ ). To a moderate extent ( $2.90 \leq \text{Mean} \leq 2.29$  with a very significant  $1.15 \leq \text{standard deviation} \leq 0.86$ ) the commercial banks sell other insurances and ordinary life insurance. This implies that bancassurance arrangements are highly focused on two key streams of insurance products of general insurance and credit life insurance as opposed to ordinary insurance arrangements. The overall aggregate mean (3.1818) of findings indicate that sale of insurance products by commercial banks in Kenya is at a modest extent therefore revealing that bancassurance paradigm is a new concept in the Kenyan financial

sector. This explains the reason why only 27 out of 40 commercial banks are engaged in bancassurance business. In addition, this findings are in line with Artikis et al. (2008) study which asserted that banks need credit life insurance to cushion themselves against default in loan repayments in the event of death occurrences.

#### **4.5.2 Number of Insurance Companies Commercial Banks Transacted with**

In order to transact bancassurance business, commercial banks collaborate with insurance companies. To understand the scope of bancassurance business carried out, each commercial bank was asked to provide names of insurance companies they transact business with. The responses obtained are presented in the frequency distribution table 4.7 below.

In choosing how many classifications to apply in a frequency spread tabulation, Scott (2009) upholds employment of Sturge's principle. The principle provides that the quantity of classifications, **K** is computed by the following formula;

$$K = 1 + 3.322(\log n).$$

Where: **K** is the quantity of classifications and **n** is the quantity of observations.

Applying the same in this study;  $K = 1 + 3.322(\log(24)) = 6$  classifications.

**Table 4.7: Number of Insurance Companies Commercial Banks Transacted With.**

| Number of insurance companies      | Distribution |            | Rank       |
|------------------------------------|--------------|------------|------------|
|                                    | Frequency    | Percentage |            |
| 6 - 10                             | 14           | 58.3       | Majority   |
| 1- 5                               | 5            | 20.9       |            |
| 11- 15                             | 2            | 8.3        | Few        |
| 16 - 20                            | 2            | 8.3        |            |
| 21 - 25                            | 1            | 4.2        | Negligible |
| > 26                               | 0            | 0          |            |
| <b>Total</b>                       | <b>24</b>    | <b>100</b> |            |
| <b>Arithmetic mean<sup>8</sup></b> |              |            |            |

Source: Research Data, 2019

The outcome presented in table 4.7 above shows that majority commercial banks (79.2%) transacted insurance business with 1 to 10 insurance companies, few commercial banks (16.6%) undertook insurance business with insurance companies numbering between 11 and 20 while negligible commercial banks (4.2%) transacted insurance business with insurance companies numbering between 21 to 25. Further to that, the above results depict that on average commercial banks engaged with 8 insurance companies in the context of bancassurance. The findings are in agreement with Korhonen et al. (2005) study whereby bancassurance arrangement structures anchored on pure cross-selling partnerships were found to be leading favourites. This implies that commercial banks transact bancassurance business with diverse insurance companies through cross-selling agreements without necessarily forming subsidiary insurance companies.



### 4.5.3 The Year Commercial Banks Commenced Bancassurance

Bancassurance is a fairly new phenomenon in Kenya's banking industry. Respondents were asked to provide the year their banks started transacting bancassurance business. The research outcome is presented in table 4.8 below.

**Table 4.8: The Year Commercial Banks Commenced Bancassurance**

| The year commercial banks commenced bancassurance | Distribution |            | Rank       |
|---|--------------|------------|------------|
|   | Frequency    | Percentage |            |
| Prior 2011  | 7            | 29.2       | Majority   |
| 2012  | 6            | 25         |            |
| 2014  | 5            | 20.8       | Moderate   |
| 2015  | 5            | 20.8       |            |
| 2013  | 1            | 4.2        | Negligible |
| <b>Total</b>                                      | <b>24</b>    | <b>100</b> |            |

Source: Research Data, 2019

Outcome in Table 4.8 above shows that majority commercial banks (54.2%) started bancassurance between 2012 and prior to 2011, moderate number of commercial banks (41.6%) started bancassurance between 2015 and 2014 while negligible commercial banks (4.2%) commenced bancassurance in 2013. This findings confirm that bancassurance started in Kenya prior to 2011. The findings are in line with Chepkoech and Omwenga (2015) study which revealed that bancassurance commenced in 2007 in Kenya. This signifies that bancassurance is a recent development in the Kenyan banking industry. This conclusion is supported by Central Bank of Kenya (2015) bank supervision annual report that captured bancassurance as one of the recent banking products in Kenya.

#### 4.5.4 Average Number of Insurance Policies Sold by Commercial Banks

Bancassurance facilitates the selling of insurance policies by commercial banks in Kenya. Respondents were requested to provide the number of insurance policies sold by their commercial banks in the five year period. The results are conveyed in table 4.9 below.

**Table 4.9: Average Number of Insurance Policies Sold by Commercial Banks**

| Average number of insurance policies sold | Distribution |            | Rank     |
|---|--------------|------------|----------|
|   | Frequency    | Percentage |          |
| 218 - 19,318                              | 20           | 83.4       | Majority |
| 76,622 - 95,722                           | 2            | 8.3        | Few      |
| >95,723                                   | 2            | 8.3        |          |
| 19,319 - 38,419                           | 0            | 0          | None     |
| 38,420 - 57,520                           | 0            | 0          |          |
| 57,521 - 76,621                           | 0            | 0          |          |
| <b>TOTAL</b>                              | <b>24</b>    | <b>100</b> |          |
| <b>Arithmetic mean</b> 20,367             |              |            |          |

Source: Research Data, 2019

End results in table 4.9 above evidences that majority commercial banks (83.4%) sold on average up to 19,318 insurance policies maximum in the five years period, few commercial banks (16.6%) sold on average between 76,622 and more than 95,722 insurance policies whereas no commercial bank sold insurance policies numbering between 19,319 and 76,620. The results confirm that commercial banks in Kenya practice bancassurance with each commercial bank that responded having sold a mean average of 20,367 insurance policies in the five years horizon period. Additionally, according to IRA (2016) the insurance sector in Kenya sold a total of 2.7

million insurance policies in 2015 compared to 502,686 sold by commercial banks transacting bancassurance in the study sample that responded. This is equivalent to 18.6% bancassurance input to the Kenyan insurance market in 2015 based on policies sold. The outcome manifests that Kenya's bancassurance market share in the insurance industry is modest but with bright potential at the level of countries like Singapore with 24% market share in the life insurance segment, Malaysia 6% and Thailand 2% whereas Spain is 65% in the life insurance niche, France 60%, Italy 60% and Belgium 50% (Staikouras, 2006).

#### **4.5.5 Average Premiums Realized by Commercial Banks from Selling Insurance Policies**

The consideration for insurance policies sold through bancassurance is in terms of premiums paid. Commercial banks were asked to provide the amounts of premiums they generated from selling insurance policies within the bancassurance framework. The responses outcome is presented in table 4.10 below.

**Table 4.10: Average Premiums Realized by Commercial Banks from Selling Insurance Policies**

| Average premiums realized by commercial banks from selling insurance policies (Kshs millions) | Distribution |            | Rank     |
|---|--------------|------------|----------|
|   | Frequency    | Percentage |          |
| 7 - 528   | 20           | 83.4       | Majority |
| 529 - 1,050   | 2            | 8.4        | Few      |
| 1,051 - 1,572   | 1            | 4.1        |          |
| >2,617  | 1            | 4.1        |          |
| 1,573 - 2,094   | 0            | 0          | None     |
| 2,095 - 2,616   | 0            | 0          |          |
| <b>TOTAL</b>  | <b>24</b>    | <b>100</b> |          |
| <b>Arithmetic mean</b> 381.57   |              |            |          |

Source: Research Data, 2019

End results in Table 4.10 above reveals that majority commercial banks (83.4%) realized average premiums from selling insurance policies in the five years period up to a maximum of kshs 528 million, few commercial banks (16.6%) realized between kshs 529 million and more than kshs 2,617 million average premiums while no commercial bank generated between kshs 1,573 million and kshs 2,616 million average premiums. Additionally, AKI (2015) reported that the insurance sector in Kenya realized total premiums worth kshs 173.79 billion in 2015 compared to kshs 12.67 billion generated by the commercial banks undertaking bancassurance covered by this research. This translates to 7.29% contribution by bancassurance to the entire insurance industry in Kenya in 2015 based on this study sample. This means that bancassurance

has not been fully embraced by Kenyans with an average premium realized per bank in five years of kshs 381.57 million as well as the 7.29% premium injected to the insurance market.

This finding concurs with Gujral (2014) study which conveyed results indicating that 49% bank customers prefer buying insurance products from insurance agents, 24% from insurance companies, 21% from banks and 6% from insurance brokers. This translates to low levels of insurance premiums generated by banks.

#### **4.4.6 Savings Related to Bancassurance Mobilized by Commercial Banks**

Finance theoretical expectation is that bancassurance ought to contribute positively towards increasing savings mobilization by commercial banks. Managers completing the questionnaires were asked to state the amount of customer deposits relating to bancassurance that was made into their commercial banks. The outcome of the responses is contained in table 4.11 below.

**Table 4.11: Savings Related to Bancassurance Mobilized by Commercial Banks**

| Savings related to bancassurance mobilized by commercial banks (Kshs millions) | Distribution |            | Rank     |
|--|--------------|------------|----------|
|  | Frequency    | Percentage |          |
| 2 - 125  | 9            | 37.5       | Majority |
| 126 - 249  | 5            | 20.8       |          |
| > 622  | 5            | 20.8       | Moderate |
| 250 - 373  | 3            | 12.5       |          |
| 374 - 497  | 2            | 8.4        | Few      |
| 498 - 621  | 0            | 0          | None     |
| <b>TOTAL</b>   | <b>24</b>    | <b>100</b> |          |
| <b>Arithmetic mean</b> 249.9   |              |            |          |

Source: Research Data, 2019

The outcome presented in table 4.11 above shows that majority commercial banks (58.3%) mobilized average savings related to bancassurance up to a maximum of kshs 249 million during the study period, moderate percentage of commercial banks (33.3%) mobilized average savings ranging from kshs 250 million upto kshs 373 million and above kshs 622 million while few commercial banks (8.4%) mobilized savings averaging between kshs 374 million and kshs 497 million. This manifests that commercial banks mobilize savings through bancassurance though not substantially with an average of kshs 249.9 million per bank over the five years period.

The foregoing findings are in cync with Voutilainen (2004) study which revealed that bancassurance has insignificant effect on savings mobilization by commercial banks. This signifies that the main objective of commercial banks venturing into bancassurance was not to

increase savings mobilization but rather to diversify into non-banking segments after the removal of regulatory barriers.

#### 4.5.7 Commissions Earned by Commercial Banks from Selling Insurance Policies

One of the goals of commercial banks venturing into bancassurance was diversification of its income sources in an endeavour to depart from traditional financial intermediation income streams. Commissions earned from selling insurance policies under the domain of bancassurance is categorized as one of the non-traditional income streams of commercial banks. Respondents were asked to furnish the researcher with the commission amounts earned by their commercial banks from selling insurance policies. Table 4.12 below depicts the outcome.

**Table 4.12: Commissions earned by commercial banks from selling insurance policies**

| Commissions earned by commercial banks from selling insurance policies (Kshs millions) | Distribution |            | Rank     |
|--|--------------|------------|----------|
|  | Frequency    | Percentage |          |
| 0 - 365  | 21           | 87.5       | Majority |
| 366 - 731  | 2            | 8.3        | Few      |
| > 1,830  | 1            | 4.2        |          |
| 732 - 1,097  | 0            | 0          | None     |
| 1,098 - 1,463  | 0            | 0          |          |
| 1,464 - 1,829  | 0            | 0          |          |
| Total  | 24           | 100        |          |
| <b>Arithmetic Mean</b> 168.4   |              |            |          |

Source: Research Data, 2019

The aftermath portrayed in table 4.12 above reflects that majority commercial banks (87.5%) earned commissions from selling insurance policies ranging from zero up to kshs 365 million while few commercial banks (12.5%) earned commissions ranging from kshs 366 million up to kshs 731 million as well as more than kshs 1,830 million. The findings indicate that commercial banks earn substantial commissions from selling insurance policies with an average of kshs 168.4 million per bank per year over the five years period. This translates to kshs 14 million each month for every bank.

The research findings are in tandem with Vennet (2002) study that confirmed that financial conglomerates undertaking bancassurance generate more revenue than specialized banks confined to traditional banking activities. This attests that unbundling financial services is beneficial to the commercial banks.

#### **4.6 Bancassurance Sales Channels Efficiency Score**

Bancassurance sales channels are the distribution modes employed by commercial banks to sell insurance products. The Data Envelopment Analysis (DEA) technique described in section 3.9 was applied in measuring the efficiency of bancassurance sales channels utilized by the 24 commercial banks. The DEA model that was applied computed the efficiency scores of sales channels by taking outputs and dividing them by inputs. The outputs are the amounts of premiums realized by sales channels while inputs are the amounts of expenses incurred to operate the sales channels. Information pertaining to the expenses incurred to operate the sales channels utilized and the premiums realized was furnished by respondents. Data was available for each respondent commercial bank pertaining to the amount of premiums earned through bancassurance sales channels (outputs) for five years on the one hand and amounts of expenses



incurred to operate the sales channels including agency fees and commission expenses, number of bancassurance sales outlets and number of workforce in bancassurance sales (inputs) for five years on the other hand. Each element data for each bank is divided by the number of sales channels it operates. The foregoing data is then utilized to derive average for five years for each element of the output and input outlined above for each respondent commercial bank. The data was then fed into the DEA model to produce the bancassurance sales channels efficiency scores for each respondent commercial bank. The outcome is expressed in table 4.13 below showing the efficiency score of the sales channels operated by each commercial bank.

**Table 4.13: Bancassurance Sales Channels Efficiency Score**

| Bancassurance sales channels efficiency score | Distribution |            | Rank     |
|---|--------------|------------|----------|
|   | Frequency    | Percentage |          |
| 0.286 - 0.481                                 | 8            | 33.33      | Majority |
| 0.09 - 0.285                                  | 5            | 20.83      |          |
| 0.678 - 0.873                                 | 5            | 20.83      |          |
| 0.482 - 0.677                                 | 3            | 12.50      | Moderate |
| 0.874 - 1.069                                 | 2            | 8.34       |          |
| 1.070 - 1.265                                 | 1            | 4.17       | Few      |
| <b>Total</b>                                  | <b>24</b>    | <b>100</b> |          |
| <b>Arithmetic Mean0.533</b>                   |              |            |          |

Source: Research Data, 2019

A bancassurance sales channel efficiency score of 1 implies that the sales channel is efficient, a score closer to 1 is regarded as near efficient while a score far below 1 is classified as inefficient. The findings conveyed in table 4.13 above reveal that majority commercial banks (74.99%) employed bancassurance sales channels with efficiency scores ranging between 0.09

and 0.481 and from 0.678 up to 0.873. Moderate percentage commercial banks (20.84%) utilized bancassurance sales channels with efficiency scores ranging between 0.482 and 0.677 and from 0.874 up to 1.069 while few commercial banks (4.17%) applied bancassurance sales channels with efficiency scores stretching from 1.070 up to 1.265. This shows that a majority of commercial banks operated moderately efficient bancassurance sales channels as supported by a mean efficiency score of 0.533.

