University of KwaZulu-Natal

The Effect of Bancassurance on Financial Performance of Commercial Banks In Kenya

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ABSTRACT

Financial institutions have for a long time been struggling with the decline in their interest margins as a result of the growth in technology, competition and the global deregulation of the financial sectors. With the rise of financial innovation, bancassurance is looking more and more the way to go. Bancassurance has been adopted in many parts of the world with a good establishment in Europe, USA and China. In the USA, following the abolishment of the Glass Steagall Act in 1999, bancassurance became a reality. In China, the role of a tide agent was permitted for banks which created an excellent platform for the upsurge of bancassurance. In the case of Africa, the popularity of bancassurance has been slowly growing. Specifically, in Kenya, out of the 43 commercial banks, eight have embraced bancassurance. The purpose of this study was to establish the effect of bancassurance on the financial performance of commercial banks in Kenya. The research adopted a descriptive survey research design targeting the 43 commercial banks in Kenya. Purposive sampling technique was used to select banks offering bancassurance. Primary data was obtained by the use of questionnaires while secondary data was readily available from the published annual reports spanning five years (2011-2015). Cronbach's alpha correlation coefficients were used to test and determine the reliability of the questionnaire as the primary data collection tools. Data was analyzed quantitatively using descriptive and inferential statistics on SPSS- Version 25. Multiple regression and ANOVA were used to ascertain the relationship between variables. The study established that there is a significant relationship between bancassurance and financial performance of commercial banks by increasing profitability, ROA and liquidity while reducing costs. The study findings could help management teams understand the impact of bancassurance on the performance of the banking institutions. Government agencies regulating the financial sector may also gain insights from the study findings towards formulating and reviewing policies to regulate bancassurance. Furthermore, the study recommends that commercial banks' management teams should: understand their target market segments and adopt best criteria for market segmentation for their bancassurance products; ensure they fully support the adoption and implementation of bancassurance; and regularly review their policies to enhance clarity and recognition of bancassurance as a corporate strategy.

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ABBREVIATIONS AND ACRONYMS

AKI	Association of Kenya Insurance
CBK	Central Bank of Kenya
CMA	Capital Market Authority
GDP	Gross Domestic Product
IJES	International Journal of Engineering and Science
KCB	Kenya Commercial Bank
KIPRA	Kenya Institute for Public Policy Research and Analysis
IRA	Insurance Regulatory Authority
NIM	Net Interest Margin
NSE	Nairobi Stock Exchange
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Package for Social Sciences

CHAPTER ONE: INTRODUCTION

1.1 Overview

This chapter seeks to bring into focus how the performances of banks are affected by Bancassurance in Kenya. The background information focused on how previous studies have been conducted on the same in recent years. It's also details the outline of this study leading to the research problem, what motivates the study, the objective of this thesis, the purpose of the thesis, the research questions to be used, the importance of this study to others, the extent to which the study covers with the major presumption discussed in section, summary of the chapter and the operating definition of terms that were used.

1.2 Background of the Study

Bancassurance in Kenya still remains a comparatively new concept still in its teething stage. Bancassurance is the relationship banks have with insurance companies that makes allows for insurance products to be sold to the banks clients through a partnership program. This partnership is a way for both companies to profit from each other. Banks generally earn extra money from the sale of insurance products while at the same time, they also improve their customer gratification as they offer more services, all under one roof saving the consumers time. The insurance companies on the other hand expand their client bases without increasing their sales force or them paying insurance agents/ brokers' commissions.

The setup of Kenya's Insurance Industry before Bancassurance it being a third world country in Africa, uptake of Insurance was predominantly for the middle to upper class consumers. There was very low consumer awareness of what insurance is, negative perceptions brought on by scrupulous agents of insurance products and the whole industry in general. The insurance products were seen as irrelevant products perceived to be of no importance & value to the consumers. These insurance products tended to only target those in the formal sectors while majorly ignoring those consumers in the Informal sectors and who were the majority thus accessibility of insurance products in remote areas was extinct.

The Bancassurance journey in Kenya began in 2004; this was the year that CBA under the CBA Insurance Agency gave the first license to banks. In 2007, Equity Bank acquired its license to operate under Equity insurance Agency. In 2010 KCB followed suit and acquired their license under KCB Insurance agency. From the year 2011 to date more than half the Banks in Kenya have fully plunged into this Bancassurance partnership (Bancassurance Market Research, 2017).[i]

With more Banks plunging into Bancassurance, Kenya's Insurance Regulatory Authority (IRA) issued their first Bancassurance IRA guidelines in November 2011. Following the IRA guidelines, the Central Bank of Kenya (CBK) issued guidelines that made it possible for banks to distribute insurance products, in May 2013. In October 2014, the IRA revised the Bancassurance guidelines.

1.3. Bancassurance

Genetay and Molyneux (1998)[ii] noted that the concept of Bancassurance has been a topic of interest for analysts of the financial sector in the recent years. The common argument of Bancassurance has been that banking and insurance are different yet they also have conceptual similarities that help explain the Bancassurance phenomenon. The banking and insurance sectors together come up with a very essential product, in turn providing inclusion of certain populations otherwise ignored at the same time providing financial services. The two sectors were operating separately in Kenya, until ten years ago when the banking sectors decided to acquire licenses hat made it possible for them to sell products from the insurance sector in their banking halls.

Bancassurance has been developing rapidly with noticeable differences in various countries of operation (Ruffin and Ethier, 2011)[iii]. Notably, the development in countries especially in Europe has been outstanding. The rise in the Asian countries contrast, Middle East and the Africa Region where insurance dispersal has stagnated at low rates.

In 2010, South Africa bancassurance banks and life insurers had ominously different and often opposing views regarding products, training, advertising, allocation and the use of technology (Reinsurance Group of America Incorporated [RGA], 2010).[iv]

Rabin *et.al* (2001)[v] suggest that like other industries, the financial marketing environment is very dynamic which poses a lot of uncertainty. The external forces including the political atmosphere, the economic pressure, social cultural developments rapid technological advancements, environmental related issues and changes in the legal and regulatory frameworks. It has therefore become paramount for the financial institutions make their own strategies that help to mitigate the challenges presented by the turbulence in the external business environment so as to ensure profitability, competitiveness and improved market share. The success of such strategy demand good leadership especially in innovation. Bancassurance thus forms strategic alliances where commercial banks and the insurance industry players can diversify their scale of operations, competitiveness and sustainability (Singhal *et.al.*, 2010).[vi]

Kenyan insurance revenue accounts for 2.62% of the total GDP. The penetration of insurance industry in South Africa is estimate at 9.93%. Compared to the rest of the world, Kenya's penetration into the industry remains significantly low. In Malaysia, it is estimated that 41% of the population have some form of life insurance in comparison to Kenya that has less than 1% of the population insured, (AKI, 2012)[vii]. Such attentiveness of Kenyans towards insurance is partly explained by the use of restricted channels by insurance firms to sell their policies. Over dependency of the industry on agents and dealers has also been detrimental to the penetration efforts which has now prompted the insurers need to turn to better channels. IRA has praised bancassurance as the way forward in raising insurance infiltration in Kenya (Karanja, 2011).[viii]

Competition amongst the financial services providers has also been on the increase hence compelling financial service providers like banks and insurance companies to be innovative especially with delivery channels to pass on their messages. Some of the changes in the financial sector in Kenya include: financial deregulation, market convergence and globalization. These changes have had negative effects to the banking and insurance industries' profitability (Kiragu, 2014)[ix].

Banks and insurance companies are using partnerships such as Bancassurance, mergers and acquisitions as some of the innovative strategies to maintain their profitability and competitiveness.

Bancassurance is a merge that happens after an insurance entity and a bank with the aim of providing insurance benefits or products to the banks' customers. In this process the insurance products are available using the banks distribution channels and networks. Saunders et al. (2014)[x] established that bank revenue diversification causes higher profits and less insolvency risk for US banks.

According to Rabin *et al.* (2001)[xi] bancassurance is also referred to as Bank Insurance Model (BIM), he describes the association of a banking institution with a company providing insurance services and hence the insurance company utilizes the bank customer base to market and sell its products. Consequently, the insurance company does not need to have an elaborate sales function since most of the work is covered by the bank in partnership.

Chen *et al*. (2009)[xii] noted that developing countries in Asia for example took much longer to allow bancassurance due to the lack of establishment of regulatory frameworks and guidelines in the financial industry. Arora *et al.* (2013)[xiii] stated that the insurance industry requires elaborate distribution strategies and great power to access a huge customer base which can be facilitated immensely by various insurance companies who bring their policies to their clients through the basic network of banks.

As per the Taiwan Life Insurance Association Report (2010)[xiv], bancassurance makes up 69% of new insurance seven out of ten of these being a result of cross-selling activities at banks. Deregulation that allows for diversification of operations regarding financial services and geographical coverage forms a rationale for even wider developments and growth in the banking and insurance sectors over the next decades. El Pash (2012)[xv] noted that Bancassurance could be profitable for the financial services industry. Bancassurance creates additional synergies and reduces insolvency risk.

1.3.1 Financial Performance

Financial performance refers to the metrics that incorporate all activities and functions of the organization that determine the success of an organization including human capital, operations, operations management, marketing, marketing strategies, and strategic planning. These components determine the success of the modern business (Richard *et al.* 2009)[xvi].

Organizational performance is a multidimensional measure detailing multiple operational measures. Organizational performance can be assessed using three parameters; performance in terms of finances, focusing on profitability return on assets, as well as return on investment). Secondly, looking at the performance of market as measured by sales volume and customer base and thirdly, shareholders return (Vijayakumar, 2012)[xvii].

Financial performance (FP) is measured by the extent to which financial goals of an institution have been realized. FP is thus a concept of determining the gains of a firm's activities in monetary value. Using the FP of a firm a person quantifies firm's overall financial health per year. FP is also a method that can be used to compare a firms' financial viability with other firms in the same economic sector as well as compare industries or sectors in aggregation.

The ROE and ROA some of the commonest measuring the performance of a given firm, financially. Through the analysis, a firm can determine their own strengths and weaknesses financially from accurately understanding the relationships linking the profit and loss account to the balance sheet entities (Al-Hussain *et al*, 2009)[xviii]. McKay *et al.* (2010)[xix] established that the ability of a bank to generate profits highly depends on the net income of the primary sources of revenue as well as the value of income-related expenses.

Ongore *et al.* (2013)[xx] theorizes that the ROA and ROE are two of the major fractions that are used in determining the performance of commercial banks from a financial perspective. ROA as a ratio refers to the amount of profit that a business generated as compared to shareholders' equity found on the statement of financial position. ROE is said to be the ratio of Net Income over Total Equity Capital.

On the other hand, ROA measures profitability and is expressed as a fraction of income to the total asset. It determines the capability to generate revenue for the bank using its assets.

1.3.2 Bancassurance and Financial Performance

Bancassurance is viewed as the future of the banking industry as it helps banks to increase their capital adequacy ratio, earning per share, the non-interest income, business per employee, as well as increase profit per employee. It also helps banks to improve return on asset, reduce the level of non-performing assets, reduce staff cost by engaging the staff for insurance activities along with banking activities, increase as well as to reduce operating expense of banks (Sreesha 2015)[xxi].

While Banks in some countries in Europe embarked on bancassurance in the Eighties, other countries shied away from the practice. The lengthy time they took in contemplating on the practice had them lose on the opportunities and suffered the blow of being late starters.

Eventually, bancassurance has become a common practice in West Europe where Life Insurance Premiums constitutes the bulk of income to the industry constituting up to 90% of new life insurance business (Milelli *et al.* 2010)[xxii].With the prevalence of bancassurance, banks are now able to grow their incomes at low marginal costs which is essential in profits stabilization especially with dwindling interest margins (Kumar, 2014)[xxiii].

Traditionally, the main sources of revenues for banks include loans both personal and commercial, bank charges and custodial services. These business models face stiff competition and suffer greatly from changes in the regulatory frameworks, declining interest rates and changes in customer purchase behavior including the borrowing and the saving patterns forcing financial institutions to diversify their revenue models maintain their interest margins and sustainability (Steinherr et al. 2004)[xxiv]. Currently, banks have shifted from traditional strategies to non-traditional strategies of generating income that include mutual funds and insurance agencies, investment banking, and securities brokerage (Rabin *et al.* 2001)[xxv].

Bancassurance is thus an opportunity for a banking institution to obtain high fee income at lower costs. The banks have access to customers' information such as the financial status which places them at the best position to market and sell the insurance products (Edwards *et al* 1995)[xxvi]. They enjoy the advantage of easier approach to customers regarding persuasion to purchase a product which stems from a relationship that is built on trust which insurance companies normally don't have (Kumar, 2014)[xxvii]

Bancassurance enables banks to diversify operations by entering new markets and hence growth. The strategic alliances formed reduces competition which enables them to charge high premiums thus explaining the increased (Ombonya, 2013)[xxviii]. Additionally, banks benefit from extra cover from losses mainly of assets by availing cover to customers for their products (Fan *et al*. 2013)[xxix].

1.3.3 Commercial Banks found in Kenya

A report by CBK in 2014, the sector currently comprises of 43 banks and one mortgage institution, 30 of which are owned locally by banks while 14 are foreign owned. Out of these fourteen, ten banks of the banks' subsidiaries are incorporated in Kenya while the other four are incorporated outside the country and only operating branches in the country. As of 31st December 2014 the total net worth of the Kenyan banking industry stood at Ksh.3.2 trillion. Twenty-seven of the local private banks accounted for 64% of the total assets while there are three local public commercial banks which account for 5% of the total assets in the Kenyan Banking sector (CBK, 2014).[xxx]

The banks that were owned by foreigners accounted for 31% of the assets. The opened bank branches had an increase to 1,443 in 2014 from 1,342 in 2013, which transformed itself into 101 branches. Currently the six largest banks control 49.9% of the market share, with sixteen medium banks controlling 41.7% of the market share with small banks having only 8.4% of the market share. Between December 2013 and December 2014 ATMs increased from 2,487 to 2,613 by 5.1% (CBK, 2014)[xxxi].

The Banking Act regulates the banks in Kenya as well as the CBK Act. The overall oversight is exercised by the CBK, the NSE and the CMA. According to a report by CBK in 2014, KCB, Co-operative Bank, Equity Bank, Barclays Bank and Standard Chartered Bank had the biggest deposits in terms of market share (CBK, 2014)[xxxii].

Over the past couple of years, the banking sector in the country has undergone financial innovations to meet the growing changes in customer tastes and preferences, changes in the market structure, changes in regulation and the need to endure in an ever dynamic and changing competitive business environment (Kiragu, 2014)[xxxiii].

Insurance Regulatory Authority governs the Bancassurance industry in Kenya (IRA, 2011)[xxxiv]. Kirui (2009)[xxxv] noted that there is no express provision of the banking institutions that is provided by the Banking Act pertaining bancassurance. The act does not expressly detail in its scope, the developments that would encompass bancassurance. It however controls specific areas pertaining formation, guidelines on the form of agreements between the players as well as the financial statements that should be prepared and matters pertaining inducement and compellation and ineligibility (CBK, 2014)[xxxvi].

1.4 Purpose of the Study

The purpose of this study was to find out how the financial performance is affected by bancassurance in banks that offer commercial services in Kenya. Performance markers used to indicate these are; profitability, reduction in costs, ROA and liquidity.

1.5 Statement of the Problem

Banks that offer commercial services as any other monetary institutions in the world have to face the challenges presented by decreasing interest margins owing to increase in competition, technology changes, deregulation as well as globalization. To mitigate themselves from these challenges, these financial institutions have entered into partnerships with insurance companies seeking to synergize in financial intermediation through the bancassurance model (Anja et al. 2010).[xxxvii]

Interest income is the mainstream source of revenue for commercial banks and arises from the differences in the banks' borrowing and lending charges. However, the recent economic conditions have strained interest income with funds borrowing rising substantially thus rendering lending too competitive to avail enough interest income to maintain a banks competitiveness in the highly dynamic business environment (Kumar, 2014)[xxxviii].

According to Singhal *et al.* (2010)[xxxix], after the lifting of certain barriers and restrictions in the assurance sector, it has led to inventions in this area especially with the increase in bargaining power of players in the insurance industry which has intensified the rivalry among the firms and an example of such innovations include bancassurance. Bancassurance has been successful in many parts of Europe, but concept is slowly penetrating the Africa continent and remains particularly low in Kenya (Fan *et al.* 2013)[xl]. The low penetration can be established from the few banks that have ventured into bancassurance. Only eight of the 43 commercial banks have adopted the practice (Ombonya, 2013)[xli].

Despite the low penetration in Kenya, there is great potential upsurge of bancassurance in Kenya (Mbuthia, 2009)[xlii]. Bancassurance in Kenya is not permitted under the Banking Act but has been provided through case-by-case exemptions facilitated by the CBK and IRA (CBK, 2014)[xliii]. Most players in the insurance and banking industries have established that bancassurance is an attractive business model which adds great value to the firms' core business (Kirui, 2009)[xliv].

A number of studies exist on bancassurance in Kenya. Karanja (2011)[xlv] established that majority of Kenyans are unsatisfied with services delivery by insurance firms. Therefore, bancassurance is the best way towards ensuring high insurance infiltration in Kenya. Mwangi (2010)[xlvi] studied the factors that led to development of bancassurance in Kenya. The conducted study revealed that the major enablers of bancassurance include increasing market share, integrated customer, effectiveness and efficiency in bank-insurance.

Omondi (2013)[xlvii] studied the bases of implementation of Bancassurance by banks that offer commercial services. The study done fixated on business diversification and the way new revenue through bancassurance were the main determinants. Kiragu (2014)[xlviii] studied the problems that face insurance companies while trying to build some economical advantage in Kenya. Kiragu's study revealed that variations in the regulatory frameworks presented the most undesirable effect on insurance firms building competitive advantage in Kenya. AKI conducted an analysis on how insurance business was distributed in 2010, establishing there was great potential in bancassurance in Kenya.

However, there are no specific studies on how banks that offer commercial services are affected by Bancassurance in the country. With the knowledge of this gap, this paper Informed by this knowledge gap, the study wanted to establish the effect of bancassurance banks that offer commercial services.

1.6 Objectives

i. To establish the effects of bancassurance on the financial gains as measured by profitability of commercial banks in Kenya.

ii. To find how bancassurance is applied for the purposes of cost reduction by banks in Kenya

iii. To establish the effect of bancassurance on return on asset of commercial banks in Kenya

iv. To establish how bancassurance affect the liquidity of banks in Kenya

1.7 Research Questions

i. What are the effects of bancassurance on profitability of commercial banks in Kenya?

ii. How is cost reduction affected by bancassurance in commercial banks in Kenya?

iii. How is return on asset is affected by bancassurance in commercial banks in Kenya?

iv. How is liquidity is affected by bancassurance in commercial banks in Kenya?

1.8 Significance

With increase in competition, there is a need to diversify operations, look at the changes of customer needs and align the business to that, as well as venture into new and profitable markets. Bancassurance presents a good frontier for Commercial Banks to venture into to maintain their profitability and also survival in the highly dynamic financial sector (Anja et al. 2010)[xlix].

The study findings may be useful to the board of other financial services and the commercial entities in the industry in establishing whether bancassurance as a model is useful to the banks and if it is usable to improve their performance from a financial stand view in Kenya if so, to what extent. The managers of commercial banks and insurance companies that wish to implement bancassurance may find the study findings useful. The study findings would further offer useful insights on the importance of merges which happen with the insurance companies and banks as one of the future revenue sources for both entities.

The management of the firms may use the findings to understand if their strategies are reaching the desired objectives and what the financial institutions needs putting in place to safeguard their existence.

The study findings may be useful to the government agencies regulating the financial sector towards formulating, reviewing policies and acts that guide bancassurance implementation in Kenya. The government agencies like Central Bank of Kenya may gain information that may also be useful in designing strategies and best practices for the growth of banks through bancassurance to positively impact on the Kenyan economy.

The study findings may provide valuable information to scholars and researchers in financial management on bancassurance and the effect of performance from a financial view of financial institutions. This may form the basis of future research thus contributing to known variables of knowledge and study by filling in the data gap on consequences that bancassurance has on the of financial institutions performance.

1.9 Study Scope

This study reviewed the importance of bancassurance to explaining the financial performance. The study specifically focused on effects of bancassurance on profitability, reduction in costs, ROA and liquidity. The study was based on banks Kenya which are commercial which formed the geographical scope for the study.

1.10 Assumptions

The study assumed that the annual performance of the banks in Kenya, in terms of finances was influenced by implementation of bancassurance in relation to return on asset, liquidity, cost reduction plus profitability. This study also assumes that access to bank secondary data would be possible and that the respondents would be positive in providing any additional relevant information required in the study. The study further assumed that the method of analysis employed would help in achieving the study objectives.

1.11 Operational Definition of Terms

Bancassurance states that availing of insurance products and services using the bank distribution channels and networks.

Financial Performance analyses to what extend are the goals of an institution accomplished financially, which is measured as profits.

Cost reduction refers to processes employed by a firm to minimize costs and increase profit margin.

Return on Assets is a ratio used to estimate commercial banks financial performance and is planned as [net income / total assets].

Return on Investment is the ratio used to measure gains or losses generated on an investment relative to the amount of money invested. Calculated as Net profit / Total investments * 100

Return on Equity measures how management using the shareholders' investment generates income in the company.

Liquidity alludes to the ease of converting assets to currency to meet financial obligations within a short time.

CHAPTER TWO: LITERATURE REVIEW

2.1 Overview

This chapter considered how the performances of Commercial Banks are affected by Bancassurance in Kenya from a theoretic perspective with insights from two theories with arguments that support or not support this study. The chapter presented a literature analysis of the questions that the researcher sought to find out. The chapter looked at the factual works on the on the matter at hand taking a look at all the adjustable perimeters of the study.

2.2 Academic Review

The study conducted was based on two theories that expound the banking industry; intermediation financial and the theory the modern portfolio theory.

2.2.1 Modern portfolio theory

Developed by Markowitz (1952)[l], the Modern portfolio theory (MPT) is a theory who's founder drew his findings from the common practice of Range diversification and showed exactly how investors who wanted to avoid risk could create their own groupings to optimize on predictable returns based on a given level of market risk, at the same time giving empersize on the fact that high returns also came with their own risks. This theory suggests that it's possible to build a systematic border of ideal ranges which offer the best returns within a manageable risk level.