The findings are in line with Chang et al. (2011) study outcome whereby most bancassurance sales channels employed by commercial banks attained low efficiency scores. The findings of this study implies that most commercial banks employed bancassurance sales channels that do not contribute positively to improving financial performance of commercial banks recognizing that sales channels' efficiency scores are obtained by dividing output (income) of each sales channel by input (expenses) of each sales channel.

#### **4.7 Bancassurance by Commercial Banks in Kenya**

Bancassurance was the independent variable for this study that was measured by the amount of premiums realized from selling insurance products. The premiums amount for each commercial bank in the sample was computed as explained in the section that follows. There were a number of indicators that together defined premiums.

##### **4.7.1 Amount of Premiums Realized from Selling Insurance Products**

This study applied four indicators to measure bancassurance. This comprised of general insurance policies' premiums, ordinary life insurance policies' premiums, credit life insurance policies' premiums and other insurance policies' premiums. This has the benefit of true representation of bancassurance variable therefore achieving the goal of measurement of

providing the highest quality and lowest error data for testing hypotheses (Cooper & Schindler, 2003). More so, the aspect of insurance of loans issued by the banks is covered under credit life insurance policies. The framework followed in computing the value of premiums generated is described in the following paragraph.

Data for each year (2011 to 2015) for each product category for each commercial bank in the sample was collected. The average for respective product category and commercial bank was then computed. The next step involved totalling up the five year averages for each product line for individual commercial banks to obtain the cumulative average for each bank. Finally, the cumulative average for each commercial bank in the sample was summed up to derive grand total of average premiums generated as reported in table 4.14 below.

**Table 4.14: Average Premiums Generated (kshs Millions)**

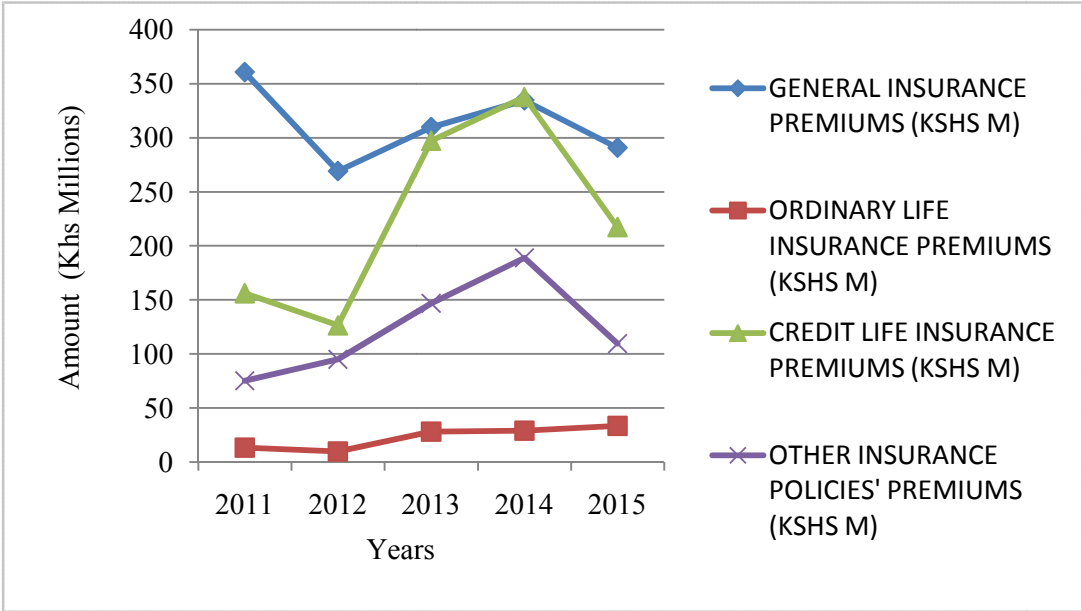
| Bank #                     | Type of Insurance Policy |               |             |         | Cumulative Average |
|----------------------------|--------------------------|---------------|-------------|---------|--------------------|
|                            | General                  | Ordinary Life | Credit Life | Other   |                    |
| Bank 1                     | 55                       | 0             | 10          | 0       | 65                 |
| Bank 2                     | 104.365                  | 0             | 96.1375     | 72.2825 | 272.785            |
| Bank 3                     | 276                      | 0             | 27          | 0       | 303                |
| Bank 4                     | 498                      | 34            | 246         | 0       | 778                |
| Bank 5                     | 2.54                     | 17.42         | 0           | 0       | 19.96              |
| Bank 6                     | 10                       | 0             | 109         | 7       | 126                |
| Bank 7                     | 124.5                    | 0             | 111         | 0       | 235.5              |
| Bank 8                     | 405                      | 97.5          | 288.333     | 0       | 790.833            |
| Bank 9                     | 10                       | 0             | 2           | 0       | 12                 |
| Bank 10                    | 7.316667                 | 0             | 0.27        | 0.09    | 7.676667           |
| Bank 11                    | 11                       | 0             | 3           | 0       | 14                 |
| Bank 12                    | 11                       | 0             | 3           | 0       | 14                 |
| Bank 13                    | 2208.16                  | 0             | 690.45      | 237.542 | 3136.152           |
| Bank 14                    | 2.202                    | 0             | 990.628     | 237.542 | 1230.372           |
| Bank 15                    | 53.425                   | 0             | 0           | 0       | 53.425             |
| Bank 16                    | 53.425                   | 0             | 0           | 0       | 53.425             |
| Bank 17                    | 150                      | 20            | 15          | 0       | 185                |
| Bank 18                    | 150                      | 20            | 15          | 0       | 185                |
| Bank 19                    | 334.268                  | 1.588         | 70.524      | 0       | 406.38             |
| Bank 20                    | 334.268                  | 1.588         | 70.524      | 0       | 406.38             |
| Bank 21                    | 40                       | 5             | 10          | 0       | 55                 |
| Bank 22                    | 40                       | 5             | 10          | 0       | 55                 |
| Bank 23                    | 10                       | 15.03         | 344.57      | 6.4     | 376                |
| Bank 24                    | 10                       | 15.03         | 344.57      | 6.4     | 376                |
| <b>Average Grand Total</b> |                          |               |             |         | 9156.888667        |

Source: Research Data, 2019

The growth trend of bancassurance in Kenya premised upon the four indicators' insurance premiums is illustrated in graph 4.1 below. General insurance premiums dropped from 2011 to 2015 with 2012 reporting greatest fall. Ordinary life insurance premiums reflected consistent gradual growth from 2011 to 2015 though 2012 indicated depressed performance. Credit life insurance premiums evidenced a drop between 2011 to 2012, then followed by robust growth from 2012 to 2014 closing with subsiding performance in 2014 to 2015 but above 2011 level.

Other insurance policies' premiums reported sustained growth from 2011 up to 2014 followed by a drop in 2015 but above 2011 magnitude. From the findings, it is evident that other than general insurance premiums that reported a subtle drop from 2011 to 2015, the other three indicators depicted growth trend from 2011 to 2015. The study therefore concludes that bancassurance in Kenya has achieved growth between 2011 up to 2015 in conformity with Chepkoech and Omwenga (2015) study.

**Graph 4.1: Trend of Insurance Premiums**



Source: Research Data, 2019

**4.8 Savings Mobilization**

Savings mobilization formed the intervening variable of this study that was measured by the amount of customer deposits relating to bancassurance. The details of determining the value of customer deposits is discussed in the section below.

#### **4.8.1 Amount of Customer Deposits Relating to Bancassurance**

Data collected on the amount of customer deposits relating to bancassurance for each commercial bank in the sample spanning over the years 2011-2015 was keyed into average customer deposits matrix and means computed. Thereafter, the mean deposits for each commercial bank were summed up to derive grand cumulative totals as reflected in table 4.15 below:

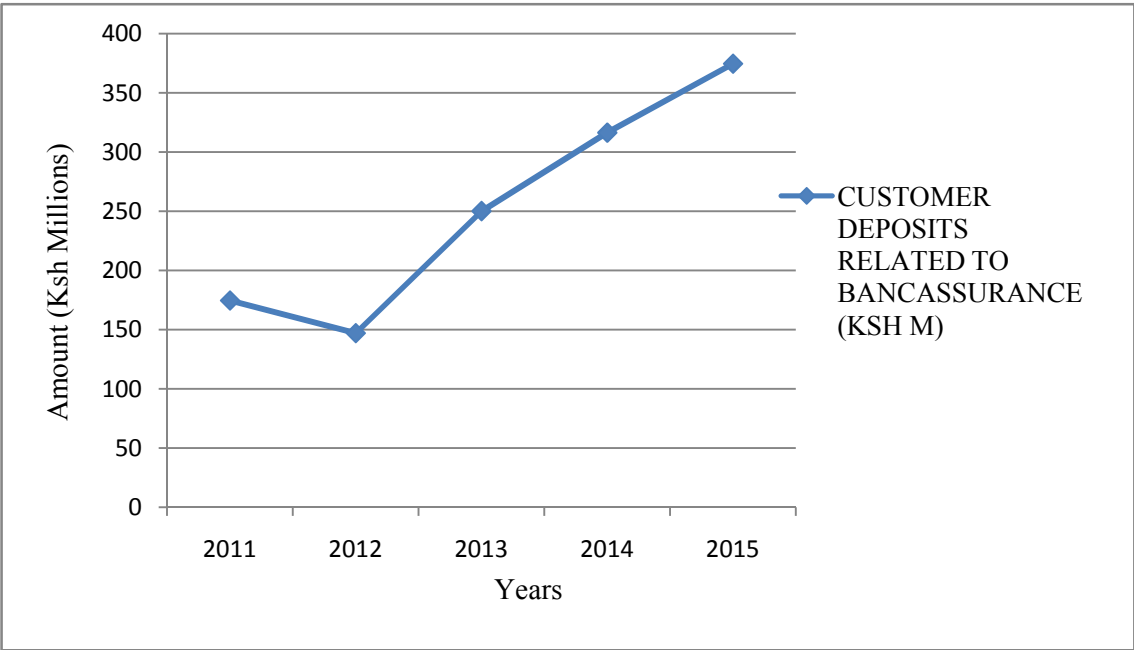
**Table 4.15: Average Customer Deposits**

| <b>Bank #</b>                             | <b>Average Savings Mobilization/<br/>Customer Deposits (Kshs M)</b> |
|---|---|
| Bank 1                                    | 27.6  |
| Bank 2                                    | 254.68  |
| Bank 3                                    | 148.58  |
| Bank 4                                    | 710   |
| Bank 5                                    | 130   |
| Bank 6                                    | 53.34   |
| Bank 7                                    | 108.33  |
| Bank 8                                    | 231.15  |
| Bank 9                                    | 3.2   |
| Bank 10                                   | 2.2   |
| Bank 11                                   | 2.1   |
| Bank 12                                   | 2.1   |
| Bank 13                                   | 378.12  |
| Bank 14                                   | 378.12  |
| Bank 15                                   | 129.7   |
| Bank 16                                   | 129.7   |
| Bank 17                                   | 15  |
| Bank 18                                   | 15  |
| Bank 19                                   | 649.6   |
| Bank 20                                   | 649.6   |
| Bank 21                                   | 740   |
| Bank 22                                   | 740   |
| Bank 23                                   | 250   |
| Bank 24                                   | 250   |
| <b>Grand Cumulative<br/>Average Total</b> | <b>5998.12</b>  |

Source: Research Data, 2019

The trend of customer deposits related to bancassurance is captured graphically in graph 4.2 below. The customer deposits reflect a linear upward growth from the year 2011 to 2015 except the year 2012 that attained a drop as a result of the 2012 general elections influence in the country. This means that bancassurance positively complements the savings mobilization function of commercial banks in Kenya. This conclusion is in line with Chari and Jayalakshmi (2014) research whereby bancassurance was identified as important in tapping household financial savings.

**Graph 4.2: Trend of Customer Deposits Related to Bancassurance**



Source: Research Data, 2019

**4.9 Financial Performance of Commercial Banks in Kenya**

Financial performance (dependent variable) was represented by pre-tax profits, return on assets and non-interest income as a ratio of total income. The three measures were applied to determine a composite financial performance index that was then factored into the regression analysis



model. The procedure that was followed in calculating the composite financial performance index is explained in the following sections.

#### **4.9.1 Composite Financial Performance Index**

Secondary data was collected for each commercial bank covering the period 2011-2015 on pre-tax profits, total net assets value, non-interest income and total income. Return on assets measure was computed by the formula;

$$\frac{\textit{Pre – tax profits}}{\textit{Total net assets}}$$

Pre-tax profits are applied above and not profits after-tax owing to the consideration that assets are employed to earn operating profits therefore safeguarding against understating their contribution towards profitability (Horne, 2004). Non-interest income ratio was computed by the formula;

$$\frac{\textit{Non – interest income}}{\textit{Total income}}$$

The foregoing computed values alongside the absolute pre-tax profits amount were captured in the composite financial performance index matrix. The three measures were assigned equal weightage of 0.333 that was multiplied by each entry figure for every year for each commercial bank and then summed up to derive the weighted performance score for each commercial bank. The weighted performance scores for each measure were then summed up to obtain the composite financial performance index values for each commercial bank as captured in table 4.16 below. In some cases, the values of commercial banks are similar in table 4.16 because they completed and returned two questionnaires as explained in section 3.5. This was necessary because some of the questions in the questionnaire were qualitative in nature for instance question 4 that was a likert scale type of question. Two employees will have different

perceptions on the substance issue and submit divergent responses, hence the need for two questionnaires.