This theory of Modern portfolio claims that the risks and returns of any venture should not be viewed on their own but as also on how they have ripple effect on the overall portfolio (Mangram, 2013)[li]. The modern portfolio theory shows that a stakeholder can build a number of different scenarios that can make the most of returns within a manageable risk level.

Similarly, given an anticipated level of expected return, the stockholder can build a range with the lowest likely threat. The returns can be based on numerical methods such as variance and correlation, one of the most important things to note is how an individual investment's return acts in the framework of the total range.

According to Markowitz (1952)[lii], the theory largely borrows from portfolio diversification strategies and explains how an investor can minimize the risk associated with an investment by holding a portfolio of investments. An investor uses standard deviation as a measure of the riskiness of a portfolio and invests in stocks that have a negative covariance. A rational investor therefore, invests in those securities that give the highest expected return. According to Markowitz, he held that an investor should invest in portfolio that avails the highest expected returns and the lowest risk (minimum variance) and is found on the efficient frontier as expounded on the efficient range theory.

In recent years, Commercial Banks have seen that there is a need to diversify their collection of offerings as a way to increase their profits, as well as to remain relevant in their business, and maintain their influence in this ever changing world of competitive financial services industry.

With the expansion of the market as well as the globalization of banks and deregulation of banks it has become have found it more and more tough and costly to uphold their productivity (Waweru, 2014).[liii]

According to Jongeneel (2011)[liv], these factors have evolved ecommerce ways and variations in the attitudes of consumer, which has led to the steady decline in interest restrictions on loans of Commercial Banks from the 1980s. Banks are now investing in financial innovation and venturing into areas of diaspora banking, internet banking, mobile banking, custodial services, shares management, trade and commodity banking and bancassurance.

Bancassurance as a bank's strategy to venturing into other areas of business and diversification has positive impacts on its financial performance. Providing a variety of financial services to the same customer base enhances customer loyalty, which have led to optimistic returns on the long-term earnings of banks. Jongeneel (2011)[lv] stated that, by availing a single transaction, a commercial bank seizes the chance to expand in significance. Secondly, bancassurance provides additional income to the bank known as fee income. Myers (2003)[lvi] further noted that diversification brings scale, which enables a bank to enjoy economies of scale since it draws professionals from different field of management and benefits from interaction with international financial markets. Further, in command economies, such as banks also benefits from the interventions of the state.

The modern portfolio theory is relevant to this study given that it advocates for portfolio diversification where firms adopt efficient portfolios that give both the least risk as well as the maximum expected returns.

The bancassurance adoption by commercial banks is a portfolio diversification strategy that has enabled them remains important, increase their incomes and as well as to remain relevant in their business, and maintain their influence in this ever changing world of competitive financial services industry.

2.2.2 Theory of financial intermediation

Financial intermediation is defined as the process accomplished by banks of taking in funds from an investor and then lending the said funds out to a borrower. It's paramount to note that the banking business thrives on this principle where the abilities of monetary organizations that allow them to lend out money at quite high rates of interest while receiving money on deposit at moderately low rates of interest.

According to Alexandru *et al.* (2009)[lvii], financial intermediation is the reallocation of money from player's surpluses to those that have a deficit which is facilitated by financial Intermediaries. Scholtens *et al.* (2003)[lviii] corroborates that the theory of financial intermediation originates from transactional cost theory, theory of informational asymmetry and theory of regulation of monetary regulation.

The theory of informational asymmetry was advanced by (Marty, 1961)[lix]. He held that intermediaries were necessitated by informational asymmetry resulting to high transactional costs. Because of the high transactional costs that were associated with information asymmetry, there was need to create financial intermediaries in order to reduce such high costs.

The efficiency of the intermediaries in reducing the costs and other inefficiency was possible because these institutions were able to pool together resources from individual parties and hence realizing economies of scale (Alexandru *et al.* 2009)[lx].

In their theory of Transaction cost, Skogh (1998)[lxi] accentuated on the effects of transactional technologies resulted from financial intermediation. Intermediaries are identified as a collusion of specific creditors and debtors who manipulate the economy using transactional technologies (Alexandru *et al.* 2009)[lxii]. By handling and managing of bulk data at high efficiencies, clients have the illusion that they are experts at making the best financial decisions.

According to Scholtens *et.al* (2003)[lxiii], by regulating the production, money is saved to finance the economy. Banks have found it increasingly difficult to maintain their profitability due to increased competition, globalization and liberalization of the market. The need for focused partnerships is seen to be key for the long-term growth and sustainability of these Financial Institutions as well as maintaining their liquidity. By comparison, Insurance companies have over the years found it increasingly difficult to maintain their competitive advantage in the ever-changing competitive environment (Rajan, 2006)[lxiv]. Kiragu (2014)[lxv] observed that stiffened competition in provision of financial services is what has necessitated providers of financial services to explore other methods of generating incomes and thus the increased innovations. Consequently, Insurers are endeavoring in ensuring growth in their customer base aimed at increasing their premiums.

The theory is relevant to this study given that bancassurance will prove a worthwhile vehicle for banks and insurance companies through financial intermediation.

As financial institutions operating in the ever changing and competitive financial services industry, their partnerships allow them to take advantage of efficiencies in transactional technologies and reduction in transactional costs. In addition, their aligned efforts grow their brands as clients perceive that they will invest in the funds wisely.

2.3 Review of related literature

Empirical Review analyzed the research that has been conducted by other authors in reference to the topic in question. It included a review of the respective objectives of each study, their methodologies and results.

2.3.1 Effects of bancassurance on profitability

Profitability measures the value of a firm's investments and tasks resulting to increase in profits less the costs and spending of the firm. Banks that are keen on venturing into bancassurance are interested in assessing the profitability arising from the supply of both life and non-life cover and identifying key elements that could lead to growth in profits (Korhonen *et al*. 2006).[lxvi]

The profitability and earnings of a financial institution are usually shown in its ability to generate increasing income on a persistent basis. It needs to have its own funds base in order to settle its debt obligations. The institutions also need to have a stream of income that enables them to capture a larger market share as well as to seize other growth opportunities in the financial sector (Kumar, 2007).[lxvii]

Over the years, many profit-making banks in Kenya have relied on traditional sources of raising income. These sources are mainly through interest earning activities and largely, lending facilities such as loans and asset financing. However most money-making banks have come to the understanding that they need to generate income and fees through other innovative activities and this will boost their profitability levels.

The most common tools for assessing profitability levels to determine the commercial bank performances has been mainly through the use of common ratios such as ROA, ROE and ROI (Atrill, 2006)[lxviii].

Increased rivalry and competition among the banks has majorly resulted from the declining interest margins which has resulted to a rise in the operational costs such as administration and marketing costs. Consequently, the traditional business model have heavily relied on the interest income cannot sustain the banks operations and hence the need for new products to boost profitability and productivity (Irungu, 2013)[lxix]. The banks financial position and performance flows from different ways including commissions and profits from the business, low operational costs and reduced effect of the bank's fixed costs, increased productivity of the employees who can now serve a wider range of customers (Kirui, 2009)[lxx].

The saving and the investments patterns of customers are changing. Customers who opt for long-term and long-term investments have now shifted from the traditional deposits accounts and are now more interested in investing in insurance which is more profitable than the deposit accounts (Peppard, 2000)[lxxi]. Others opt for mutual funds which are also more profitable than the traditional deposit accounts.

These accounts essentially form the core business for the banking institutions. Also, insurance products are more tax friendly thus increasing the preference by the customers. Understanding the shift in the investment's patterns, banks have subsequently turned towards bancassurance so that they can benefit from such investments which clients perceive more profitable (Gompers, et al. 2001)[lxxii].

One Dutch bancassurer establishes that the return on investments on life cover is far much profitable than returns from the fixed deposits accounts with a high return on investments of about 12%-15% (Davis, et al. 2006)[lxxiii].

Bancassurance has created many other benefits accruing from the wide spread branches of many commercial banks. This has resulted in many of these commercial banks to enhance their competitive advantage when compared to the non bancassuares counterparts who focus on the traditional business models. For instance, by providing customers with automated teller machines (ATMs), they are able to reduce costs such as marketing costs.

The easiest and most common way is that most banks offer their clients an ATM card that can be used at multiple ATM and they can access various information on banking services such as loan, accounts and card products (Kirui, 2009)[lxxiv]. These kinds of services can also be availed to the customers using their mobile phones or their computers. ATMs can also be used to publicize insurance products as they act as advertisements and provide channels of online application and submission of insurance policies thus reducing cost of marketing.

One of the major milestones that have led to the growth of Kenya's bancassurance in money-making banks is arguably a development of internet and portable banking services in Kenya. This is undoubtedly the most innovative concept that has propelled the rise and spread of bancassurance products across the country. Due to this innovation, banks across the country have been forced to come up with innovative products that will help to retain their clients. This realization amongst Kenya's commercial banks has managed the need to have heavy investments in the financial sector (El Pash, 2012)[lxxv]. This move in itself has led to diversification of banking products and services. By and large, the move by commercial banks to offer bancassurance products and services has led to the increased profitability and long term earning of the bank (Jongeneel, 2011)[lxxvi].

The diversification by commercial banks has enabled most banks to attract qualified management and also propelled the banks to gain access to international financial markets in this way; commercial banks have been able to expand their products and services to new markets as well as to increase their client base. The customer retention and loyalty is also another important byproduct of diversification amongst banks.

The ability of a bank to offer a one stop shop financial solution for its customers is considered to be a key element in improving its customer satisfaction index as well as providing an opportunity for commercial banks to grow their importance by adding an additional income stream from collection of premiums. This income additional income is known as fee income (Brealey et al. 2003)[lxxvii].

2.3.2 Bancassurance and cost reduction

Bancassurance provides a package of financial services that address customers' needs. By offering the banking services and addressing the insurance needs of customers, bancassurers address customers' needs almost simultaneously leading to increased customers satisfaction. The conglomeration of fiscal products by one provider means that a 'one-stop-shop' addresses all customers' needs which make bancassurers more appealing in the global markets.

Such financial integration has precipitously grown over the past three decades following the increased knowledge of the steady decline of the margins on credits. Hence, the banks required new sources of revenue.

Since banking institutions could avail insurance cover, this enhanced most people's preference of bancassurance to insurance companies despite the low cover costs by the insurance companies due to increased competition (Korhonen *et.al*. 2006)[lxxviii].

As a new concept in banking, bancassurance was well received by banks in Europe well in the Eighties, other countries shied away from the practice. Many of these countries took a long time to contemplate the move and as a result, they lost on the opportunities that were enjoyed by the innovators and early starters and hence they suffered the blow of being late starters.

With increased technology and digitization that took place in the nineties and early two thousand, bancassurance as a concept became a common practice. In West Europe it has also become a common practice where Life Insurance Premiums constitutes the bulk of income to the industry constituting up to 90% of new life insurance business.

The prevalence of bancassurance internationally has enabled the growth of incomes for many financial institutions which is very essential in profits stabilization (Milelli et al. 2010)[lxxix]. With dwindling interest margins that have been as a result of increased operational costs that is a major concern for financial institutions, it is important that they generate sustainable income though other methods (Kumar, 2014)[lxxx].