**Table 4.16: Composite Financial Performance Index**

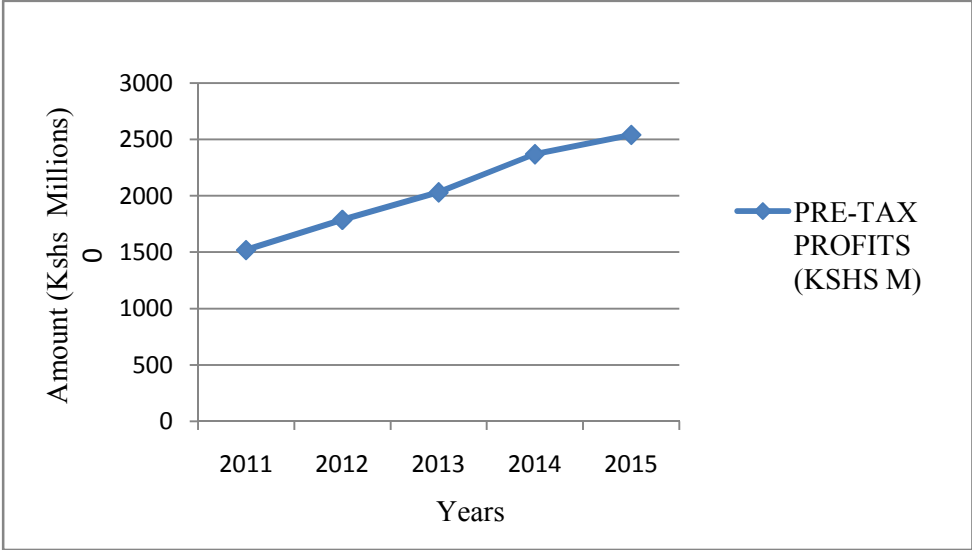
| Bank #   | Year     |          |          |          |          | Total Indices   |
|--|----------|----------|----------|----------|----------|-----------------|
|  | 2011     | 2012     | 2013     | 2014     | 2015     |                 |
| Bank 1   | 359.9067 | 386.6745 | 630.4328 | 765.2925 | 863.5281 | 3005.835        |
| Bank 2   | -218.439 | 50.66272 | -153.46  | -218.098 | -103.111 | -642.445        |
| Bank 3   | 1081.795 | 1555.169 | 1853.541 | 2100.289 | 2349.37  | 8940.164        |
| Bank 4   | 813.896  | 382.0405 | 592.4986 | 776.6354 | -560.71  | 2004.361        |
| Bank 5   | 82.19714 | 58.67224 | -47.2356 | -91.1863 | 16.43047 | 18.87796        |
| Bank 6   | 1041.851 | 1569.239 | 2332.857 | 2461.383 | 2356.803 | 9762.132        |
| Bank 7   | 325.0438 | 300.3904 | 403.9553 | 427.951  | 578.4715 | 2035.812        |
| Bank 8   | 2053.948 | 3188.237 | 3564.87  | 4167.596 | 4686.4   | 17661.05        |
| Bank 9   | 85.33187 | 101.9679 | 185.5675 | 242.844  | 173.2328 | 788.944         |
| Bank 10  | 51.78964 | 124.6027 | 144.5864 | 204.8583 | 364.0686 | 889.9056        |
| Bank 11  | 40.55922 | -510.657 | -409.865 | -166.077 | 31.04903 | -1014.99        |
| Bank 12  | 40.55922 | -510.657 | -409.865 | -166.077 | 31.04903 | -1014.99        |
| Bank 13  | 4030.605 | 5348.09  | 6071.714 | 6697.398 | 7455.339 | 29603.15        |
| Bank 14  | 4030.605 | 5348.09  | 6071.714 | 6697.398 | 7455.339 | 29603.15        |
| Bank 15  | 4689.364 | 5246.837 | 5909.516 | 7446.653 | 7807.274 | 31099.64        |
| Bank 16  | 4689.364 | 5246.837 | 5909.516 | 7446.653 | 7807.274 | 31099.64        |
| Bank 17  | 1484.374 | 1572.764 | 2018.329 | 2580.503 | 2786.279 | 10442.25        |
| Bank 18  | 1484.374 | 1572.764 | 2018.329 | 2580.503 | 2786.279 | 10442.25        |
| Bank 19  | 174.1097 | 280.8036 | 585.5114 | 871.896  | 960.1238 | 2872.444        |
| Bank 20  | 174.1097 | 280.8036 | 585.5114 | 871.896  | 960.1238 | 2872.444        |
| Bank 21  | 993.921  | 1331.43  | 1486.616 | 1505.927 | 2073.647 | 7391.542        |
| Bank 22  | 1342.14  | 1893.037 | 2657.639 | 3249.719 | 3993.895 | 13136.43        |
| Bank 23  | 4000.312 | 4335.785 | 3969.812 | 4094.018 | 4020.753 | 20420.68        |
| Bank 24  | 4000.312 | 4335.785 | 3969.812 | 4094.018 | 4020.753 | 20420.68        |
| <b>TOTAL COMPOSITE FINANCIAL PERFORMANCE INDEX</b> |          |          |          |          |          | <b>262332.2</b> |

Source: Research Data, 2019

The three graphs below depict the trend of the three indicators of financial performance as well as that of the composite financial performance index over the study period. The composite financial performance index (Graph 4.5) as well as the pre-tax profits (graph 4.3) manifest an

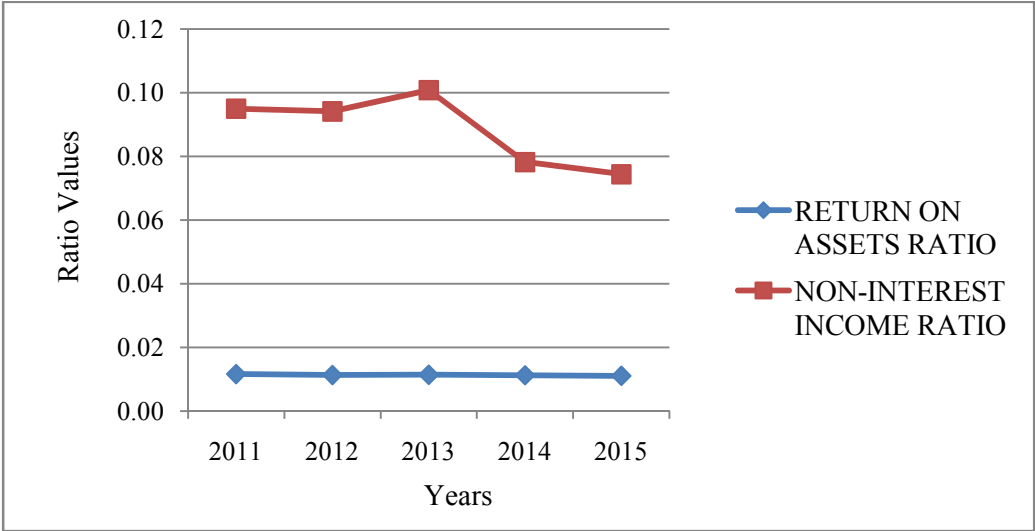
upward linear growth from the year 2011 to 2015. The findings imply that commercial banks engaged in bancassurance report better financial performance concurring with Mishra (2012) study. Return on assets ratio (graph 4.4) does not portray an upward growth from 2011 to 2015 because the asset base of commercial banks in Kenya tend to grow at higher rate than pre-tax profits due to capital adequacy requirements. This finding mirrors the Central Bank of Kenya (2015) bank supervision annual survey publication in which the net assets of the banking sector grow faster than pre-tax profits. Non - interest income ratio (graph 4.4) equally does not present an incremental growth from 2011 to 2015 instead it dropped from the year 2014 to 2015 . This is attributed to higher growth in interest income compared to the growth in non-interest income. Specifically, interest income grew by 111.72% between 2011 and 2015 whereas non-interest income grew by 42.47% in the same period in the respondent commercial banks in Kenya. Interest income is a key component of total income which forms the denominator in the non-interest income ratio.

**Graph 4.3: Trend of Pre-tax Profits**



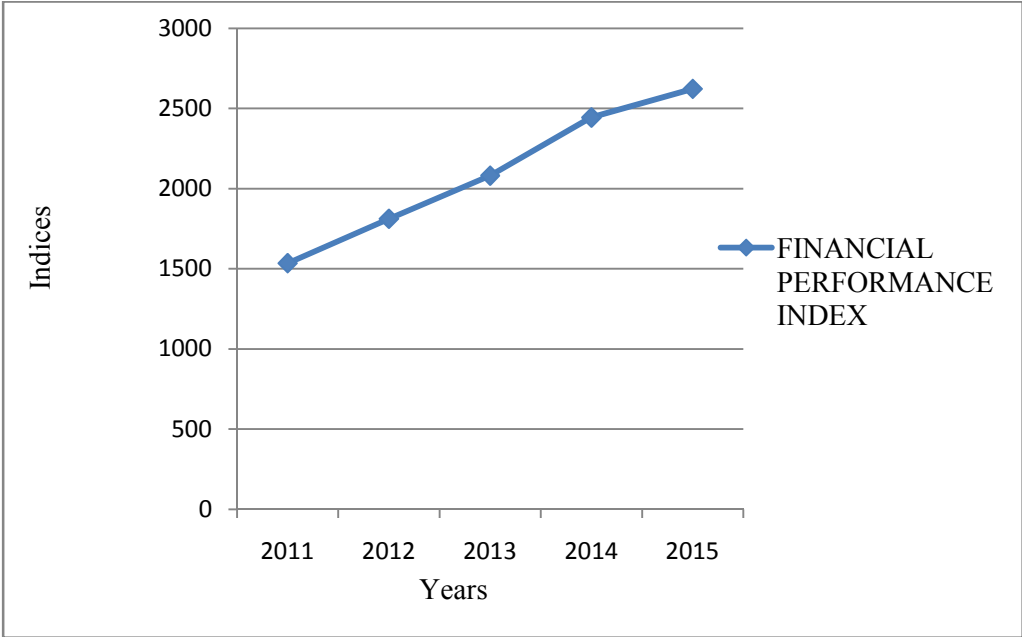
Source: Research Data, 2019

**Graph 4.4: Trend of Return on Assets and Non-Interest Income Ratio**



Source: Research Data, 2019

**Graph 4.5: Trend of Financial Performance Index**



Source: Research Data, 2019

#### **4.10 Correlation Analysis on Bancassurance, Savings Mobilization, Sales Channels and Financial Performance**

Three correlation analyzes were undertaken in this section between the four study variables applying the Spearman's rank order correlation technique. The Spearman's rank order correlation coefficient (denoted by  $r$ ) determines the size and reveals which side the linear associations between variables lies. Size communicates the extent to which variables move in unison or conversely. The size of correlation coefficient,  $r$ , spreads from +1 through 0 to -1. A value greater than 0 signifies a positive association between the two variables (values of both variables increases in tandem). A magnitude that is less than 0 implies negative relationship (as the level of one variable goes up, the level of the other variable diminishes). A coefficient of zero denotes no association between the two variables. A coefficient of 1 symbolizes perfect positive correlation (indicating that an upward growth/decrease in one variable provokes equivalent upward growth/decrease in second variable) whereas -1 signifies perfect negative correlation (Cooper & Schindler, 2003).

This study carried out three correlations based on the interrelationships between the four variables that were being analyzed as follows; correlation between bancassurance and financial performance, bancassurance and savings mobilization, lastly bancassurance and sales channels. The outcome of correlation assessment is documented in the following sections.

##### **4.10.1 Correlation between Bancassurance and Financial Performance**

The outcome of the correlation analysis between bancassurance and financial performance is conveyed in table 4.17 below. Results show that all three indicators of bancassurance (general insurance premiums, ordinary life insurance premiums and credit life insurance premiums) are

positively related to financial performance. Notably, the relationship is weak since all the three indicators reported correlation coefficients that are below 0.5 ( $r < 0.5$ ). Credit life insurance premiums had a moderately high correlation with financial performance ( $r = 0.309$ ,  $p < 0.05$ ). Overall implication of the outcome is that bancassurance has a positive relationship with financial performance of commercial banks but the intensity of the relationship is not strong.

**Table 4.17: Correlation between Bancassurance and Financial Performance**

| <b>Bancassurance/Financial</b>      | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> |
|-------------------------------------|----------|----------|----------|----------|
| 1. General Insurance Premiums       | 1.000    | 0.247    | 0.283    | 0.099    |
| 2. Ordinary Life Insurance Premiums |          | 1        | 0.225    | 0.129    |
| 3. Credit Life Insurance Premiums   |          |          | 1        | 0.309    |
| 4. Financial Performance Index      |          |          |          | 1        |

\*\*  $P < 0.01$  (2-tailed), \*  $p < 0.05$  level

Source: Research Data, 2019

#### **4.10.2 Correlation between Bancassurance and Savings Mobilization**

The outcome of the correlation analysis between bancassurance and savings mobilization is conveyed in table 4.18 below. General insurance premiums and ordinary life insurance premiums as indicators of bancassurance recorded positive but moderately strong relationship with savings mobilization ( $r = 0.310$ ,  $p < 0.05$  and  $r = 0.348$ ,  $p < 0.05$ ). Credit life insurance premiums as measures of bancassurance attained significant positive relationship with savings mobilization ( $r = 0.478$ ,  $p < 0.05$ ). Overall implication of the results is that bancassurance has a strong positive relationship with savings mobilization of commercial banks.

**Table 4.18: Correlation between Bancassurance and Savings Mobilization**

| <b>Bancassurance/Savings mobilization</b> | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> |
|---|----------|----------|----------|----------|
| 1.General Insurance Premiums              | 1.00     | 0.25     | 0.28     | 0.31     |
| 2. Ordinary Life Insurance Premiums       |          | 1.00     | 0.23     | 0.348    |
| 3 Credit Life Insurance Premiums          |          |          | 1.00     | 0.478*   |
| 4. Savings Mobilization                   |          |          |          | 1.00     |

\*\* P< 0.01 (2-tailed), \* p< 0.05 level

Source: Research Data, 2019

#### **4.10.3: Correlation between Bancassurance and Sales Channels**

Results of the correlation analysis between bancassurance and sales channels are depicted in table 4.19 below. Bancassurance as measured by general insurance premiums, ordinary life insurance premiums and credit life insurance premiums is highly positively related to the efficiency of sales channels employed in selling insurance policies. General insurance premiums and credit life insurance premiums are strongly positively related to efficiency of sales channels ( $r= 0.563$ ,  $p< 0.01$  and  $r= 0.699$ ,  $p< 0.01$ ) while ordinary life insurance premiums is also strongly positively related ( $r= 0.434$ ,  $p< 0.05$ ). The overall conclusion is that bancassurance is highly positively related to efficiency of sales channels that are utilized to sell insurance policies.

**Table 4.19: Correlation between Bancassurance and Sales Channels**

| <b>Bancassurance/Sales Channels</b> | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> |
|-------------------------------------|----------|----------|----------|----------|
| 1.General Insurance Premiums        | 1        | 0.247    | 0.283    | 0.563**  |
| 2.Ordinary Life Insurance Premiums  |          | 1        | 0.225    | 0.434*   |
| 3.Credit Life Insurance Premiums    |          |          | 1        | 0.699**  |
| 4. Efficiency of Sales Channels     |          |          |          | 1        |

\*\* P< 0.01 (2-tailed), \* p< 0.05 level

Source: Research Data, 2019

#### 4.11 Chapter Summary

This chapter documented findings of pilot testing, the response rate, descriptive data analysis, Spearman's rho correlation analysis among study variables, tests for reliability, normality, skewness and kurtosis as well as for multicollinearity. The procedure adopted in determining the values of each variable was also conveyed. The pilot test was performed on three commercial banks and proved worthwhile in improving the questionnaires. The study obtained a response rate of 88.9% based on the questionnaires that were returned.

The outcome of descriptive statistics on bancassurance (independent variable) that was measured by premiums realized from selling insurance policies revealed that an average premium of kshs 381.57 million was realized per bank in the five years period. Equally, bancassurance contributed 7.29% of the total premiums value of the insurance sector in 2015. This shows that bancassurance concept has not fully developed in Kenya. Further to this, the intervening variable of savings mobilization that was measured by the amount of customer deposits relating to bancassurance evidenced that a mean value of kshs 249.9 million savings was mobilized by each bank over the study period. This demonstrates that commercial banks are not able to mobilize substantial savings. On the other hand, savings mobilization reported a linear upward growth from 2011 to 2015 save for 2012 that depicted depressed growth.

The moderating variable of sales channels that was measured by efficiency score revealed that sampled commercial banks' sales channels attained a mean efficiency score of 0.533 signifying that they all operated moderately efficient bancassurance sales channels. Lastly, the dependent variable of this study was financial performance represented by composite financial performance



index derived from pre-tax profits, return on assets and non-interest income as a ratio of total income, the measure reflected an upward linear growth from 2011 to 2015.

Correlation analysis findings indicated that bancassurance has a positive relationship with financial performance though not strong, bancassurance has a strong positive relationship with savings mobilization and bancassurance is highly positively related to sales channels. More so, the findings of reliability tests as measured by Cronbach's Alpha produced a value of 0.644 which was above the lowest minimum threshold standard numeric of 0.5. On the other hand, normality tests were undertaken by utilizing the Shapiro-Wilk measure whose results disclosed that samples of bancassurance and savings mobilization variables were drawn from a population that was not normally distributed while that of sales channels variable was normally distributed. Equally, the outcome of skewness tests revealed that all the bancassurance indicators of general insurance premiums, ordinary life insurance premiums, credit life insurance premiums and other insurance premiums had asymmetrical distribution that was positively skewed. Additionally, kurtosis tests evidenced that bancassurance indicators of general insurance premiums, ordinary life insurance premiums and credit life insurance premiums had leptokurtic distribution while other insurance premiums indicator had platykurtic distribution. Ultimately, results of multicollinearity tests revealed that bancassurance, sales channels and savings mobilization were free from multicollinearity problem.

## CHAPTER FIVE

### TESTS OF HYPOTHESES AND DISCUSSION OF FINDINGS

#### 5.1 Introduction

Documented in this chapter are the outcomes of testing four null hypotheses together with the interpretation of the emerging relationships among the four variables of the study of bancassurance, sales channels, savings mobilization and financial performance. The four null hypotheses were tested by employing simple as well as multiple regression analysis in ascertaining the relationship between bancassurance and financial performance, determining the intervening effect of savings mobilization on the relationship between bancassurance and financial performance, establishing the moderating effect of sales channels on the relationship between bancassurance and financial performance, ultimately the joint effect of the three variables on financial performance of commercial banks in Kenya. Testing of null hypotheses was performed at 0.05 level of significance. The outcome of Pearson's product moment correlations is presented showing the correlation existing between the study variables alongside the adjusted coefficient of determination ( $R^2$ ) denoting the magnitude of variations in the dependent variable accounted for by the explanatory variables. The regression outcomes are presented in tables depicting F- values, P - values (in parenthesis) and goodness of fit ( $\beta$ ) values. Discussion of the findings is arranged in four parts in conformity with the research objectives and hypotheses. Finally, the extent of unanimity or divergency of the findings of this study with conclusions of prior empirical studies is also furnished.

## **5.2 The Relationship Between Bancassurance and Financial Performance of Commercial Banks**

The study's first specific objective was to examine the relationship between bancassurance and financial performance of commercial banks in Kenya. In this case bancassurance was designated as the independent variable while financial performance was denoted as dependent variable. Bancassurance was measured by the amount of premiums realized from selling insurance policies in the categories of general insurance, ordinary life insurance, credit life insurance and other insurance policies. Other insurances premiums category was dropped from the analysis since a minimal number of five commercial banks completed questionnaires on this item. By dropping other insurance premiums classification from analysis has a positive consequence of improving the quality of data (more representative data) for testing hypotheses (Cooper & Schindler, 2003). Further to this, financial performance was derived from a weighted composite index computed over a period of five years from pre-tax profits, return on assets and non-interest income as a ratio of total income therefore ensuring objectivity and accuracy in the findings. The use of a weighted composite index has been widely applied by scholars and Central Bank of Kenya in its recurring annual bank supervision reports in ascribing classifications to the commercial banks (Magutu, 2013; CBK, 2016).

The study anticipated that bancassurance is not positively related to financial performance of commercial banks based on literature reviewed and finance theory. Hierarchical multiple regression analysis technique was applied in diagnosing the relationships. The following first null hypothesis was tested:

***H1: There is no significant relationship between bancassurance and financial performance of commercial banks in Kenya.***

Presented below is the multiple regression equation that is fully defined in chapter three (section 3.9.1) that was applied in testing the hypothesis;

$$F_t = a + \beta_1 GI_t + \beta_2 OL_t + \beta_3 CL_t + \varepsilon_i.$$

The analysis involved three phase hierarchical multiple regression. Phase one comprised assessing regression between financial performance and general insurance premiums. Phase two assessed regression between financial performance, general insurance premiums and ordinary life insurance premiums. Phase three examined regression between financial performance, general insurance premiums, ordinary life insurance premiums and credit life insurance premiums. It was necessary to employ hierarchical multiple regression in this analysis because bancassurance was represented by three indicators namely: general insurance premiums, ordinary life insurance premiums and credit life insurance premiums.

**Table 5.1 Regression Results of Bancassurance and Financial Performance**

|                                  | <b>Model 1<sup>a</sup></b> | <b>Model 2<sup>b</sup></b> | <b>Model 3<sup>c</sup></b> |
|----------------------------------|----------------------------|----------------------------|----------------------------|
| General Insurance Premiums       | 0.311(0.13)                | 0.304(0.147)               | 0.06(0.769)                |
| Ordinary Life Insurance Premiums |                            | 0.083(0.687)               | 0.032(0.858)               |
| Credit life insurance Premiums   |                            |                            | 0.543(0.014)               |
| <b>Adjusted R<sup>2</sup></b>    | 0.058                      | 0.022                      | 0.239                      |
| F                                | 2.469(0.13)                | 1.273(0.3)                 | 3.508(0.033)               |

a Predictors: (Constant), General Insurance Premiums

b Predictors: (Constant), General Insurance Premiums, Ordinary Life Insurance Premiums

c Predictors: (Constant), General Insurance Premiums, Ordinary Life Insurance Premiums, credit life insurance premiums.

Source: Research Data, 2019

**Table 5.1.1 Model 1 ANOVA Results**

| Model |            | Sum of Squares | df | Mean Square   | F     | Sig.              |
|-------|------------|----------------|----|---------------|-------|-------------------|
| 1     | Regression | 286425763.685  | 1  | 286425763.685 | 2.469 | .130 <sup>b</sup> |
|       | Residual   | 2667743312.886 | 23 | 115988839.691 |       |                   |
|       | Total      | 2954169076.570 | 24 |               |       |                   |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), General Insurance Premiums

Source: Research Data, 2019

**Table 5.1.2 Model 1 Summary Results**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .311 <sup>a</sup> | .097     | .058              | 10769.81150                |

a. Predictors: (Constant), General Insurance Premiums

Source: Research Data, 2019

**Table 5.1.3 Model 2 ANOVA Results**

| Model |            | Sum of Squares | df | Mean Square   | F     | Sig.              |
|-------|------------|----------------|----|---------------|-------|-------------------|
| 1     | Regression | 306512772.156  | 2  | 153256386.078 | 1.273 | .300 <sup>b</sup> |
|       | Residual   | 2647656304.414 | 22 | 120348013.837 |       |                   |
|       | Total      | 2954169076.570 | 24 |               |       |                   |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Ordinary Life Insurance Premiums, General Insurance Premiums

Source: Research Data, 2019

**Table 5.1.4 Model 2 Summary Results**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .322 <sup>a</sup> | .104     | .022              | 10970.32424                |

a. Predictors: (Constant), Ordinary Life Insurance Premiums, General Insurance Premiums

Source: Research Data, 2019

**Table 5.1.5 Model 3 ANOVA Results**

| Model |            | Sum of Squares | df | Mean Square   | F     | Sig.              |
|-------|------------|----------------|----|---------------|-------|-------------------|
| 1     | Regression | 986244032.291  | 3  | 328748010.764 | 3.508 | .033 <sup>b</sup> |
|       | Residual   | 1967925044.280 | 21 | 93710716.394  |       |                   |
|       | Total      | 2954169076.570 | 24 |               |       |                   |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Credit Life Insurance Premiums, Ordinary Life Insurance Premiums, General Insurance Premiums

Source: Research Data, 2019

**Table 5.1.6 Model 3 Summary Results**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .578 <sup>a</sup> | .334     | .239              | 9680.42956                 |

a. Predictors: (Constant), Credit Life Insurance Premiums, Ordinary Life Insurance Premiums, General Insurance Premiums

Source: Research Data, 2019

As expressed in table 5.1 above, the analysis produced three models. Model 1 which had general insurance premiums was not statistically significant with  $F = 2.469$  and  $P > 0.05$ . Model 2 with general insurance premiums and ordinary life insurance premiums as independent variables was

equally not significant with  $F = 1.273$  and  $P > 0.05$ . Model 3 comprising of general insurance premiums, ordinary life insurance premiums and credit life insurance premiums as independent variables was statistically significant with  $F = 3.508$  and  $P < 0.05$ . Therefore model 3 met the acceptance threshold so long as it also passes the goodness of fit tests carried out below.

The outcome further shows that model 3 attained the highest F value followed by model 1. General insurance premiums alone (model 1) attained adjusted coefficient of determination ( $R^2$ ) of 0.058 implying that the indicator explains 5.8% variations in financial performance. Both general insurance premiums and ordinary life insurance premiums (model 2) had adjusted coefficient of determination ( $R^2$ ) of 0.022 revealing that the two indicators together accounted for 2.2% changes in financial performance. Ultimately, combined general insurance premiums, ordinary life insurance premiums and credit life insurance premiums obtained adjusted coefficient of determination ( $R^2$ ) of 0.239 signifying that the three indicators together accounted for 23.9% variations in financial performance. Therefore, model 3 achieved highest explanatory power. The correlation is small in all the three models because there are other factors that explain the relationship between bancassurance and financial performance like commissions earned from selling insurance products (Bergendahl, 1995; Gujral, 2014), the theories and tenets of large numbers, economies of scale, cashflows generation alongside controlling volatility (Lewis, 1990; Levy-Lang, 1990; Voutilainen, 2004) and governance characteristics (Fields et al., 2007).

In a bid to ascertain the intensity of association between the dependent variable and individual independent variables, the goodness of fit analysis was undertaken and results reported in table 5.1 above. General insurance premiums alone under model 1 had regression coefficient ( $\beta$ ) of 0.311 and P value of 0.13. Because its P value is greater than 0.05 ( $P > 0.05$ ), it implies that the indicator is not a significant predictor of financial performance hence removed from model 3.

Equally, ordinary life insurance premiums and general insurance premiums under model 2 recorded regression coefficients ( $\beta$ ) of 0.083, P value of 0.687, 0.304 and P value of 0.147 respectively, indicating that the two measures were not significant predictors of financial performance because their P values were greater than 0.05 ( $P > 0.05$ ), hence they were removed from model 3. With P values greater than 0.05, it means that their regression coefficients (beta) were not different from zero. Lastly, credit life insurance premiums under model 3 reported regression coefficient ( $\beta$ ) of 0.543 and P value of 0.014. Reckoning that its P value is less than 0.05 ( $P < 0.05$ ), it implies that the indicator has a positive relationship with financial performance that is significant therefore credit life insurance premiums is a significant predictor of financial performance, hence accepted in model 3. Overall since model 3 was significant with  $P < 0.05$ , it is concluded that there is a positive significant relationship between bancassurance and financial performance of commercial banks in Kenya, therefore, the null hypothesis is rejected.

### **5.3 Intervening Effect of Savings Mobilization on the Relationship Between Bancassurance and Financial Performance**

The second objective was designed to determine the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya. In establishing the interrelationship between the three variables, bancassurance was named the independent variable, savings mobilization the intervening variable and financial performance the dependent variable. Savings mobilization was measured by the average amount of customer deposits relating to bancassurance over the study period of five years. Premised on literature reviewed, the study pre-supposed that savings mobilization has no intervening effect on



the relationship between bancassurance and financial performance. In analyzing the second objective, the following null hypothesis was tested;

***H2: There is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya.***

The null hypothesis was tested by employing the following four step regression analysis stipulated by Baron and Kenny (1986):

$$F_{1t} = a + \beta_1 X_{1t} + \epsilon_i \dots\dots\dots i$$

$$Y_{2t} = a + \beta_2 X_{2t} + \epsilon_i \dots\dots\dots ii$$

$$F_{3t} = a + \beta_3 X_{3t} + \epsilon_i \dots\dots\dots iii$$

$$F_{4t} = a + \beta_4 X_{4t} + \beta_5 X_{5t} + \epsilon_i \dots\dots\dots iv$$

Results of regression analysis are presented in table 5.2 below.

**Table 5.2 Regression Results of Bancassurance, Savings Mobilization and Financial Performance**

|                         | BA & FP <sub>a</sub> | BA & SM <sub>b</sub> | SM & FP <sub>c</sub> | SM,BA & FP <sub>d</sub> |
|-------------------------|----------------------|----------------------|----------------------|-------------------------|
| Bancassurance           | 0.566(0.004)         | 0.23(0.279)          |                      | 0.581(0.005)            |
| Savings mobilization    |                      |                      | 0.067(0.756)         | -0.067(0.72)            |
| Adjusted R <sup>2</sup> | 0.29                 | 0.01                 | -0.041               | 0.26                    |
| F                       | 10.372(0.004)        | 1.231(0.279)         | 0.099(0.756)         | 5.048(0.016)            |

P-value in parenthesis

a-Dependent: Financial performance

b-Dependent: Savings mobilization

c-Dependent: Financial performance

d-Dependent: Financial performance

Source: Research Data, 2019

**Table 5.2.1 BA & FP ANOVA Results**

| Model |            | Sum of Squares | df | Mean Square   | F      | Sig.              |
|-------|------------|----------------|----|---------------|--------|-------------------|
| 1     | Regression | 912633714.257  | 1  | 912633714.257 | 10.372 | .004 <sup>b</sup> |
|       | Residual   | 1935830600.653 | 22 | 87992300.030  |        |                   |
|       | Total      | 2848464314.910 | 23 |               |        |                   |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Bancassurance

Source: Research Data, 2019

**Table 5.2.2 BA & FP Model Summary Results**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .566 <sup>a</sup> | .320     | .290              | 9380.42110                 |

a. Predictors: (Constant), Credit Life Insurance Premiums

Source: Research Data, 2019

**Table 5.2.3BA & SM ANOVA Results**

| Model |            | Sum of Squares | df | Mean Square | F     | Sig.              |
|-------|------------|----------------|----|-------------|-------|-------------------|
| 1     | Regression | 82794.705      | 1  | 82794.705   | 1.231 | .279 <sup>b</sup> |
|       | Residual   | 1479083.562    | 22 | 67231.071   |       |                   |
|       | Total      | 1561878.267    | 23 |             |       |                   |

a. Dependent Variable: Savings Mobilization

b. Predictors: (Constant), Bancassurance

Source: Research Data, 2019

**Table 5.2.4 BA & SM Model Summary Results**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .230 <sup>a</sup> | .053     | .010              | 259.28955                  |

a. Predictors: (Constant), Credit Life Insurance Premiums

Source: Research Data, 2019

**Table 5.2.5 SM & FP ANOVA Results**

| Model |            | Sum of Squares | df | Mean Square   | F    | Sig.              |
|-------|------------|----------------|----|---------------|------|-------------------|
| 1     | Regression | 12721715.125   | 1  | 12721715.125  | .099 | .756 <sup>b</sup> |
|       | Residual   | 2835742599.785 | 22 | 128897390.899 |      |                   |
|       | Total      | 2848464314.910 | 23 |               |      |                   |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Savings Mobilization