For a long time, the major sources of revenues for banks include: loans, both personal and commercial, bank charges and custodial services. These business models face stiff competition and suffer greatly from changes in the regulatory frameworks; declining interest rates and changes in customer purchase behavior including the borrowing and the saving patterns forcing financial institutions to diversify their revenue models maintain their interest margins and sustainability (Steinherr *et al.* 2004)[lxxxi]. Currently, banks have shifted from traditional strategies to non-traditional strategies of generating income that include mutual funds and insurance agencies, investment banking, and securities brokerage (Jongeneel, 2011)[lxxxii]

With many commercial banks in Kenya having wide spread branches throughout the country, Bancassurance provides a prime opportunity for a banking institution to obtain high fee income at lower costs. Since most of the banks have direct access to their consumers' information which includes the financial status which places them at the best position to market and sell the insurance products. With an existing clientele base, they enjoy the advantage of easier approach to customers regarding persuasion to purchase a product which stems from a relationship that is built on trust which insurance companies normally don't have (Kumar, 2014)[lxxxiii].

Bancassurance enables banks to diversify operations by entering new markets and hence growth. The strategic alliances formed reduce competition which enables them to charge high premiums thus explaining the increased. Additionally, banks benefit from extra cover from losses mainly of assets by availing cover to customers for their products (Fan *et al.* 2013)[lxxxiv].

Bancassurance helps banks to increase their capital adequacy ratio, earning per share, the non-interest income, business per employee, as well as increase profit per employee. It also helps banks to improve return on asset, reduce the level of non-performing assets, reduce staff cost by engaging the staff for insurance activities along with banking activities, increase as well as to reduce operating expense of banks (James *et al*. 2013)[lxxxv].

With increased internet and mobile banking in the recent past, the Kenyan market has experienced a major shift from traditional banking to a digital based banking system. This move has been made possible by new partnerships with some of the existing telecommunication companies that have provided mobile banking platforms that are very expensive for the banks to implement. The telecommunications companies such as Safaricom and Airtel, having a wide outreach to the customers even in rural areas where banking services are unavailable have opened new markets for banks that were previously inaccessible.

These partnerships have also reduced marketing and system setup costs by leveraging on existing systems and mechanisms that have driven the focus of the banks to tailor make insurance solutions for customers to enjoy at the convenience. Form filling is also an exercise of the past as many customers are now able to log on their handsets and fill in insurance applications without a hustle. This move has reduced stationery and staff costs for many commercial banks as they are now able to venture into new areas (El Pash, 2012)[lxxxvi].

2.3.3 Effect of bancassurance on return on asset

The action by banking firms to venture into offering insurance services has stiffened the rivalry especially among the firms that offer insurance services only. Customers now opt their banks to provide them with insurance products as well. This is mainly because the products are also very competitive given the upsurge of bancassurance and the need by banks to attract new customers and retain the existing ones (Ng'aru, 2004).[lxxxvii]

According to CBK (2017)[lxxxviii] adoption of bancassurance a few commercial banks in Kenya contributed to improvement in their profitability. Profitability of the banks was increased as a result of increased employee productivity, creation of new stream of profits through commissions and/or profits from life insurance and new returns from insurance products and mutual funds. The report further indicates that bancassurance implementation by commercial banks in Kenya brought significant reduction in operational costs through; reduction of office space and equipment, reduction of operational staff due to bank-based sales as well as reduced promotional expenses. During the study time frame, there was a steady growth of banks offering bancassurance in terms of performance financially.

Bancassurance opened a new window of opportunity for banks in the commercial sector to improve the financial position of this highly competitive sector where the number of banks recorded decline in their financial performance. Thus, bancassurance positively influenced the banks financial performance. Bancassurance had a significant contribution on improving the commercial banks liquidity. Through implementing bancassurance, the commercial banks had exponential growth in sales and they effectively paid their suppliers and clients' claims. It was further evident that the Kenya's performance of banks increased financially in offering bancassurance had a positive outlook given the rising earnings per share, market share, profitability and sales (KIPPRA, 2013)[lxxxix].

Shenoy et al. (2003)[xc] share views on universal banking which is the latest event happening on the sub-continent. It states that universal banking is the only logical step in the journey towards globalization, liberalization and deregulation, the issue of universal banking need to be seen from a broader and deeper perspective of financial sector reforms. Universal banking is the issue of the integration of the various segments of the financial markets, removal of rigidities and arbitrage opportunities between them and fostering stability of the total financial system which is so central to the health of the economy. Equally important is the efficiency of the regulatory system to monitor the affairs of such large conglomerates. Transparency and disclosure norms coupled with good corporate governance must go hand in hand with any new steps towards liberalization and universalization of the Indian banking industry.

Murthy (2003)[xci] seeks to review the factors driving the convergence of banking and insurance. The paper tried to raise the awareness of banking and finance professionals about this phenomenon that has been adopted globally, of the duality in the financial sector and certain unique issues as seen in the Indian context due to ownership and aspects that underline the need for a careful treading of the path. It also tries to find out the ideal bancassurance model suitable for Indian. It was found out that the ideal bancassurance model will depend upon the size and scale of the bank, the overall vision of the bank, its geographical reach and the client mix and the capability of the bank management to successfully manage the integration process.

The banking industry is usually defined to include a country's chief bank and the money-making banks while the non-banking sector includes insurances, pension and mutual funds (Stiglitz, 2010)[xcii].

This industry can best be defined in terms of its role and function in the economy. The financial sector which encompasses the banking and non-banking sectors, is considered critical to economic growth and development because the sector facilitates financial intermediation. A combination of factors and in particular, the liberalization of financial activity facilitated by technological innovation has plunged the financial industry into a brave new world.

One of the many outcomes seen from the alliances that are formed strategically in the alliances in the banking services sector is the fast changes that the industry has seen in the past years. In the developed countries, structural change and reform took place in the late 1970s and 1980s.

A combination of factors and in particular, the liberalization of financial activity facilitated by technological. Bergendahl (1995)[xciii] generally refers to bancassurance as the integration of a number of activities in banking and insurance which include production, distribution, marketing, consumer demand and consumption. This new phenomenon gained momentum in the late 1980s following the deregulation of the financial systems in Europe. France and Germany having been among the first countries to embark on bancassurance.

In addition, the commercial banks were motivated by indifferent growth trends in their core banking activities. The insurance companies wooed the banks' customer base with innovative products, offering greater yield and more personalized products and this caused some growth of their core insurance activities. The banks' rationale therefore has been to seek to provide for the financial and investment needs of their existing and new customers in as wide a range as possible in order to retain their client base (Stiglitz, 2010)[xciv]. The process of deregulation has over the past decade seen many changes happen in the banking service industry.

The momentum of competition, management of credit risk and liberalization process which also facilitated these developments has led to financial innovation, growth, attraction of investors due to low risk and increased competition in the sector. It is against, this background that the financial conglomerate, an all under one roof shop for banking services, and bancassurance, the integration of banking and insurance were created. Insurance companies have also shown enthusiasm for this activity, but it is the banks that have led the way.

2.3.4 Bancassurance and the liquidity

Insurance companies that frivolously do not adopt the concept of bancassurance are likely to miss out on the benefits of such conglomerates and are more vulnerable as more pressure is placed on the currents assets' ability to meet the current obligations. Although long-term source of funds for insurance firms profile is less susceptible to funding shocks, eventual and uncertain intragroup obligation poses risks to the bank (Benoist, 2002)[xcv].

The long-term cash flow for the insurance company may be significantly dissimilar from that of the bank with cash flows associated with insurance liabilities. The merger is also susceptible to unpredictable dangers that are faced by the banks such as bank runs. Such dimensions of the risks that may be involved in a business combination may significantly reduce the worth of the perceived synergies of bancassurance (Wu *et al.* 2010).[xcvi]

However, Liquidity ratios are often seen to augment and thus bancassurance will ultimately add value to the shareholders (Klein, 2001)[xcvii]. Archer *et.al*. (2002)[xcviii] extensively concurs with (Klein, 2001)[xcix] but bequeaths this to the current development in the banking and insurance industries by highlighting the key drivers of bancassurance.

Bancassurance is gaining popularity because of the pressure that competition places on banks' profit margins (Archer *et al.* 2002)[c]. In addition, customers are looking for convenience and that explains why they settle for bancassurers who provide complete packages of their financial needs. A bank that sells indemnification products benefits more than its contestants. It can avail wholesome financial planning on the same terms of agreement. Additionally, banks avail an unexploded method of delivery.

This is evident, since banks in Zimbabwean characterized by their faultless brand image, repetitive customer issues and wide customer base provide a regular market for insurance products.

Masiyiwa (2014)[ci] indicates that customers place more trust on banks than they trust the underwriting companies and therefore, a co-operation between the two service providers can help improve the trust factor between clients and the insurers. Understanding the processes of bancassurance from the financial position, low-cost and marketing capability angle focus should be on the aspects of hazards related with assistance (Scovier, 2015)[cii].

The functions of the Bancassurers should thus be conducted in such a way that efficiency in one aspect of operation is not at the expense of another area of operation. This means that the efficiencies established in one area due to collaborations should not pose operational problems in a different segment (Jeston *et al*. 2008)[ciii].

Regarding financial advantages, there is the issue of unfavorable consequences on delivery and liquidity position. It is also necessary consider the consequences in order to obtain the full value of business combinations (Hitt *et al*. 2001).[civ]

The goodwill associated with each of the players should be a key consideration while naming the business combination. The image of each of the partners may have considerable impact on the perception by key clients and may affect the market's perception which an important factor regarding the profitability and the sustainability of the bancassurance (Keh *et al.* 2009)[cv].

This business model demands the surrender of the possessions of the target firm to the acquirer exchanged for bonds, shares and benefits that the acquiring company gives to the stakeholders of Target Company – a union is obtained and it could also arise from the formation of a new company that possesses the resources of the conglomerating company. If the valuation of the mergers is not well done, the bank stands to suffer from the insurance liabilities that may be accruing the insurance company leading to financial loses (Woll, 2005)[cvi].

The direct exposure faced by the insurance company is rather limited contrasting the financial predicaments which have had progressive noticeable effects especially with regard to the US mortgage markets. The financial predicaments can be majorly linked to banking crisis which has for a long time been underscored by players in the insurance industry (Njogu, 2010)[cvii].

With eased restrictions and barriers in the assurance sector, innovations have become necessary especially with the increase in the bargaining power of players and in the insurance industry which intensifies the rivalry among the firms. Such innovations include bancassurance (Singhal *et al.* 2010)[cviii]. Bancassurance has been successful in many parts of Europe, but concept is slowly penetrating in Africa and remains particularly low in Kenya (Fan *et al*. 2013)[cix].

2.4 Conceptual framework and Measurement of variables

This study claims indeed there is a strong connection between bancassurance and Kenya's money-making banks on financial performance in relations of liquidity, productivity, cost reduction and return on asset.

The variables of the study are precise in the hypothesis presented in the figure 2.1 and Table 2.1 below. These two variables; bancassurance and the financial performance variables assumed all things are constant during the performance of the study, it will be possible to relate these two variables and confirm that indeed bancassurance has helped improve commercial performance of banks which are money-making in Kenya.