Source: Research Data, 2019

**Table 5.2.6 SM & FP Model Summary Results**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .067 <sup>a</sup> | .004     | -.041             | 11353.29868                |

a. Predictors: (Constant), Savings Mobilization

Source: Research Data, 2019

**Table 5.2.7 SM, BA & FP ANOVA Results**

| Model |            | Sum of Squares | df | Mean Square   | F     | Sig.              |
|-------|------------|----------------|----|---------------|-------|-------------------|
| 1     | Regression | 924759874.266  | 2  | 462379937.133 | 5.048 | .016 <sup>b</sup> |
|       | Residual   | 1923704440.644 | 21 | 91604973.364  |       |                   |
|       | Total      | 2848464314.910 | 23 |               |       |                   |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Bancassurance, Savings Mobilization

Source: Research Data, 2019

**Table 5.2.8 SM, BA & FP Model Summary Results**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .570 <sup>a</sup> | .325     | .260              | 9571.04871                 |

a. Predictors: (Constant), Savings Mobilization, Credit Life Insurance Premiums

Source: Research Data, 2019

First stage in the intervention model involved regression assessment to test the relationship between financial performance and bancassurance while excluding savings mobilization. Results contained in table 5.2 above evidences that the model was statistically significant with a P value less than 0.05. Further outcomes revealed that the adjusted coefficient of determination ( $R^2$ ) is 0.29, regression coefficient is 0.566 while P value is 0.004. The 0.29 adjusted coefficient of determination ( $R^2$ ) implies that bancassurance explains 29% variations in financial performance. The regression coefficient of 0.566 shows that the relationship between bancassurance and financial performance is positive and statistically significant given that the corresponding P value of 0.004 is less than 0.05 ( $P < 0.05$ ). This indicates that bancassurance is a significant predictor of financial performance of commercial banks.

Step two of the intervening process comprised of regression assessment to determine the relationship between savings mobilization and bancassurance while disregarding financial performance (dependent variable). Results conveyed in table 5.2 above revealed that the model was not statistically significant with a P value greater than 0.05. Equally, the outcome showed that the adjusted coefficient of determination ( $R^2$ ) is 0.01, regression score is 0.23 while the P value is 0.279. The adjusted coefficient of determination ( $R^2$ ) of 0.01 denotes that bancassurance accounts for 1% variations in savings mobilization. The regression coefficient of 0.23 shows that the relationship between bancassurance and savings mobilization is positive but statistically

insignificant since the P value of 0.279 is higher than 0.05 ( $P > 0.05$ ). This manifests that bancassurance is not a significant predictor of savings mobilization.

Step three of the intervening model entailed regression analysis to test the relationship between savings mobilization and financial performance while excluding bancassurance. The outcome presented in table 5.2 above indicates that the model was not statistically significant with a P value greater than 0.05. The analysis obtained adjusted coefficient of determination of -0.041, regression coefficient of 0.067 and a P value of 0.756. The adjusted coefficient of determination ( $R^2$ ) of -0.041 indicates that savings mobilization accounted for 4% negative variations in financial performance, in other words, savings mobilization explains 4% decrease in financial performance. This can be attributed to the fact that the regression model at this level excludes bancassurance meaning that the long term savings generated by bancassurance like pension related long term insurance savings, unit-linked long-term insurance savings, mutual insurance funds, among others, are excluded resulting in diminishing interest income and fees income ordinarily yielded by such long-term savings bank accounts, hence triggering 4% decrease in financial performance of commercial banks. The regression coefficient of 0.067 reveals that the relationship between savings mobilization and financial performance is positive but statistically insignificant since the P value of 0.756 is greater than 0.05. This implies that savings mobilization is not a significant predictor of financial performance of commercial banks.

Step four of the intervenig model comprised of regression analysis to ascertain the relationship between financial performance, savings mobilization and bancassurance. The outcome conveyed in table 5.2 above shows that the model was statistically significant with a P value of 0.016 that is less than 0.05. At the same time, the regression coefficient for savings mobilization was -0.067 with a P value of 0.72 while for bancassurance it was 0.581 with a P value of 0.005. It is worth

noting that by introducing savings mobilization the regression coefficient of bancassurance increases from 0.566 to 0.581 which means that the strength of the relationship between bancassurance and financial performance improves. The adjusted coefficient of determination ( $R^2$ ) for combined savings mobilization and bancassurance was 0.260 which indicates that both variables account for 26% variations in financial performance. The outcome of regression coefficients reveals that the relationship between savings mobilization and financial performance is negative but not statistically significant due to the P value that is greater than 0.05. On the other hand, the relationship between bancassurance and financial performance is positive and statistically significant owing to the P value that is less than 0.05. The results imply that savings mobilization is not a significant predictor of financial performance of commercial banks while bancassurance is a significant predictor of financial performance of commercial banks.

According to Baron and Kenny (1986) intervention is achieved when the predictor variable predicts the criterion variable, the predictor variable predicts the intervening variable, the intervening variable predicts the criterion variable, finally, the predictor variable predicts the criterion variable when the intervening variable is incorporated in the model. By adopting Baron and Kenny (1986) approach intervention is realized in this study if bancassurance predicts financial performance, bancassurance predicts savings mobilization, savings mobilization predicts financial performance and at the same time bancassurance predicts financial performance when savings mobilization is existing in the model. Results of the above regression analysis exhibit that bancassurance did not predict savings mobilization in step two and savings mobilization did not predict financial performance in step three. In totality therefore, savings mobilization has no significant intervening effect on the relationship between bancassurance and financial performance of commercial banks in Kenya. The findings support the null hypothesis

that there is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya.

#### **5.4 Moderating Effect of Sales Channels on the Relationship Between Bancassurance and Financial Performance**

Objective number three was formulated to establish the effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya. The bancassurance sales channels employed ranged from agents, bank employees, special advisors, corporate agencies and brokerage firms and others. In the others category were avenues such as staff seconded from insurance companies, customer life cycle management team and online motor vehicle insurance application platform. Bancassurance sales channels were measured by efficiency score computed by the Data Envelopment Analysis (DEA) technique. Literature reviewed and finance theory informed the expectation that sales channels have no moderating effect on the relationship between bancassurance and financial performance. The objective was examined by testing the null hypothesis expressed below;

***H3: There is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya.***

Expressed below is the multiple regression equation that is defined in chapter three (section 3.9.3) that was employed in testing the hypothesis;

$$F_t = a + \beta_3, BA_t + \beta_4, SC_t + \beta_5, (BA_t * SC_t) + \epsilon_i.$$

Baron and Kenny (1986) regression model was adopted in analyzing the moderating effect. According to their model, the relationship between predictor variable and dependent variable is

influenced by the moderator variable if the interaction (product) term's regression coefficient is significant. This is notwithstanding the significant relationship between the predictor variable and moderator variable on the dependent variable while excluding the product aspect, because this is not ideally anchored towards testing the moderator hypothesis.

The regression analysis procedure comprised examining the effects of bancassurance (independent variable), sales channels (moderating variable) and the product term between bancassurance and sales channels (bancassurance \* sales channels) on financial performance (dependent variable). To avoid the problem of multicollinearity in the process of computing the product between bancassurance and sales channels, the indicator values of the two variables were translated into standardized ( $Z$ ) values whereby the mean has zero value and numerical one standard deviation. The two standardized values were then utilized to establish the interaction between bancassurance and sales channels

Table 5.3 below conveys outcome of hierarchical multiple statistical assessment. The first process outcome contained in model 1 revealed that bancassurance and sales channels explained 32.3% (adjusted  $R^2 = 0.323$ ) variations in financial performance without the product term (bancassurance \* sales channels). The adjusted coefficient of determination ( $R^2$ ) is low because there are other factors that explain the relationship like the technology deployed to reap the benefits of tie-up, commitment from the top management, target customer segments and insurance products (Kaushik, 2015). The  $F$  value obtained was 6.495 while the  $P$  value was 0.006. The  $P$  value that is below 0.05 ( $P < 0.05$ ) signifies that the relationship between bancassurance (predictor variable), sales channels (moderating variable) and financial performance (dependent variable) is statistically significant.



In the second process of hierarchical multiple regression analysis involving the product between bancassurance and sales channels (model 2), the outcome obtained had adjusted  $R^2 = 0.326$ ,  $F = 4.71$  and  $P = 0.012$ . Therefore, bancassurance, sales channels and bancassurance \* sales channels explained 32.6% variations in financial performance. This signifies that the relationship between bancassurance and sales channels and financial performance upon inclusion of the product term of bancassurance \* sales channels is significant because the P value was lower than 0.05 ( $P < 0.05$ ).

**Table 5.3 Regression Results of Bancassurance, Sales Channels and Financial Performance**

|                               | <b>Model 1</b>   | <b>Model 2</b>    |
|-------------------------------|------------------|-------------------|
| (Constant)                    | 11385.648(0.007) | 13482.344 (0.005) |
| Bancassurance                 | 0.624 (0.002)    | 0.263 (0.506)     |
| Sales channels                | -0.255 (0.162)   | -0.411(0.090)     |
| Bancassurance *Sales channels |                  | 0.461 (0.310)     |
| Adjusted $R^2$                | 0.323            | 0.326             |
| F                             | 6.495 (0.006)    | 4.71(0.012)       |

P-value in parenthesis

1-Predictors: (Constant), Bancassurance, Sales channels

2- Predictors: (Constant), Bancassurance, Sales channels, Bancassurance \*Sales channels

Source: Research Data, 2019

**Table 5.3.1 Model 1 ANOVA Results**

| Model |            | Sum of Squares | df | Mean Square   | F     | Sig.              |
|-------|------------|----------------|----|---------------|-------|-------------------|
| 1     | Regression | 1088571910.708 | 2  | 544285955.354 | 6.495 | .006 <sup>b</sup> |
|       | Residual   | 1759892404.202 | 21 | 83804400.200  |       |                   |
|       | Total      | 2848464314.910 | 23 |               |       |                   |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Sales Channels, Bancassurance

Source: Research Data, 2019

**Table 5.3.2 Model 1 Summary Results**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .618 <sup>a</sup> | .382     | .323              | 9154.47433                 |

a. Predictors: (Constant), Sales Channels, Credit Life Insurance Premiums

Source: Research Data, 2019

**Table 5.3.3 Model 2 ANOVA Results**

| Model |            | Sum of Squares | df | Mean Square   | F     | Sig.              |
|-------|------------|----------------|----|---------------|-------|-------------------|
| 1     | Regression | 1179314772.392 | 3  | 393104924.131 | 4.710 | .012 <sup>b</sup> |
|       | Residual   | 1669149542.518 | 20 | 83457477.126  |       |                   |
|       | Total      | 2848464314.910 | 23 |               |       |                   |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Bancassurance\* Sales Channels, Sales Channels, Bancassurance

Source: Research Data, 2019

**Table 5.3.4 Model 2 Summary Results**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .643 <sup>a</sup> | .414     | .326              | 9135.50640                 |

a. Predictors: (Constant), Bancassurance \* Sales Channels, Sales Channels, Credit Life Insurance Premiums

Source: Research Data, 2019

Further tests of the slope were undertaken after accepting model 1 and model 2 in the preceding stage. Results contained in table 5.3 above shows that model 2 regression coefficient of bancassurance was 0.263 with a P value of 0.506, sales channels had -0.411 and 0.090 while that of the product term of bancassurance \* sales channels was 0.461 and 0.310 respectively. The foregoing results reveal that upon integrating the product term in the regression analysis, the changes in financial performance that are explained by bancassurance and sales channels increased by 0.3% (I.e 32.6% - 32.3%). But since the P value of the product term of 0.310 is greater than 0.05 ( $P > 0.05$ ) it implies that sales channels have no significant moderating effect on the relationship between bancassurance and financial performance of commercial banks. The null hypothesis is upheld by the foregoing findings that there is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya.

### **5.5 The Joint Effect of Bancassurance, Sales Channels and Savings Mobilization on Financial Performance**

The last objective sought to establish the joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya. Guided by literature review and finance theory, it was projected that bancassurance, sales channels and

savings mobilization have no significant joint effect on financial performance. The null hypothesis that was configured is expressed below;

***H4: There is no significant joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya.***

Testing above hypothesis was achieved by employing outlined multiple regression formula;

$$F_t = a + \beta_1 GI_t + \beta_2 OL_t + \beta_3 CL_t + \beta_4 SC_t + \beta_5 SM_t + \epsilon_i.$$

The terms in the above function are defined in chapter three.

The relationship between bancassurance (independent variable), sales channels (moderating variable), savings mobilization (intervening variable) and financial performance (dependent variable) was tested by multiple regression analysis. Bancassurance was measured by general insurance premiums, ordinary life insurance premiums, credit life insurance premiums and other insurance premiums. However, other insurance premiums were dropped from analysis because a minimal number of five commercial banks provided responses on this item. Regression assessment findings are conveyed in table 5.4 below.

**Table 5.4 Regression Results of Bancassurance, Sales Channels, Savings Mobilization and Financial Performance**

|                                  | Model 1       |
|----------------------------------|---------------|
| General Insurance Premiums       | 0.19(0.383)   |
| Ordinary Life Insurance Premiums | 0.215(0.311)  |
| credit life insurance Premiums   | 0.551(0.014)  |
| Sales Channels                   | -0.41(0.083)  |
| Savings Mobilization             | -0.021(0.914) |
| <b>Adjusted R<sup>2</sup></b>    | 0.277         |
| F                                | 2.766(0.05)   |

Source: Research Data, 2019

**Table 5.4.1 ANOVA Results**

| Model |            | Sum of Squares | df | Mean Square   | F     | Sig.              |
|-------|------------|----------------|----|---------------|-------|-------------------|
| 1     | Regression | 1237745641.089 | 5  | 247549128.218 | 2.766 | .050 <sup>b</sup> |
|       | Residual   | 1610718673.821 | 18 | 89484370.768  |       |                   |
|       | Total      | 2848464314.910 | 23 |               |       |                   |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Savings Mobilization, Ordinary Life Insurance Premiums, General Insurance Premiums, Credit Life Insurance Premiums, Sales Channels

Source: Research Data, 2019

**Table 5.4.2 Model Summary Results**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .659 <sup>a</sup> | .435     | .277              | 9459.61790                 |

a. Predictors: (Constant), Savings Mobilization, Ordinary Life Insurance Premiums, General Insurance Premiums, Credit Life Insurance Premiums, Sales Channels

Source: Research Data, 2019

The outcome of the analysis revealed that the model attained adjusted coefficient of determination ( $R^2$ ) of 0.277, F value of 2.766 and P value of 0.05. This implies that bancassurance, sales channels and savings mobilization jointly explain 27.7% variations in financial performance. The adjusted coefficient of determination ( $R^2$ ) is low because there are other factors that explain the relationship like commissions and fees earned from selling insurance products, staff productivity, commitment from top management, the technology deployed and market - based factors like economic growth of the country (Staikouras, 2006;

Kaushik, 2015). However, the model was statistically significant having attained a P value equal to 0.05 (P = 0.05).

In terms of the goodness of fit analysis, general insurance premiums reported  $\beta = 0.19$  and P = 0.383, ordinary life insurance premiums  $\beta = 0.215$  and P = 0.311, credit life insurance premiums  $\beta = 0.551$  and P = 0.014, savings mobilization  $\beta = -0.021$  and P = 0.914 and sales channels  $\beta = -0.41$  and P = 0.083. The results indicate that only credit life insurance premiums had regression coefficient ( $\beta$ ) that was significant statistically with P < 0.05. All the other variables reported regression coefficients that were not statistically significant implying that their beta ( $\beta$ ) values were not materially different from zero. In totality, considering entire model was statistically significant with P score equal to 0.05 (P = 0.05), it is concluded that there is a statistically significant joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya. The null hypothesis is therefore rejected.

Applying the findings in table 5.4 above, the regression model is presented below:

$$F_t = 0.19GI + 0.215OL + 0.551CL - 0.41SC - 0.021SM + \epsilon_i.$$

The above equation denotes that every one Kenya Shilling change in general insurance premiums causes a 0.19 Kenya Shillings increase in financial performance, every one Kenya Shillings change in ordinary life insurance premiums causes a 0.215 Kenya Shillings increase in financial performance, every one Kenya shillings change in credit life insurance premiums causes a 0.551 Kenya shillings increase in financial performance, every one Kenya shillings change in sales channels causes a 0.41 kenya shillings decrease in financial performance while every one Kenya Shillings change in savings mobilization causes a 0.021 Kenya Shillings decrease in financial performance of commercial banks. When the value of general insurance

premiums, ordinary life insurance premiums, credit life insurance premiums, sales channels and savings mobilization is zero, then the value of financial performance is Kenya shillings 0 given that the constant (C) is 0 when the regression coefficients are standardized.

## **5.6 Discussion of the Findings**

Cooper & Schindler (2003) stated that research is problem solving and contributes to knowledge development. This study contributes to knowledge development by addressing existing gaps in the area of bancassurance carried out by commercial banks therefore adding value to scholars, practitioners and policy makers. The findings obtained from testing the hypotheses were documented in sections 5.2 up to 5.5. The findings of this study are discussed in this section arranged in four parts in conformity with the research objectives and hypotheses and summarized in table 5.5.

### **5.6.1 Bancassurance and Financial performance**

Objective one focused on ascertaining the relationship between bancassurance and financial performance while the first null hypothesis purported that there is no significant relationship between bancassurance and financial performance of commercial banks in Kenya. As reported in table 5.1, the suitable hierarchical multiple measurement function obtained was  $F_t = 0.543CL_t + \varepsilon_i$  (whereby CL denotes credit life insurance premiums) with  $P < 0.05$ . The results indicate that bancassurance represented by credit life insurance premiums had a positive statistically significant relationship with financial performance of commercial banks in Kenya leading to rejection of initial null hypothesis. Commercial bank managers of banks undertaking bancassurance in Kenya should therefore put in place bancassurance strategies focusing more on

selling credit life insurance products while reducing concentration on general insurance products and ordinary life insurance products in order to maximize their financial achievement.

The findings of this study have made an impact towards addressing the first gap of contradictory conclusions by prior studies on the relationship between bancassurance and financial performance of commercial banks. This finding is contrary to the earlier study by Gujral (2014) which found out that income from bancassurance is not substantial enough to influence financial performance but agrees with Vennet (2002) and Lozano-Vivas and Pasiouras (2010) that commercial banks engaged in bancassurance generate more income, attains higher and statistically significant profit efficiency resulting in better financial performance. Studies by Cybo-Ottone and Murgia (2000); Estrella (2001); De Young and Rice (2004) and Nurullah and Staikouras (2008) all concur that bancassurance has a positive relationship with financial performance in agreement with what this study discovered. The findings of Gujral (2014) are not compatible with results of this study because it applied trend analysis and descriptive statistics analysis alone, utilized one measure of financial performance (net profits) and a limited sample of eight commercial banks.

The outcome of this study is consistent with the principles of resource dependence theory in the sense that the resource powers of the banks of widespread branches, high levels of customer relations and strong brand image facilitates more insurance sales through bancassurance which in turn maximizes non-financial intermediation income resulting in improved financial performance of commercial banks. Furthermore, the research outcome imply that fees and commission income from non-conventional intermediation functions of commercial banks is significant enough to increase financial performance of commercial banks therefore vouching for diversification by commercial banks. This is further evidenced by graph 4.5 in chapter four



where the graph of composite financial performance index depicted an upward growth trend from 2011 to 2015.

### **5.6.2 Bancassurance, Savings Mobilization and Financial Performance**

The second specific objective of this study investigated the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya. Savings mobilization was measured by the amount of customer deposits relating to bancassurance. The second null hypothesis predicted that there is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya. Results conveyed in table 5.2 shows that bancassurance did not predict savings mobilization in model 2 and savings mobilization did not predict financial performance in model 3. This evidences that there is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks. The findings support the null hypothesis.

This finding is in agreement with Trichet (2005) study that discovered negligible interlinkages between savings mobilization and financial performance of commercial banks undertaking bancassurance, while Ang (2010) documented that the association between insurance and private savings is negative. The outcome is contrary to Mishra (2012) findings that bancassurance brings in new customers, increases customer penetration for banks therefore enhancing savings mobilization that further increases the profitability of banks. At the same time, the findings of this study are not in tandem with the propositions of the theory of product bundling which supports the rationale of some savings bank accounts being bundled with life insurance policies, death and disability covers hence boosting the demand for such bank accounts in turn prompting

greater fees and interest income therefore yielding higher financial performance. Reflecting on the results, savings mobilization has no significant intervening effect because the greatest volume of bancassurance transactions was on credit life insurance. Out of a total of 502,686 insurance policies sold in 2015 through bancassurance, 259,551 (more than half) were on credit life insurance. The balance 243,135 insurance policies relates to general insurance, ordinary life insurance and other insurances. This indicates that policies related to savings mobilization (retirement insurance policies-pension, unit-linked insurance policies, mutual insurance policies, among others) were minimal, implying that customer deposits linked to bancassurance were not immense.

In view of these, the findings can be interpreted to signify that customer deposits relating to bancassurance are not substantial enough to influence positively the relationship between bancassurance and financial performance. This is reinforced by evidence in table 4.7 in chapter four which shows that each commercial bank mobilized an average of kshs 249.9 million in the five years period. As much as graph 4.2 portrays an upward growth in customer deposits relating to bancassurance from 2011 to 2015, this does not translate into positive impact on the connection between bancassurance and financial performance. The practical import of this outcome is that managers of commercial banks transacting bancassurance in Kenya should not devote much attention into savings mobilization aspects while conducting insurance businesses since it does not improve pre-tax profits, return on assets and non-interest income ratio.

### **5.6.3 Bancassurance, Sales Channels and Financial Performance**

The third specific objective of this study examined the moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya. In

analyzing the relationship between the three variables, bancassurance was defined as the independent variable, sales channels the moderating variable and financial performance the dependent variable. The indicator of sales channels was efficiency score of the following sales channels: agents sales channel, bank employees/platform bankers, corporate agencies & brokerage firms, special advisors and internet. The third null hypothesis suggested that there is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya. As reported in table 5.3, the P value of the interaction term (bancassurance \* sales channels) was higher than 0.05 ( $P > 0.05$ ) signifying that there is no statistically significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya. The null hypothesis was therefore accepted.

This finding is in conformity with Chang et al. (2011) results that conventional insurance sales channels's mean efficiency ratings are notably superior compared to those of bancassurance sales channels indicating that bancassurance sales channels have no positive impact on the connection between bancassurance and financial health. The finding is also in line with Kaushik (2015) conclusion that bancassurance sales channels that distribute simple design insurance products do not generate high profit margins. Most commercial banks in this study were selling simple credit life insurance policies. However, the finding is contrary to Clipici and Bolovan (2012) evidence that sales channels increase sales and profitability of banks. Moreover, it is noted that Clipici and Bolovan (2012) did not apply data envelopment analysis technique to examine the efficacy of bancassurance sales channels, hence the discrepancy in conclusion. Equally, this outcome is at variance with the principles of the theory of economies of scale which asserts that insurance selling costs are lowered via bancassurance sales channels since available bank branches, current

manpower and computer systems, among others are utilized to trade insurance products hence occasioning greater financial performance for commercial banks.

The current study findings signify that commercial banks employ bancassurance sales channels that consume more in terms of expenditure than the income they are able to realize based on the Data Envelopment analysis technique that relates the output (income) to input (expenses) to compute efficiency scores of sales channels. As evidenced in table 4.13, a mean sales channels efficiency score of 0.533 was attained by the commercial banks which is rated as moderate efficiency. Therefore, it is concluded that the bancassurance sales channels operated by the commercial banks in Kenya were not efficient because the break-even point is an efficiency score of 1. This findings have clarified the gap of contradicting conclusions by past studies with Clipici and Bolovan (2012) upholding that bancassurance sales channels increase sales and profitability of banks while on the other hand Chang et al. (2011) and Kaushik (2015) maintaining that sales channels do not enhance bancassurance sales and profitability of banks. This study supports the latter stance.

#### **5.6.4 Bancassurance, Sales Channels, Savings Mobilization and Financial Performance**

The fourth specific objective of this study sought to establish the joint effect of bancassurance, sales channels and savings mobilization on financial performance of commercial banks in Kenya. Stemming out of this objective is a null hypothesis that pre-supposed that there is no significant joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya. The results reported in table 5.4 had adjusted  $R^2 = 0.277$ ,  $F = 2.766$  and  $P = 0.05$ . Since  $P = 0.05$ , therefore the outcome manifests that there is a positive relationship that is statistically significant between bancassurance, sales channels, savings mobilization and financial performance. Jointly, bancassurance, sales channels and

savings mobilization account for 27.7% variations in financial performance. The findings lead to the conclusion that there is a statistically significant joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya. The null hypothesis is hence rejected. There are no prior studies on the joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks. Moreover, the findings of the current research are in sync with the ideologies of resource dependence theory, economies of scale theory and product bundling.

This study contributes to literature in the theme of bancassurance by analyzing four variables of bancassurance, sales channels, savings mobilization and financial performance in one integrated study model unlike earlier studies that examined two variables for instance Vennet (2002) examined costs and profitability wellbeing of universal banks and that of banks rendering traditional intermediation services while Nurullah and Staikouras (2008) analyzed the impact of banks' venturing into bancassurance in terms of risk and earnings. Equally, the past studies that examined the inter-relationships between four variables in the banking sector conceptualized the variables differently. For instance, Sufian and Chong (2008) analyzed the effect of size, credit risk, non-interest income, operating expenses and capital on profitability of banks. Outcome revealed that size, credit risk, and operating expenses were adversely associated to bank profitability whereas non-interest income and capital had affirmative connection to bank's financial gains. Sreesha (2014) assessed the effect of size, operational efficiency and non-performing assets on the financial well-being of banks. Findings indicated that there is a strong effect of size, operational efficiency and non-performing assets on the financial well-being of banks as measured by ROA while the findings became contrary when financial well-being was measured by Tobin's Q model.

The outcome of hypothesis testing is concisely expressed below.

**Table 5.5: Summary of the Results of Hypothesis Testing**

| Specific Objective   | Hypothesis  | Results   | Interpretation & Remarks   |
|--|---|---|--|
| <p><b>Objective 1</b></p> <p>To ascertain the relationship between bancassurance and financial performance of commercial banks in Kenya.</p>   | <p><b>H<sub>1</sub>:</b> There is no significant relationship between bancassurance and financial performance of commercial banks in Kenya.</p>   | <p>Model1 (comprising general insurance premiums alone) had <math>R^2 = 0.058</math> and <math>P = 0.13</math>. The model was not statistically significant.</p> <p>Model 2 (comprising general insurance premiums and ordinary life insurance premiums) had <math>R^2 = 0.022</math> and <math>P = 0.3</math>. The model was not statistically significant.</p> <p>Model 3 (comprising general insurance premiums, ordinary life insurance premiums and credit life insurance premiums) had <math>R^2 = 0.239</math> and <math>P = 0.033</math>. The model was statistically significant.</p>                      | <p>Findings revealed that there is a statistically significant relationship between bancassurance and financial performance of commercial banks in Kenya. The findings reject the null hypothesis (<math>H_1</math>).</p>  |
| <p><b>Objective 2</b></p> <p>To determine the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya.</p> | <p><b>H<sub>2</sub>:</b> There is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya.</p> | <p>Model1 (comprising bancassurance and financial performance) had <math>R^2 = 0.29</math> and <math>P = 0.004</math>. The model was statistically significant.</p> <p>Model 2 (consisting of bancassurance and savings mobilization) had <math>R^2 = 0.01</math> and <math>P = 0.279</math>. The model was not statistically significant.</p> <p>Model 3 (consisting of savings mobilization and financial performance) had <math>R^2 = -0.041</math> and <math>P = 0.756</math>. The model was not statistically significant.</p> <p>Model 4 (consisting of savings mobilization, bancassurance and financial</p> | <p>Intervention occurs when bancassurance predicts financial performance, bancassurance predicts savings mobilization, savings mobilization predicts financial performance and at the same time bancassurance predicts financial performance when savings mobilization is existing in the model.</p> <p>Results reveal that there is no significant intervening effect of savings mobilization on the relationship</p> |

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|   |   | <p>performance) had <math>R^2 = 0.26</math> and <math>P = 0.016</math>. The model was statistically significant.</p> <p>Bancassurance did not predict savings mobilization in model 2 and savings mobilization did not predict financial performance in model 3.</p>   | <p>between bancassurance and financial performance of commercial banks in Kenya on the basis that bancassurance did not predict savings mobilization in model 2 and savings mobilization did not predict financial performance in model 3.</p> <p>The results support the null hypothesis (<math>H_2</math>).</p>  |
| <p><b>Objective 3</b></p> <p>To establish the moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya.</p> | <p><b>H<sub>3</sub>:</b>There is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya.</p> | <p>Model 1 (comprising bancassurance, sales channels and financial performance) recorded <math>R^2 = 0.323</math> and <math>P = 0.006</math>. The model was statistically significant.</p> <p>Model 2 (consisting of bancassurance, sales channels, bancassurance * sales channels and financial performance) recorded <math>R^2 = 0.326</math> and <math>P = 0.012</math>. The model was statistically significant. Further results of regression coefficients (beta) of model 2 showed that bancassurance*sales channels had <math>\beta = 0.461</math> and <math>P = 0.31</math>. This implies that the interaction term was not statistically significant.</p> | <p>These results indicate that</p> <p>there is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya. This is due to the P value of the interaction term (bancassurance * sales channels) being greater than 0.05 in model 2.</p> <p>The findings uphold the null hypothesis (<math>H_3</math>).</p> |

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| <p><b>Objective 4</b></p> <p>To establish the joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya.</p> | <p><b>H<sub>4</sub>:</b>There is no significant joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya.</p> | <p>Results obtained were <math>R^2 = 0.277</math>, <math>F = 2.776</math> and <math>P = 0.05</math>. Bancassurance, sales channels and savings mobilization jointly explain 27.7% variations in financial performance. The joint effect of the three variables on financial performance is statistically significant.</p> | <p>These results demonstrate that there is a significant joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya. Therefore the null hypothesis (<math>H_4</math>) is rejected.</p> |
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Source: Research Data, 2019

Results dwelling on the measures of size of bancassurance business transacted by commercial banks in dimensions such as sales of insurance policies, premiums generated, customer deposits relating to bancassurance and commissions earned from selling insurance policies reveal that the mean is relatively larger than the median, therefore, testifying that a minority number of commercial banks engaged in bancassurance are big in size in comparison terms whereas most of them are small sized. For instance, the mean of insurance policies sold per commercial bank was 20,367, median was 5,225, lowest was 218 with highest being 114,687; amount of premiums realized from insurance policies per commercial bank had a mean of kshs 381.57 million, a median of kshs 185 million, lowest kshs 7.68 million and maximum kshs 3,136.15 million; customer deposits relating to bancassurance per commercial bank had a mean of kshs 249.9 million, a median of kshs 148.58 million while the lowest value was kshs 2.1 million and highest kshs 740 million; commissions earned per commercial bank from selling insurance policies recorded a mean of kshs 168.4 million, a median of kshs 40 million, lowest zero value while the maximum was kshs 2,191.2 million. The efficiency scores of bancassurance sales channels employed by commercial banks were normally distributed with a mean score of 0.533 while the lowest score value was 0.09 and highest 1.26.