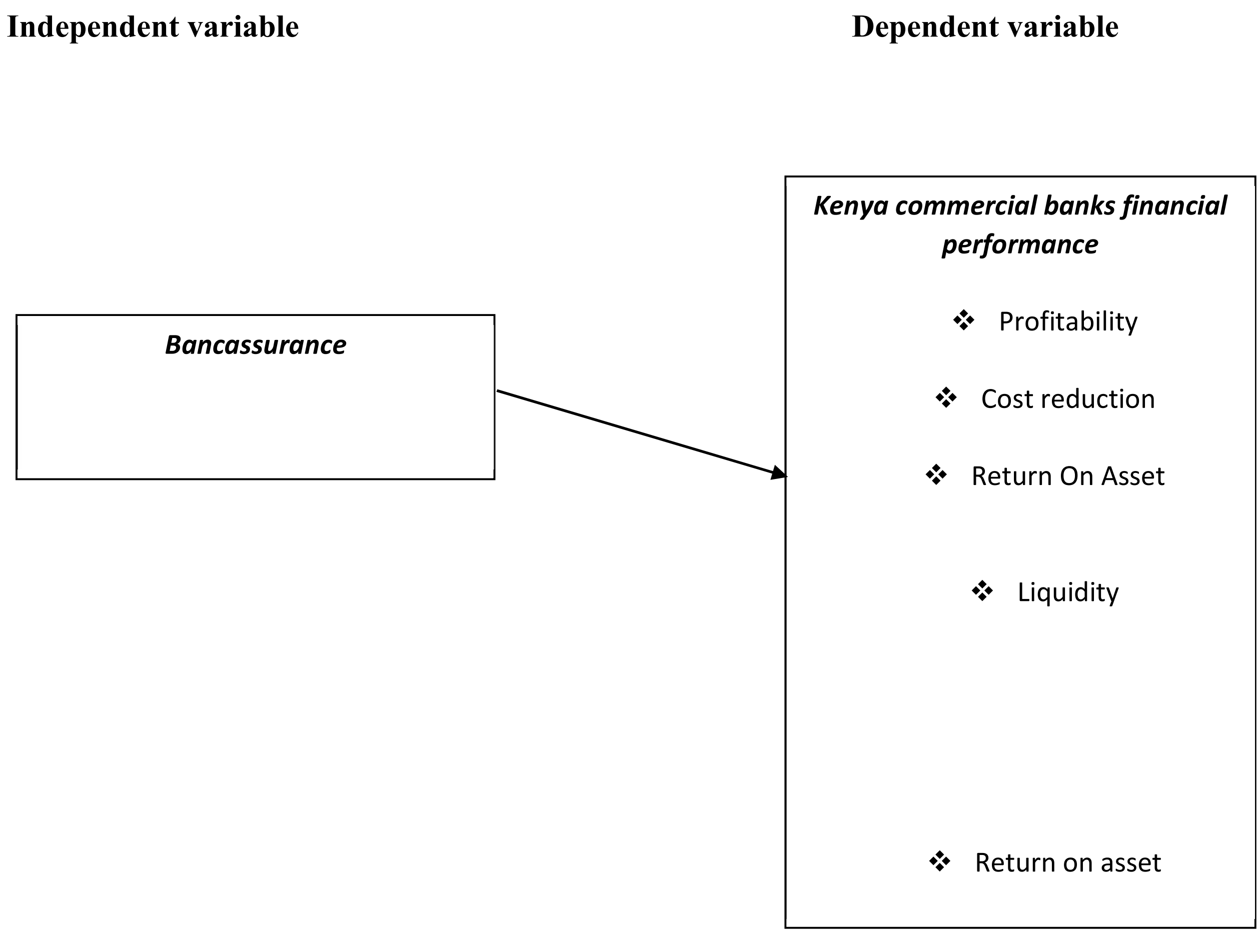

FIGURE 2. 1 THE RESEARCH HYPOTHESIS ILLUSTRATING MY CONCEPTUAL FRAMEWORK

TABLE 2. 1 VARIABLES MEASUREMENT

	Variables	**Measure**
	Regression Model: $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$.	
Y	Financial performance	ROA (Return on Assets) = [net income / total assets]
X_1	Bancassurance	[investment in bancassurance / operating profit]
X_2	Control Variable	Bank Size= natural log (Ln) of total possessions of the bank
	α	Constant
	ε	Error
	β	coefficient of independent variable

CHAPTER THREE: METHODOLOGY

3.1 Introduction

The preceding section provided writings that had relevance to the study. This current chapter highlights the methodological framework that forms the basis of this study. Such a methodology is the logical processes and theoretical analysis of fact finding applied in studies to predict and solve certain problems as described by Kothari (2004)[cx]. In line with the above understanding, thus, the chapter is provided as follows; research design and rationale, research area, objective population, selection methods used and the segment scope, inquiry tools and devices, pre-testing, validity plus reliability, data collection methods, investigation and the logistical and moral reflections. This research required the investigation of bancassurance effect on the financial performance of money-making banks in Kenya.

3.2 The Research Design

As defined by Creswell *et.al* (2017)[cxi], a study strategy is a plot used in research towards systematically hold together critical study components providing the logical flow of collecting, measuring and analyzing data as well as provide the validity of the study results. This research assumed a descriptive survey study design which was a quantitative method which sought to explain and describe features of certain groups and to estimate the percentage of people in the groups who possess particular characteristics and hence help in generalizations and making predictions (Kuy et al. 2011)[cxii].

The population target of study was eight out of the 43 banks from Kenya and the research done in different parts of the country. The design was appropriate in describing the phenomenon without influencing the adaptable which is the purpose of the research (Kothari, 2004)[cxiii].

3.3 Research Approaches

The approach used in the study was the mixed method which was a combination of the qualitative and quantitative methodologies. According to Patton (2005)[cxiv], qualitative research refers to an method that uses a naturalistic approach which uses a context-specific settings to understand phenomena in. It describes the subjective human experiences from the point of view of those being investigated through interviews, focus groups, and observation.

Quantitative research methods emphasize the numerical and statistical gathering and analysis of data which is a deductive approach driven by positivism, that emphasis on the application of methods to statistically analyze data and arrive to a generalized conclusion (Muijs *et al*. 2010)[cxv]. Mixed method allowed the complementization of the each of the two approaches leveraging on their individual merits.

3.4 Population and Sampling

Populace refers to the particular elements and people for which data is sought which can be homogenous or heterogeneous (Gog, 2015)[cxvi]. In this study, the populace comes from the eight banks in Kenya and includes employees of the eight commercial banks in Kenya that provide bancassurance services.

Sampling in this study is the process of selecting study respondents from the main population from whom the study information was sought from. There are two sampling approaches that include probability or non-probability sampling procedures. The probability sampling the researcher ensures that all the people that form the population to be selected had the same chance to participate in the study with no bias through systematic, stratified and cluster selection. On the other side the non-probability selection is picking the study participants purposively so that only the information rich people participate in the study (Creswell *et al.* 2017)[cxvii].

The Kenyan banking sector currently comprises of one mortgage institution and 43 money-making banks 30 of these are locally retained banks while 14 are externally owned. The Prudential oversight is exercised by the CBK, CMA and the NSE (CBK, 2016)[cxviii]. In Kenya bancassurance is regulated by the IRA. Currently, only eight banks – have embraced bancassurance (IRA, 2016)[cxix].

This study will be based on the hypothesis of Kothari's (2004)[cxx] sampling design of which postulates that a sample of 100% of the population is used when the target population is small and accessible. Therefore, the study used purposive sampling technique to select all of the eight commercial banks in Kenya offering bancassurance. Currently, the commercial banks in Kenya offering bancassurance include; Family Bank, National Bank of Kenya, Chase Bank, Co-operative Bank of Kenya, Consolidated bank, Equity Bank, , Kenya and Commercial Bank, NIC bank, (IRA, 2014)[cxxi].

From the target population of 250 employees, the sample size was calculated using the (Sandelowski, 1995)[cxxii] framework as indicated in the formula below:

$$n = \frac{t^2 \ x \ p(1-p)}{m^2}$$

Description:

n = required sample size

t = confidence level at 95% (at standard value of 1.96)

p = estimated population affected

m = margin of error at 5% (at standard value of 0.05)

This study model from the above calculation was 40 respondents that were drawn from the eight commercial banks in Kenya offering bancassurance. From each of the eight commercial banks, five respondents were picked for the study giving the study a sample size of 40 respondents.

TABLE 3.1 – BANK RESPONDENTS SAMPLING

DESCRIPTION OF RESPONDENT TYPE	**NUMBER SAMPLED**	**TOTAL POPULATION**
Chief Financial Officers	8	08
Sales and Marketing managers	8	48
Bancassurance staff	24	194
TOTAL	**40**	**250**

Source: Own data

3.5 Data Collection Procedure

The study dynamics in terms of the variables has a domino effect on the data collection procedure to be applied. Therefore, the research topic, problem statement, and the study objectives have a major bearing on the data collection tools best suited for the study, hence the use of the survey design in this study. This meant that information collected from the all the eight banks involved in the provision of bancassurance in Kenya.

Primary data and secondary data were obtained, by the student. The secondary information was acquired from the published monetary reports for the period from 2011 to 2015 for the selected banks. Secondary data was used because it is factual and could be verified from the published reports.

The study also collected primary data to collaborate with the secondary data. Primary data allowed in depth information to be collected as the respondents had room to give details. Questionnaires were used to obtain primary data. The survey contained both open and closed ended questions that were designed to solicit information from the participants in reference to the research goals. This subsequent section presents the information gathering tools that were used in this research to meet the set of research questions.

3.5.1 Structured Questionnaire

The questionnaire was the best tool to collect quantitative and qualitative data from a relatively large population in a short period of time and with minimal costs incurred (Creswell *et al.* 2017)[cxxiii]. Another advantage of the tool is that it is easy to administer and cheap. Primary data was taken from the self-administered questionnaire. The drop and pick later method was used by the researcher, to administer the questionnaire to the participants. The participants were given seven days to respond. The seven days was considered reasonable to increase the response rate by the respondents who were adequately briefed on the contents of the questionnaire.

The questionnaire had both open and closed ended questions with the first part seeking background information about the employees. The subsequent parts of the tool were reflective of the study research questions. This approach not only got the numerical numbers but also additional information to further explain the data which was helpful in data interpretation.

3.6 Pilot –Testing

Mundia (2014)[cxxiv] defines a pilot test as a replica or practice in preparation for the main survey. Kothari (2004)[cxxv] describes such tests as a rehearsal for the actual research. Hennell *et al*. (2004)[cxxvi] holds that such tests help the researchers to establish whether the questionnaire will adequately collect the desired information.

Similarly Polit *et al.* (2010)[cxxvii] explain that the main purpose of the preliminary tests was to assess the data collection tools, the needed protocols, sample recruitment strategies and other aspects of a research to help plan for a larger study as opposed to trying to test hypotheses.

The research steered a preliminary test that analyzes the consistency of the questionnaires and help decide between which of the two competing study methods i.e. interviews and self-administered questionnaires the study would embark on. This pilot was administered to 16 personnel of the eight commercial banks in Kenya offering bancassurance.

The researcher administered questionnaires to the 16 employees. The 16 employees who participated in the pre-test would not participate in the main study.

The questionnaire was also discussed with two randomly picked managers of the commercial banks for further validation. Their views were assessed and incorporated to improve substance and construct authority of the questionnaire.