## CHAPTER SIX

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 6.1 Summary

The chapter conveys in a nutshell the findings obtained from hypothesis testing, presents findings's discussions, conclusions drawn, contributions attributable to both scholars and practitioners in the concerned industry, recommendations on policy premised upon findings, highlights shortcomings encountered and proposes areas for scholarly further research. The chapter is formatted in tandem with the objectives and hypotheses of this study.

Reliability test on the data gathering instrument attained Cronbach Alpha value of 0.644 that was above the acceptable threshold. Normality tests results showed the sample of the study was not normally distributed because commercial banks commenced bancassurance at different times and the magnitude of bancassurance transactions varied from one bank to another. The outcome of multicollinearity tests confirmed that the condition was absent among the three independent variables. The first objective was to ascertain the relationship between bancassurance and financial performance of commercial banks in Kenya. The outcome of regression analysis indicated that there is a positive significant relationship ( $P < 0.05$ ) between bancassurance and financial performance. The conclusion therefore is that there is a statistically significant relationship between bancassurance and financial performance of commercial banks in Kenya hence rejecting first null hypothesis.

The second objective was to determine the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya. The overall outcome of the four steps analysis framework advocated by Baron and Kenny (1986)

found out that there is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya therefore affirming the null hypothesis. The third objective purposed to establish the moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya. Findings indicated that there is no significant moderating effect of sales channelson the relationship between bancassurance and financial performance since the P value of the interaction term was greater than 0.05 ( $P > 0.05$ ) therefore supporting acceptance of the null hypothesis.

Objective four sought to establish the joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya. Findings revealed that there is a statistically significant joint effect of bancassurance, sales channels and savings mobilization on financial performance of commercial banks in Kenya. The null hypothesis was therefore rejected.

## **6.2 Conclusions**

The aim of this research was to establish the relationships among bancassurance, sales channels, savings mobilization and financial performance of commercial banks in Kenya. Anchored on resource dependency theory, economies of scale theory and product bundling theory while underpinned by the positivism philosophy, four research objectives were formulated that were in turn responded to by testing four quantitative hypotheses. Both primary and secondary data from Central Bank of Kenya authorised commercial banks that undertake bancassurance business were utilized. Questionnaires were distributed and collected by the researcher himself upon which a response rate of 88.9% was attained.

Regarding the main objective of the study of establishing the relationships among bancassurance, sales channels, savings mobilization and financial performance of commercial banks in Kenya, it is concluded that the three variables jointly have got a positive relationship with financial performance of commercial banks. In terms of descriptive statistics, findings of this study established that 27 commercial banks out of a total of 40 that are operational (Imperial bank ltd and Chase bank ltd are under receivership) are undertaking bancassurance business. General insurance policies and credit life insurance policies are the dominant key products sold by commercial banks in Kenya having recorded a mean ranging between 3.58 and 3.96. This implies that commercial banks can leverage on their function of providing loans and insuring against the risk of repayments default (in this case credit life insurance) to increase sales of bundled bank and insurance products. The study further concludes that majority commercial banks commenced bancassurance prior to 2011 therefore confirming that bancassurance was initiated in Kenya in 2007.

Objective one focused on ascertaining the relationship between bancassurance and financial performance of commercial banks in Kenya. The study concludes that there is a positive statistically significant relationship between bancassurance and financial performance of commercial banks in Kenya. Considering that the relationship is positive, it is therefore possible to improve financial performance of commercial banks by having more bancassurance business. This supports diversification by commercial banks into non-traditional financial intermediation activities. Objective two dwelled on determining the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya. It is concluded that there is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of

commercial banks in Kenya. This suggests that the customer deposits relating to bancassurance mobilized by commercial banks in Kenya are not significant enough to have positive impact on pre-tax profits, return on assets and the ratio of non-interest income to total income.

Objective three aimed at establishing the moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya. It is concluded that there is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya. The relationship is negative but insignificant because the efficiency scores of sales channels are computed by cost benefit analysis between premiums generated and the costs incurred in realizing the same. As costs increase, financial performance decreases. Finally, the fourth objective focused on establishing the joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks in Kenya. The study concludes that there is a statistically significant joint effect of bancassurance, sales channels and savings mobilization on financial performance of commercial banks in Kenya. The managers of commercial banks in Kenya should strive to jointly grow bancassurance, sales channels and savings mobilizations in order to positively improve financial performance.

### **6.3 Contributions of the Study Findings**

Value addition input to the body of knowledge has been realized from the findings of this study in the context of bancassurance, sales channels, savings mobilization and financial performance of commercial banks. Enriching practical gains accrue to managers and those that make policies from the outcome of this study. The ramifications both in theory and practice are discussed in this section.

### **6.3.1 Contributions to Knowledge**

Foremost, the core contribution of this study is the discovery that bancassurance is significantly positively related to financial performance of commercial banks without the intervention of savings mobilization nor moderation of sales channels. Equally, bancassurance, sales channels and savings mobilization jointly influences significantly the financial performance of commercial banks. The second input to knowledge is the application of composite financial performance index as a proxy of the financial performance of commercial banks practicing bancassurance. This method is more objective and broad based because it is a weighted composite value encompassing the indicators of pre-tax profits, return on assets and non-interest income as a ratio of total income.

The third contribution of the findings of this study is in the aspect of ironing out the contradictions generated by earlier studies regarding the relationship between bancassurance and financial performance of commercial banks. Some prior studies documented positive relationship between the variables while others arrived at a negative relationship. This study confirmed that bancassurance has a statistically significant positive relationship with financial performance of commercial banks. The fourth input is in terms of addressing the knowledge gaps in prior empirical studies of small sample size, performance measures and indicators covering narrow time frame, data that is not all-inclusive, application of convenience sampling that is not founded on probability, lastly, independent and dependent variables were examined leaving out intervening and moderating variables. The current study filled the knowledge gaps by covering a wider sample of 27 commercial banks, assessed a study period of five years, applied a comprehensive scope of both life and non-life insurance categories, employed census survey, finally, incorporated independent variable (bancassurance), moderating variable (sales channels),

intervening variable (savings mobilization) and dependent variable (financial performance) in one conceptual study model.

Fifth contribution to knowledge is the aspect of confirming the practical applicability of the theories that underpinned this study. The resource dependence theory was supported by the findings indicating a statistically significant positive relationship between bancassurance and financial performance of commercial banks in Kenya as well as the outcome that there is a statistically significant joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks. The two findings reaffirm the theory's stance that the banks' widespread branches, superior customer relations, appealing brand image resource powers facilitates higher insurance sales made via bancassurance sales channels hence maximizing non-financial intermediation income which in turn yields improved financial performance. Additionally, increased insurance sales through bancassurance leads to greater pension funds and unit-linked funds therefore causing more savings mobilization which contributes to fees and interest income, consequently improving financial performance. However, the theory's position was contradicted by the revelation that there is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya.

On the other hand, the outcome that there is a significant positive relationship between bancassurance and financial performance of commercial banks in Kenya concurs with the principles of economies of scale theory. The finding confirms the theory's view that the per unit cost of selling insurance products is greatly reduced when they are sold in combination with bank products since fixed capacity resources like trading premises, current manpower, existing technology, among others, are utilized to transact new insurance products therefore contributing

to better financial performance of commercial banks. On the contrary, the theory's propositions differ with the outcome that there is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks. Ultimately, the outcome that there is a significant joint effect of bancassurance, sales channels and savings mobilization on the financial performance of commercial banks supports the doctrines of the theory of product bundling. The finding attests to the theory's argument that bundling bank and insurance products attains cost synergies, achieves demand complementarities, avails added value to customers, realizes leverage and product differentiation. The foregoing factors have a combined effect of improving the financial performance of commercial banks. However, the theory's principles are at variance with the finding that there is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks.

### **6.3.2 Recommendations for Policy and Practices**

The findings of this study yield beneficial insights to bank managers, managers of insurance companies, strategy managers, regulators and the Government. The outcome of the impact of bancassurance on the financial performance of commercial banks discovered by this study will guide bank managers, managers of insurance companies and strategy managers in making diversification decisions, strategic decisions to improve financial performance by tapping into commission income from selling insurance policies, decisions to increase sales of insurance policies and strategic alliances decisions. Bank managers will gain knowledge that will help them in decisions of diversifying risk. Drawing from the results of this research which revealed existence of favourable connection between bancassurance and financial performance, the bank managers and strategy managers will be vindicated in venturing into bancassurance while

managers of insurance companies find merit in partnering with commercial banks to increase sales of insurance products.

The bank managers and managers of insurance companies will gain insight in employing sales channels with higher efficiency scores as to maximize overall financial performance. Knowledge on the application of the Data Envelopment Analysis (DEA) technique that was employed by this study will be useful to the cited managers to determine the sales channels with high efficiency scores to utilize. National Bank of Kenya whose bancassurance sales channels attained the highest efficiency score of 1.2 utilized agent sales channel and bank employees sales channel. Additionally, reckoning that the study found that savings mobilization has no significant intervening effect on the relationship between bancassurance and financial performance, bank managers will be enlightened not to target the savings aspects of insurance products but rather the credit life insurance policies that found favourable backing by the results of this study.

The institutions mandated to regulate the banking entities and insurance sector in Kenya comprising the Central Bank of Kenya and the Insurance Regulatory Authority will gain from the findings of this study by formulating policies and regulations that allow the blurring of operating barriers that separate commercial banks and insurance companies. Policies that allow the bundling of insurance products with bank's financial products will improve financial performance of commercial banks, enhance their financial intermediation function resulting in beneficial contribution to the country's economic growth. Licencing of more commercial banks by the Central Bank of Kenya to engage in bancassurance will therefore be commendable.



The research findings can further be utilized by the Government as pillars in enacting financial conglomerates laws as well as taxation laws that will create a conducive environment for bancassurance to thrive .

#### **6.4 Limitations of the Study**

The study encountered some limitations but the researcher endeavoured to ensure that the limitations did not materially impair the outcome of the study. The study applied descriptive correlational research design that was cross-sectional in nature where data was collected at one point in time relating to the four variables. The data collected was utilized to test the interrelationships among the four variables once. However, dynamics in the four variables keep varying from time to time implying that longitudinal design would have been appropriate. For instance, more commercial banks joining bancassurance after the data had been collected or more bancassurance sales channels being initiated after the data had been collected. Owing to time and cost constraints, it was not practical to apply the longitudinal approach.

The questionnaires were dropped by the researcher himself to the respondent commercial banks and collected later after confirming completion. In a few cases the respondents requested to sit with the researcher to complete the questionnaire at their banks using their automated information records. This resulted in minimal direct observation of the events being studied. In majority cases the study relied on primary data provided by the respondents that is subject to personal bias by respondents. This was however redressed by diligent wording of the statements in the data gathering document. Moreover, the study period covered five years spanning from 2011 financial year to 2015 financial year. The study discovered that majority commercial banks in the sample did more bancassurance transactions as from 2012. The first

year of 2011 did not carry many bancassurance transactions. However, this limitation was overcome by utilizing average data over the five years period.

### **6.5 Future Research Directions**

As a way of enriching findings of this study, future studies are recommended dwelling on expanding the variables, considering other relationships and extending the research.

This study conceptualized bancassurance as the independent variable, savings mobilization as the intervening variable, sales channels as the moderating variable and financial performance as the dependent variable. It emerged that bancassurance has a significant positive relationship with financial performance of commercial banks. Future research should consider the influence of bancassurance on the share prices of commercial banks undertaking bancassurance that are listed in the Nairobi Stock Exchange. Furthermore, the economic development of any country is fundamentally driven by banking and insurance sectors. Future research would therefore examine the influence of bancassurance on the economic development of Kenya with financial performance of commercial banks fashioned as the intervening variable. In this case, economic development will be measured by Gross Development Product (GDP) of Kenya.

The study analyzed the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya. Findings indicated that savings mobilization has no significant intervening effect in the relationship between the two variables. It is recommended that future research considers the intervening effect of size of commercial banks in the relationship between bancassurance and financial growth of commercial banks. Equally, the study examined the moderating effect of sales channels in the relationship between bancassurance and financial performance of commercial banks in Kenya. Findings

revealed that sales channels have no moderating effect between the two variables. Future research would therefore test the moderating effect of the number of insurance policies sold via bancassurance in the association between bancassurance and financial improvement of commercial banks. Ultimately, one of the objectives of this study was to ascertain the relationship between bancassurance and financial performance of commercial banks. In order to establish the uptake of bancassurance in Kenya, future studies would focus on discerning the connection between bancassurance and financial prosperity of insurance companies.