3.7 Data Analysis

Information analysis refers to the process of analyzing large data collected after which it's interpreted with reference with the purpose of the research. In analyzing the quantitative data, the study used inferential statistics in terms of regression and descriptive statistics in terms of mean, standard deviation, frequencies and percentage with the help of SPSS- V-24.0. Charts and other diagrams were seen as suitable ways to present the study results using excel. As explained by Kothari (2004)[cxxviii], the multiple retrogression prototype was used to define the significance of each study's independent variable (bancassurance) in affecting the financial performance which was conducted at 95% confidence level or 5% significance level.

3.7.1 Multiple Retrogression Study

In determining the significance of bancassurance on the financial performance of commercial banks in Kenya, multiple retrogression study was conducted. The regression model specifications were as below;

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$ Where;

Where; Y = financial performance, X_1= bancassurance, X_2= bank Size, α = Constant, ε= error term, β=coefficient of the independent variables.

3.7.2 Model Summary

Coefficient of determination (r^2) describes the degree of change in the dependent variable (financial performance) that can be associated to a change in the independent variable (bancassurance).

3.7.3 ANOVA (Analysis of Variance):

The researcher sought to compare means using analysis of variance. ANOVA was used to examine the claim that there is no important connection between the independent variables (bancassurance) and the dependent variable (financial performance of commercial banks in Kenya (Cost reduction, profitability, Liquidity, Earnings per share and return on assets and response flexible (financial performance of Banks).

3.8 Logistical and Ethical Considerations

The ethical issues in research form a critical element of the research process by ensuring that the process never contravenes the rights of the respondents and that the integrity and security of the data is maintained at all times as noted by (Clough *et al.* 2012)[cxxix]. In view of the above, the researcher observed several universal ethical considerations and principles throughout the study. Such included justice, respect, privacy and confidentiality and beneficence (Rivera, 2014)[cxxx]. The researcher obtained requisite authority to undertake the study by University of KwaZulu-Natal's research ethics committee by way of ethical clearance. The Kenyan body responsible for authorizing research, NACOSTI also granted the research permit, while the respective banks' human resource managers were also approached to authorize the study in their banks through necessary documentation.

In addition, all participants were required to give their consent following the researcher's explanation of the purpose for which the information was intended the researcher explained to them their expected participation in the course of the study and that their participation was purely voluntary.

Furthermore, the participants were notified that they had a right to withdraw their consent from participating in the study at any time without giving any permission. It was paramount for the researcher to insist that all information solicited from the respondents would be treated with highest discretion and privacy and would be only used for educational purposes.

The overall research was anchored on the autonomy, informed consenting, confidentiality, anonymity and respect for the rights of the respondents by not invading their privacy. In order to achieve this the names of the respondents were not necessary to ensure their autonomy. In case the respondents would be interested in the study findings, the researcher was to ensure that they had full access to the study results.

3.9 Construct Reliability

Brunner *et al.* (2005)[cxxxi] say construct reliability is seen as the relation of being the total amount of true score variances relative to the total score variance. This was applied in the study as a measure of importance of the independent variable on to the total variance of the dependent variable where the greater the variance, the higher the reliability of the data collection tool.

Reliability was analyzed using the 16 questionnaires administered to the randomly selected employees of the commercial bank and who would not be allowed to participate in the final study, as such would lead to bias since such participants would already be acquainted with the questionnaire. A well constituted pilot study should have 5% to 10% of the target sample (Cooper *et al.* 2014)[cxxxii].

The consistency was tested using Cronbach's alpha coefficient for the study constructs (bancassurance and financial performance). A coefficient of 0.7 was realized in the study which was found to be sufficient for this study since the greater the mark the more consistent the created data (Maiyaki *et al.* 2011)[cxxxiii].

3.10 Limitations of the study

The limitations are things that might compromise the quality of the results realized (Bell *et al*. 2018)[cxxxiv]. Therefore, the study findings are restricted to the banks offering bancassurance, hence not easily generalized to the entire banking industry in Kenya. The access to data was a major challenge as most of the banks suspected that it would be shared with their competitors.

The researcher however guaranteed the banks' management that the data would remain private and it would not be disclosed to potential competitors by signing a disclosure agreement. To ensure that the bank staff who were hesitant about giving their views for fear of victimization, the researcher ensured that anonymity in data collection was maintained. The cost and time were other limitations that the researcher had to deal with by ensuring that data collection was focused with keen persuasion in getting research permits.

3.10 Summary of the Chapter

This chapter contained information on the methodology applied to address the research questions. It clearly defined the research design, the methodological approach, how target population was achieved and sampling done, and how the data collection and analysis methods. The next chapter presents the analysis.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter highlights the conclusions of the research as described in chapter three of the research methodology. The purpose of this research was to establish the effect of bancassurance on the financial performance of commercial banks in Kenya while the purpose of the study included; To establish the effects of bancassurance on profitability of commercial banks in Kenya; To establish how bancassurance influence operational cost reduction of commercial banks in Kenya; To establish the impact of bancassurance on return on asset of commercial banks in Kenya and; To establish how bancassurance affect the liquidity of commercial banks in Kenya.

4.2 Biographic-Data

The sample to be studied of 40 respondents to whom questionnaires were administered to completed and returned the questionnaire constituting a 100% response rate.

4.2.1 Respondents Gender distribution

The respondents' gender was to be established and the findings are as shown in Figure 4.1 below.

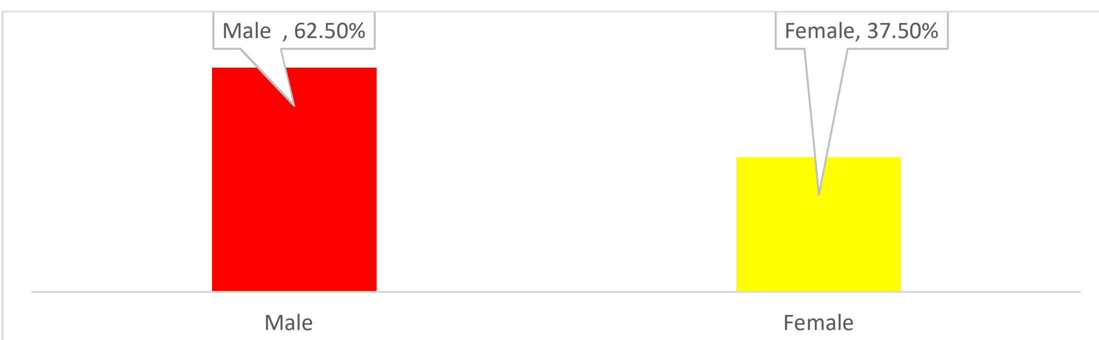

FIGURE 4.1 GENDER DISTRIBUTION OF RESPONDENTS

Source: Own research

The findings saw that, majority (62.5%) of the respondents were male while 37.5% were female. This implied that the labor force of the banking industry in Kenya is male dominated and consequently most of the responses emanated from the male respondents. The study found it essentially vital to ascertain the gender of the respondents' to establish if equality in terms of gender affected the performance indications from the respondents.

4.2.2 Respondents Age distribution

The age was also investigated and findings are as shown in Figure 4.2 below.

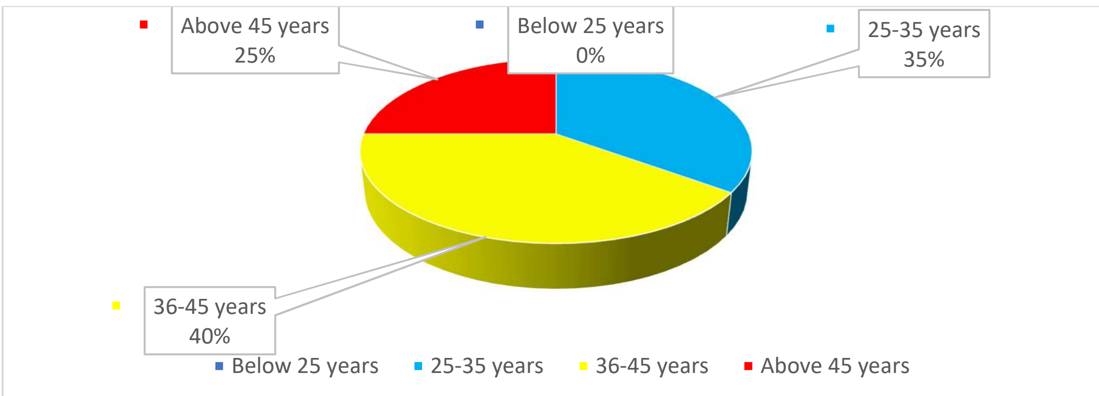

FIGURE 4.2 DISTRIBUTION OF AGE OF THE RESPONDENTS

Source: Own research

The study established that the age of 40% of the respondents ranged between 36-45 years, 35% were aged between 25-35 years, while 25% were aged over 45 years. The analysis shows that the banking labor-force is youthful and energetic and their understanding of new innovations such as bancassurance services will be easily valued.

4.2.3 Highest level of education

The researcher wanted to ascertain the highest level of education and the results are as tabulated in the Figure 4.3 below.

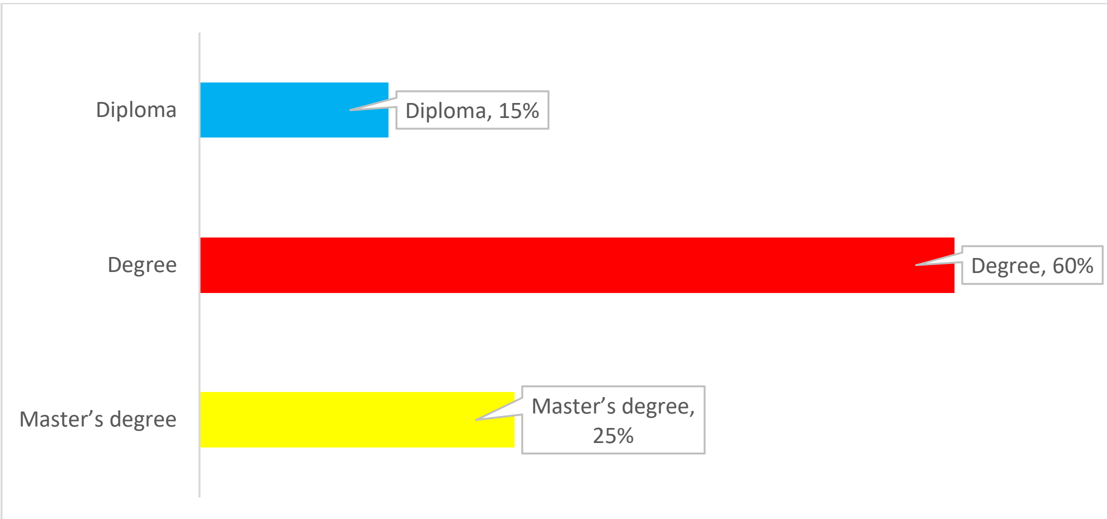

FIGURE 4:3 – HIGHEST LEVEL OF EDUCATION OF THE RESPONDENTS

Source: Own research

As seen in the above chart findings, the majority (60%) and 25% of the respondents had a bachelors and master's degree as their highest level of education respectively. 15% were diploma holders. This is an indication that most of the respondents had attained higher education hence better understanding on effects of bancassurance on the performance of commercial banks financially in Kenya.

4.2.4 Work experience in the banking industry

The research tried to ascertain the length of time (years) the respondents had worked in the banking industry. The findings are as shown in Figure 4.4 below.

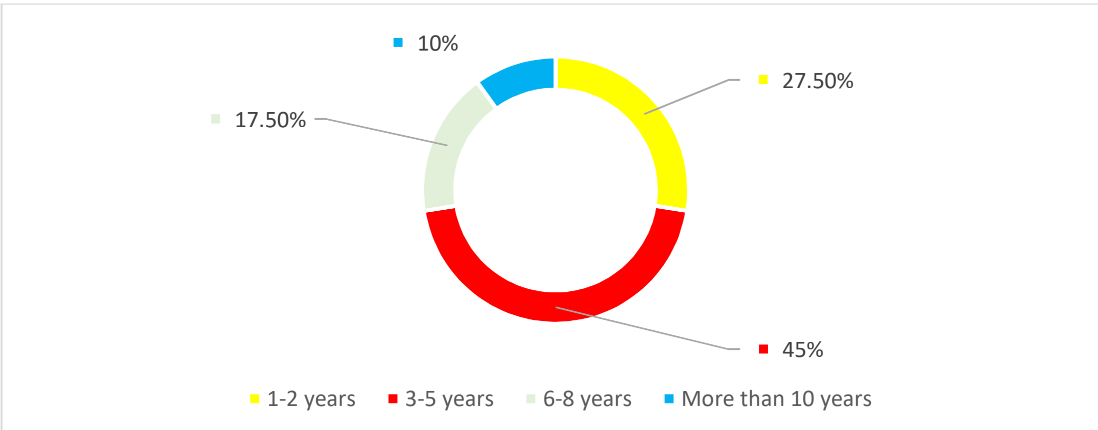

FIGURE 4.4 WORK EXPERIENCE IN BANKING BY THE RESPONDENTS

Source: Own research

The study established that 45% of the respondents were in the banking industry sector for 3-5 years, 27.5% had around 1-2 years' experience, and 17.5% had worked for 6-8 years while 10% of the populace were in the banking industry with experience for more than 10 years. The implications were majority of the populace had worked in the banking industry for a sufficiently longer time hence able to supply reliable data information relating to effects of bancassurance on the financial performance of commercial banks in Kenya.

4.2.5 Bancassurance contribution to bank performance

The research wanted to determine the parameters that bancassurance had significantly added in terms of finances to the performance of commercial banks.

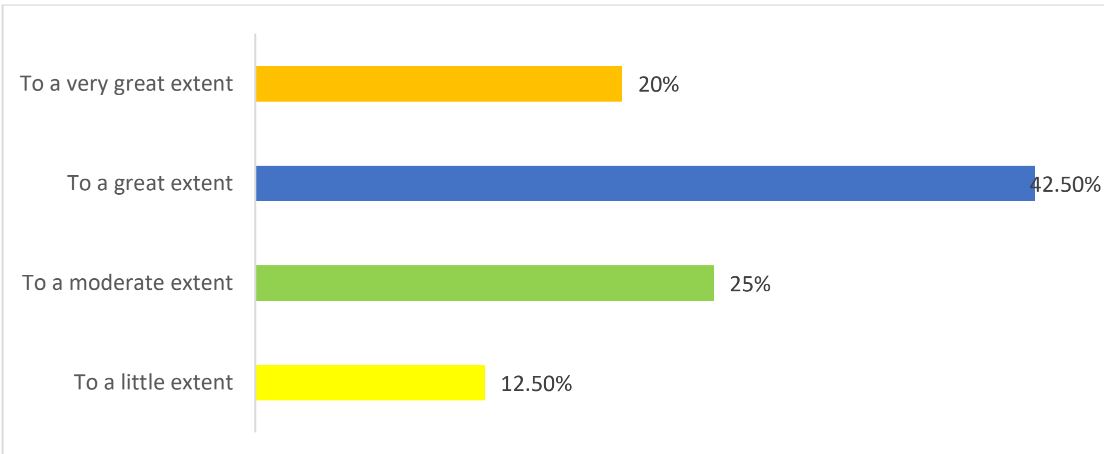

FIGURE 4.5 BANCASSURANCE CONTRIBUTIONS TO BANK PERFORMANCE

Source: Own research

The majority of the respondents in Figure 4.6 above show that bancassurance added in terms of finances to the performance of commercial banks to a huge level (42.5%), 25% this is seen as a very average level, 20% to a very great level while 12.5% indicated that bancassurance contributed to the performance of commercial banks a little extent. This depicts that commercial banks in Kenya had embraced bancassurance as a strategy to a huge level to spur the performance of the respective banks in the highly volatile Kenyan banking industry. The findings are in line with (Kirui, 2009)[cxxxv] who established that bancassurance is a common practice across money making banks in Kenya as a tool to provide alternative revenue source to their dwindling revenue sources.

4.2.6 Change in bancassurance guidelines and policies

The study sought to establish how often their respective commercial banks changed their bancassurance guidelines or policies to manage change.

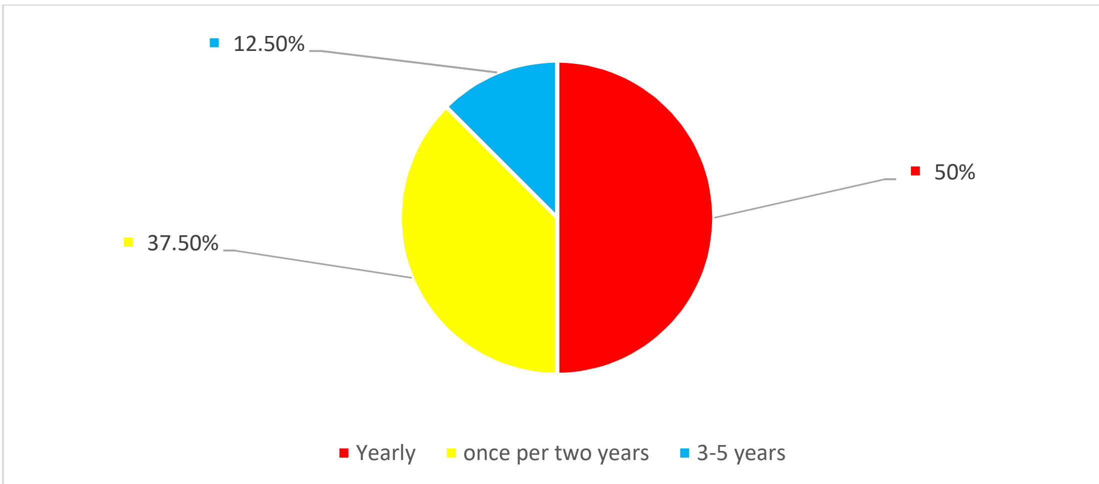

FIGURE 4.6 CHANGES IN BANCASSURANCE GUIDELINES OR POLICIES

Source: Own research

According to the findings, half (50%) of the commercial banks as attested by the respondents changed their bancassurance guidelines or policies to manage change on yearly basis, 37.5% on every two years and 12.5% after 3-5 years. Therefore, the commercial banks currently using bancassurance regularly reviewed their bancassurance guidelines and policies to effectively manage intra and extra changes dictated by the market forces to remain profitable. According to Authority (2016)[cxxxvi], commercial banks in Kenya are required to increasingly review and align their bancassurance guidelines and policies to be relevant to the ever-changing banking context.

4.3 Bancassurance and profitability: Objective one

The first objective was to establish the effects of bancassurance on profitability of commercial banks in Kenya. The results are presented in the subsequent sections.

4.3.1 Bancassurance and profitability of commercial banks in Kenya

The study respondents were told to give information on what degree was bancassurance influencing profitability of their commercial bank.

TABLE 4. 2 BANCASSURANCE AND PROFITABILITY

	Mean	**Std deviation**
Bancassurance has improved profitability of our bank	4.2750	.50574
Bancassurance has resulted to an increase in income from commissions and/or profits from life insurance	4.2000	.51640
Bancassurance has increased the productivity of staff	3.8500	.76962
Bancassurance has brought change from deposits and toward insurance products as well as mutual funds and the profitability is higher than traditional deposit accounts	3.8000	.72324

Source: Own research

The findings indicate that most of the respondents were in agreement to a great degree that; bancassurance has improved profitability of our bank (Mean=4.2750); bancassurance has increased commissions and/or profits from life insurance (Mean=4.2000); bancassurance has increased the productivity of staff (Mean=3.8500); bancassurance has brought change from deposits and toward insurance products and mutual funds where the profitability is higher than traditional deposit accounts (Mean=3.8000) respectively.

The findings infer that adoption of bancassurance by the selected commercial banks in Kenya contributed to improvement in their profitability. The profitability of the banks was increased as a result of increased employee productivity, creation of new stream of profits through commissions and/or profits from life insurance and new returns from insurance products and mutual funds.

The findings are in agreement with (Sreesha, 2015)[cxxxvii] who established that bancassurance helps banks to increase their profitability, capital adequacy ratio, earning per share, the non-interest income, business per employee, as well as increase profit per employee. It also helps banks to improve return on asset, reduce the level of non-performing assets, reduce staff cost by engaging the staff for insurance activities along with banking activities, increase as well as to reduce operating expense of banks.

4.4 Bancassurance and Cost Reduction: Objective Two

The second objective of the study was to ascertain how bancassurance affect cost reduction of commercial banks in Kenya. The findings are presented in the subsequent sections.

4.4.1 Bancassurance and Cost reduction of Commercial Banks in Kenya

The study respondents were asked to specify the degree to which bancassurance influenced cost reduction of their commercial bank.

TABLE 4. 3 BANCASSURANCE AND COST REDUCTION

	Mean	**Std deviation**
There is reduction of operational staff due to bank-based sales	4.1000	0.59052
There is reduction of office space and equipment	4.0750	0.61550
There is reduction in marketing staff numbers	4.0250	0.61966
There is a fall in promotional expenses	3.8000	0.60764
There is cost-cutting in logistical and operational expenses	3.7750	0.73336
There is less need in hiring or leasing technical capacity	3.6000	0.81019

Source: Own research

As shown in Table 4.2 above, most of the respondents agreed to a great extent that; there is reduction of operational staff due to bank-based sales (Mean=4.1000); there is reduction of office space and equipment (Mean=4.0750); there is reduction in marketing staff numbers (Mean=4.0250); there is a fall in promotional expenses (Mean=3.8000); there is cost-cutting in logistical and operational expenses (Mean=3.7750); there is less need in hiring or leasing technical capacity (Mean=3.6000) respectively.

The findings imply that bancassurance implementation by commercial banks in Kenya brought significant reduction in operational costs through; reduction of office space and equipment, reduction of operational staff due to bank-based sales as well as reduced promotional expenses.

The findings are in line with (Arora, 2013)[cxxxviii] who showed that other than the advantages arising from countrywide spread branches, bancassurers presents a competitive advantage compared with the traditional insurers (non-bancassurers), which is emanating from better customer services through ATMs and hence lowered costs of operation.

4.5 Bancassurance and Return on Asset: Objective Three.

The third objective was to establish the effect of bancassurance on return on asset of commercial banks in Kenya. The findings are presented in the subsequent sections.