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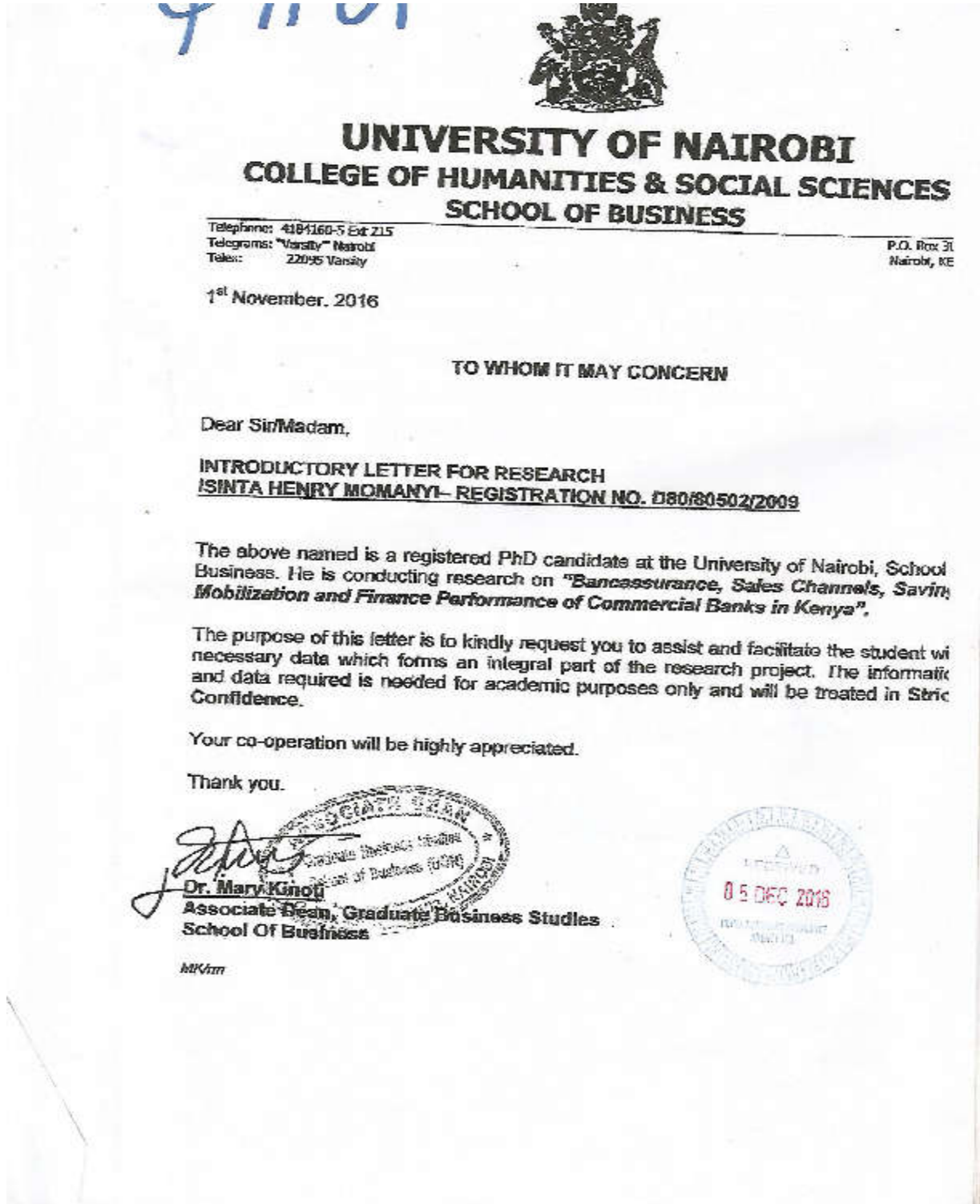
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# APPENDICES

## Appendix I: Introductory Letter from University



## **Appendix II: Research Questionnaire**

Dear Respondent,

My name is ISINTA HENRY MOMANYI (hmomanyi07@gmail.com, cell phone. 0722694339), a PhD (Finance) candidate at the University of Nairobi. I am undertaking a research study on bancassurance, sales channels, savings mobilization and financial performance of commercial banks in Kenya. It is in this context that I approach you as a commercial bank with a humble request that you become part of the respondents for this study. Kindly accept my plea to contribute to this research by sparing some time to fill the questionnaire.

This questionnaire is intended for research purposes, therefore, all information furnished will be exclusively put into academic use and accorded maximum confidentiality.

It is desired that managers in charge of banking services and operations managers complete this questionnaire. I have attached a letter of introduction from the Associate Dean, Graduate Business studies.

Kind regards.

Please read the questions carefully and feel free to respond to them by ticking (√) the option that best describes or applies to your commercial bank or providing the absolute quantity or value asked for.

### **SECTION A: BANCASSURANCE**

1. Name of commercial bank-----

2. Kindly provide the name(s) of insurance company (ies) your bank transacts bancassurance business with-----  
-----

3. Please provide the year your bank started transacting bancassurance business-----

4. What range of amount has your commercial bank sold in the following insurance products?  
Use the following scale: 1= Very Small Extent; 2= Small Extent; 3= Average; 4= Great Extent;  
5= Very Great Extent.

| <b>Insurance Product</b> | <b>Very Small Extent</b> | <b>Small Extent</b> | <b>Average</b> | <b>Great Extent</b> | <b>Very Great Extent</b> |
|--------------------------|--------------------------|---------------------|----------------|---------------------|--------------------------|
| General Insurance        |                          |                     |                |                     |                          |
| Ordinary Life Insurance  |                          |                     |                |                     |                          |
| Credit Life Insurance    |                          |                     |                |                     |                          |
| Others (Specify)         |                          |                     |                |                     |                          |

5. How many insurance policies were sold by your commercial bank in the categories tabulated below in the five years period?

| <b>Product Category</b>          | <b>Unit of Measure</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> |
|----------------------------------|------------------------|-------------|-------------|-------------|-------------|-------------|
| General Insurance Policies       | No.                    |             |             |             |             |             |
| Ordinary Life Insurance Policies | No.                    |             |             |             |             |             |
| Credit Life Insurance Policies   | No.                    |             |             |             |             |             |
| Others (Specify)                 | No.                    |             |             |             |             |             |



6. How much premiums were generated by your commercial bank from selling insurance policies in the classifications tabulated below in five years period?

| <b>Product category</b>          | <b>Unit of measure</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> |
|----------------------------------|------------------------|-------------|-------------|-------------|-------------|-------------|
| General insurance policies       | Kshs (M)               |             |             |             |             |             |
| Ordinary life insurance policies | Kshs (M)               |             |             |             |             |             |
| Credit life insurance policies   | Kshs (M)               |             |             |             |             |             |
| Others (Specify)                 | Kshs (M)               |             |             |             |             |             |

**SECTION B: BANCASSURANCE SALES CHANNELS**

7. Kindly indicate by ticking (√) which bancassurance sales channel is utilized by your bank:

Agents [ ] Special advisors [ ]

Bank employees [ ] Internet [ ]

Corporate agencies & brokerage firms [ ] others (specify) ----- [ ]

8. Kindly provide the following information to enable measurement of efficiency of bancassurance sales channels utilized by your bank.

| <b>Criteria</b>  | <b>Unit of measure</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> |
|--|------------------------|-------------|-------------|-------------|-------------|-------------|
| Agency fee and commissions expense for insurance sales   | Kshs (M)               |             |             |             |             |             |
| Number of bancassurance sales outlets  | No.                    |             |             |             |             |             |
| Number of workforce in bancassurance sales   | No.                    |             |             |             |             |             |
| Operating expenses related to selling insurance products (office expenses, utilities, insurance, advertising, salaries, employee benefits, training, selling costs, etc) | Kshs (M)               |             |             |             |             |             |
| Premiums earned through bancassurance sales channels including first-year and renewal premiums   | Kshs (M)               |             |             |             |             |             |

**SECTION C: SAVINGS MOBILIZATION**

9. What was the amount of customer deposits relating to bancassurance that was made into your commercial bank in the five years period?

| <b>Year</b> | <b>Unit of measure</b> | <b>Amount</b> |
|-------------|------------------------|---------------|
| 2011        | Kshs (M)               |               |
| 2012        | Kshs (M)               |               |
| 2013        | Kshs (M)               |               |
| 2014        | Kshs (M)               |               |
| 2015        | Kshs (M)               |               |

**SECTION D: FINANCIAL PERFORMANCE**

10. How much commission was earned by your commercial bank from selling insurance policies in the categories expressed below in the five years period?

| <b>Product Category</b>          | <b>Unit of measure</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> |
|----------------------------------|------------------------|-------------|-------------|-------------|-------------|-------------|
| General Insurance Policies       | Kshs (M)               |             |             |             |             |             |
| Ordinary Life Insurance Policies | Kshs (M)               |             |             |             |             |             |
| Credit Life Insurance Policies   | Kshs (M)               |             |             |             |             |             |
| Others (Specify)                 | Kshs (M)               |             |             |             |             |             |

11. You may provide any comments and suggestions to the research and study.

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THANK YOU FOR YOUR GRACIOUS CONTRIBUTION TO THIS RESEARCH OUT OF YOUR BUSY SCHEDULE.

### **Appendix III: List of Commercial Banks Currently Transacting Bancassurance in Kenya**

1. Kenya commercial bank ltd.
2. Co-operative bank of kenya ltd.
3. Equity bank ltd.
4. Barclays bank of kenya ltd.
5. Standard chartered bank (k) ltd.
6. Commercial bank of africa ltd.
7. CFC stanbic (k) ltd.
8. Diamond trust bank (k) ltd.
9. NIC bank ltd.
10. I&M bank ltd.
11. National bank of kenya ltd.
12. Prime bank ltd.
13. Family bank ltd.
14. Consolidated bank ltd.
15. Bank of Africa (k) ltd.
16. Housing finance co. of kenya ltd.
17. Eco bank kenya ltd.
18. Gulf African bank ltd.
19. Victoria commercial bank ltd.
20. Sidian bank ltd.
21. Spire bank ltd.
22. First community bank ltd.

23. African Banking Corporation Ltd.

24. Trans-National bank.

25. Credit bank ltd.

26. Guardian bank Ltd.

27. Prime bank ltd.

## Appendix IV: Cronbach's Alpha Reliability Test

Inter-Item Correlation Matrix

|                         | General | Ordinary life | Credit life | Others |
|-------------------------|---------|---------------|-------------|--------|
| General Insurance       | 1       | 0.349         | 0.306       | 0.263  |
| Ordinary life insurance | 0.349   | 1             | -0.101      | 0.043  |
| Credit life Insurance   | 0.306   | -0.101        | 1           | 0.965  |
| Others                  | 0.263   | 0.043         | 0.965       | 1      |

Number of cases =24

Reliability coefficients=4

Cronbach's Alpha=0.644

## Appendix V: Bancassurance Sales Channels Efficiency Score

|        | <b>Bancassurance Sales Channels Efficiency Score</b> |
|--------|--|
| Bank1  | 0.66   |
| Bank2  | 0.84   |
| Bank3  | 0.39   |
| Bank4  | 1.27   |
| Bank5  | 0.37   |
| Bank6  | 0.77   |
| Bank7  | 0.91   |
| Bank8  | 0.96   |
| Bank9  | 0.09   |
| Bank10 | 0.3  |
| Bank11 | 0.19   |
| Bank12 | 0.19   |
| Bank13 | 0.81   |
| Bank14 | 0.32   |
| Bank15 | 0.12   |
| Bank16 | 0.12   |
| Bank17 | 0.76   |
| Bank18 | 0.76   |
| Bank19 | 0.48   |
| Bank20 | 0.48   |
| Bank21 | 0.45   |
| Bank22 | 0.45   |
| Bank23 | 0.56   |
| Bank24 | 0.56   |



### Appendix VI: Correlation Between the Four Variables

|                                  | General | Ordinary Life | Credit Life | Other | Sales Channels | Savings Mobilization | Bank Financial Performance Index |
|----------------------------------|---------|---------------|-------------|-------|----------------|----------------------|----------------------------------|
| General Insurance Premiums       | 1       |               |             |       |                |                      |                                  |
| Ordinary Life Insurance Premiums | 0.247   | 1             |             |       |                |                      |                                  |
| Credit Life Insurance Premiums   | 0.283   | 0.225         | 1           |       |                |                      |                                  |
| Other Insurance Premiums         | -0.309  | -0.261        | .577**      | 1     |                |                      |                                  |
| Efficiency of Sales Channels     | .563**  | .434*         | .699**      | 0.218 | 1              |                      |                                  |
| Savings Mobilization             | 0.31    | 0.348         | .478*       | 0.169 | 0.32           | 1                    |                                  |
| Bank Financial Performance Index | 0.099   | 0.129         | 0.309       | 0.265 | 0.056          | 0.316                | 1                                |

## Appendix VII: Average Number of Insurance Policies Sold

| <b>BANK</b> | <b>General Insurance Policies</b> | <b>Ordinary Life Insurance Policies</b> | <b>Credit Life Insurance Policies</b> | <b>Other Insurance Policies</b> | <b>Cumulative Average</b> |
|-------------|-----------------------------------|---|---------------------------------------|---------------------------------|---------------------------|
| BANK 1      | 397.5                             |   | 146                                   |                                 | 543.5                     |
| BANK 2      | 2066                              |   | 1735                                  |                                 | 3801                      |
| BANK 3      | 2000                              |   | 500                                   |                                 | 2500                      |
| BANK 4      | 9000                              | 284                                     | 9380                                  |                                 | 18664                     |
| BANK 5      | 292.4                             | 390                                     |                                       |                                 | 682.4                     |
| BANK 6      | 20                                |   | 3360                                  | 2450                            | 5830                      |
| BANK 7      | 4000                              |   | 4000                                  |                                 | 8000                      |
| BANK 8      | 7691.75                           | 925                                     | 6566.67                               |                                 | 15183.42                  |
| BANK 9      | 5000                              | 50                                      | 1000                                  |                                 | 6050                      |
| BANK 10     | 257                               |   | 258                                   | 2                               | 517                       |
| BANK 11     | 168                               |   | 50                                    |                                 | 218                       |
| BANK 12     | 168                               |   | 50                                    |                                 | 218                       |
| BANK 13     | 81930.4                           |   | 93                                    | 2950.8                          | 84974.2                   |
| BANK 14     | 81930.4                           |   | 93                                    | 2950.8                          | 84974.2                   |
| BANK 15     | 1360.25                           |   |                                       |                                 | 1360.25                   |
| BANK 16     | 1360.25                           |   |                                       |                                 | 1360.25                   |
| BANK 17     | 1750                              | 250                                     | 150                                   |                                 | 2150                      |
| BANK 18     | 10750                             | 250                                     | 150                                   |                                 | 11150                     |
| BANK 19     | 3621.2                            | 1502.5                                  | 101.4                                 |                                 | 5225.1                    |
| BANK 20     | 3621.2                            | 1502.5                                  | 101.4                                 |                                 | 5225.1                    |
| BANK 21     | 350                               | 13                                      | 40                                    |                                 | 403                       |
| BANK 22     | 350                               | 13                                      | 40                                    |                                 | 403                       |
| BANK 23     | 1500                              | 2248                                    | 109979                                | 960                             | 114687                    |
| BANK 24     | 1500                              | 2248                                    | 109979                                | 960                             | 114687                    |
|             |                                   |   |                                       | <b>GRAND CUMULATIVE AVERAGE</b> | <b>488806.42</b>          |