4.5.1 Financial performance of commercial banks

To ascertain the financial performance of the eight banks for the five-year period between 2011 and 2015, offering bancassurance return on assets (ROA) was employed which is calculated as [net income / total assets]. The data on ROA is as provided in Table 4.3 Below.

TABLE 4. 4 FINANCIAL PERFORMANCE (ROA)

Year	**N**	**Mean**	**Std. Deviation**
2011	8	2.65	0.61966
2012	8	2.72	0.84580
2013	8	3.35	1.00128
2014	8	4.07	0.88289
2015	8	4.51	0.82858

Source: Own research

Table 4.3 above; indicate that, the lowest value of ROA was in 2011 when the ROA was 2.65 while the highest value was in 2015 when the ROA was 4.51 which was 70.2% rise in ROA for the period between 2011 and 2015. Similarly, between 2011 and 2015, the value of ROA increased steadily over the five-year period. This implied that the financial performance of the eight commercial banks offering bancassurance increased steadily over the study period.

Additionally, the average standard deviation that showed variation in financial performance across the eight banks for the same period was 0.551. This indicated small variation in financial performance among the eight banks. According to Kumar (2006)[cxxxix] while Banks in some countries in Europe embarked on bancassurance in the Eighties, other countries shied away from the practice.

The lengthy time they took in contemplating on the practice had them lose on the opportunities and suffered the blow of being late starters. Eventually, bancassurance became a common practice. In West Europe bancassurance has also become a common practice where Life Insurance Premiums constitutes the bulk of income to the industry constituting up to 90% of new life insurance business (Hoschka, 2016)[cxl].

4.5.2 Bancassurance Revenue

The research also sought to ascertain the amount of revenue that the eight commercial banks generated for the period between 2011 and 2015. This was measured using total amount of revenue received by respective eight commercial banks for period 2011-2015 expressed as a natural log (10^9).

TABLE 4. 5 BANCASSURANCE REVENUE GENERATED

Year	**N**	**Natural logs (10^9)**	**Std. Deviation**
2011	8	1.3750	2.70892
2012	8	1.5250	3.60712
2013	8	1.6000	3.76962
2014	8	2.1500	4.74722
2015	8	2.9000	5.72324

Source: Own research

The highest value of revenue generated through bancassurance was valued at 2.9 billion in year 2015 while the lowest revenue was valued at 1.375 billion in year 2011 which was a 111% rise in revenue generated through bancassurance. Over the studied five year period (2011-2015) there was a steady increase in revenue generated through bancassurance to the selected banks with bancassurance offering.

The financial performamnce of the eight banks, at the time of this reseach paper using ROA significantly appreciated by 70.2%. Implying that the bancassurance opened a new window of opportunity for the Commercial Banks to improve their financial position in the highly competitive sector where the number of banks recorded decline in their financial performance. Thus, bancassurance positively influenced the banks financial performance. The average standard deviation that revealed variation in revenue generated through bancassurance among the eight banks for the period 2011 and 2015 was 4.11 implying high variation in revenue generated through bancassurance among the eight commercial banks.

The findings are similar to Davis et al. (2006)[cxli] who argued that life insurance is often favored by advantageous tax behavior to promote reserved establishment to safeguard or for retirement preparation. This advantage renders insurance cover extra appealing to clients and banks see opportunities from selling such products.

4.6 Bancassurance and liquidity: Objective four

The fourth objective was to establish how bancassurance affect the liquidity of commercial banks in Kenya. The findings are presented in the subsequent sections.

4.6.1 Bancassurance and liquidity of commercial banks in Kenya.

The study respondents were asked to highlight the extent to which bancassurance influenced liquidity of their commercial bank.

TABLE 4. 6 BANCASSURANCE AND LIQUIDITY

	Mean	Std Deviation
The bank has witnessed rising sales	4.0500	0.55238
There weren't credit period hitches with suppliers due to liquidity	4.0500	0.67748
The bank has no negative feedback from external auditor on liquidity ratios	3.8000	0.64847
The bank meets its claims on time due to high liquidity	3.7250	0.71567
The bank has good profitability ratios since bancassurance adoption	3.6750	0.99711
The bank has good liquidity ratios since bancassurance adoption	3.6500	0.73554
A system for bancassurance permits financial managers to learn from experience	3.2500	1.10361
Tests on new banks with interest in bancassurance services	2.8250	1.12973

Source: Own research

According to the findings, the majority of the respondents agreed to a great extent that; The bank has witnessed rising sales (Mean=4.0500); There have been no credit period problems with suppliers due to liquidity (Mean=4.0500); The bank has zero negative say from external auditor on liquidity ratios (Mean=3.8000); The bank meet its claims on time due to proper liquidity levels (Mean=3.7250); The bank has good profitability ratios since bancassurance adoption (Mean=3.6750); The bank has good liquidity ratios since bancassurance adoption (Mean=3.6500).

A bancassurance permit financial managers to learn and improve from experience (Mean=3.2500); and that tests on new banks with interest in bancassurance services (Mean=2.8250) respectively.

The findings infer that bancassurance had a significant contribution on improving the commercial banks liquidity. Through implementing bancassurance, the commercial banks had exponential growth in sales and they effectively paid their suppliers and clients' claims.

It was further evident that the financial performance of commercial banks in Kenya offering bancassurance had a positive outlook given the rising earnings per share, market share, profitability and sales (Waweru, 2014)[cxlii]. According to Cornett et al. (2003)[cxliii], liquidity ratios are theorized to improve through bancassurance since it funds the non-fund revenue and thus improving the position of the shareholders. Similarly Hoosen (2006)[cxliv] concurred that banks are venturing into bancassurance because of the pressure on interest income whose decline lowers the banks' profits margin and clients are now looking for a one stop fiscal shop for all their financial needs.

Clients place more trust banks than they do on the assurance firms, so assurance firms can capitalize on the "trust factor" enjoyed by the banks. Shovona (2018)[cxlv] intimated that with the upsurge of bancassurance, there is an excellent opportunity to grow their incomes amid declining interest margins.

4.7 Financial performance

The respondents were required to indicate their level of agreement on statements on the effects of bancassurance on financial performance of commercial banks in Kenya.

TABLE 4. 7 FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

	Mean	**Std deviation**
Increasing EPS since implementation of bancassurance	4.1750	0.59431
Rising market share owing to bancassurance	4.0500	0.81492
Cost reduction since adoption of bancassurance	3.9000	0.74421
Rising profitability since adoption of bancassurance	3.8250	0.78078
Rising bancassurance sales since its adoption	3.3500	0.86380

Source: Own research

Table 4.6 above shows the findings in, most of the respondents concurred largely that; Increasing EPS since adoption of bancassurance (Mean=4.1750); Improving market share due to bancassurance (Mean=4.0500); the effect of bancassurance on Cost reduction since adoption(Mean=3.9000); an increase in profitability since implementation of bancassurance (Mean=3.8250) and that the rising bancassurance sales since its adoption (Mean=3.3500) respectively.

From the findings, it's evident that the financial performance of commercial banks in Kenya offering bancassurance had a positive outlook given the rising earnings per share, market share, profitability and sales while on the other hand bancassurance enhanced cost reduction. The findings are in agreement with (Kumar, 2014)[cxlvi] bancassurance is thus an opportunity for a banking institution to obtain high fee income at lower costs.

Bancassurance enables banks to diversify operations by entering new markets and hence growth. The strategic alliances formed reduce competition which enables them to charge high premiums thus explaining the increased. Additionally, banks benefit from extra cover from losses mainly of assets by availing cover to customers for their products (Karkowska, 2018)[cxlvii]

TABLE 4. 8 MULTIPLE REGRESSION MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	. 899[a]	.8082	.796	0.0014	

a. Predictors: (Constant), bancassurance and bank size

b. Dependent Variable: financial performance of commercial banks in Kenya

Source: Own research

Table 4.7 above indicates that bancassurance as the independent variable, explains 80.82% of variance in the financial performance of commercial banks in Kenya as indicated by the R^2 while factors contributed 19.18% of variance in the dependent variable. Therefore, upcoming research should be used to ascertain these factors contributing 19.18% variation in dependent variable of the selected commercial banks in Kenya.

4.7.2 ANOVA (Analysis of Variance)

Based of Analysis of Variance (ANOVA) Table 4.8 below shows the results, the significance value is .004 < 0.05, thus the regression prototype was statistically important in foreseeing how bancassurance influenced financial performance of commercial banks in Kenya. At 5% level of significance, F calculated was 6.418 which was greater than the F critical (3.23), which showed that the overall regression model was significant.

TABLE 4. 9 ANOVA (ANALYSIS OF VARIANCE)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.830	2	3.915	6.418	.004[a]
	Residual	22.570	37	.610		
	Total	30.400	39			

a. Predictors: (Constant), bancassurance and bank size

b. Dependent Variable: financial performance of commercial banks in Kenya

Source: Own research

4.7.3 Coefficient of Determination

Multiple regression analysis results on the relationship between variables. Table 4.9 below analyzes the regression coefficients of bancassurance on financial performance of banks.

TABLE 4. 10 REGRESSION COEFFICIENTS OF DETERMINATION

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta	B	
(Constant)	.743	.866		858	000
Bancassurance	0.577	.181	.479	3.188	003
Bank size	0.094	.196	.072	480	044

Source: Own research

According to the findings,

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \varepsilon$ become:

$Y= 0.743 + 0.577 X_1 + 0.094 X_2 + \varepsilon$

According to the regression equation above, taking bancassurance to be constant at zero, financial performance of commercial banks in Kenya will be 0.743.

The data findings analyzed also shows that a unit increase in bancassurance will result to a 0.577 rise in financial performance of commercial banks while;

A unit rise in bank size will result to a 0.094 rise in financial performance of commercial banks in Kenya. Hence bancassurance contributes significantly to improvement in financial performance of commercial banks in Kenya.

At 5% level of implication and 95% level of assurance, bancassurance had a 0.003 level of importance, while bank size showed a 0.044 level of significance hence bancassurance significantly influenced financial performance of commercial banks in Kenya.

The above was consistent with the findings earlier seen by (Davis et al. 2006)[cxlviii] who reported that insurance products are more tax friendly thus increasing the preference by the customers. Understanding the shift in the investment's patterns, banks have subsequently turned towards bancassurance so that they can benefit from such investments which clients perceive more profitable. Similarly indicated that by offering the banking services and addressing the insurance needs of customers, bancassurers address customers' needs almost simultaneously leading to increased customers satisfaction. The conglomeration of fiscal products by one provider means that a 'one-stop-shop' addresses all customers' needs which makes bancassurers more appealing in the global markets.

CHAPTER FIVE: SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

The chapter offers the summary of the work done, conclusion by the researcher and the necessary recommendations on the study. The objective of the research was to establish the effect of bancassurance on the financial performance of commercial banks in Kenya. The study expected that bancassurance would have a progressive consequence on profitability, cost reduction, return on asset and liquidity of commercial banks in Kenya. The chapter further provides areas for further studies.

5.2 Summary

The study focused on the following areas of Bancassurance; Bancassurance and profitability, Bancassurance and cost reduction, Bancassurance and return on asset, Bancassurance and liquidity.

5.2.1 Bancassurance and profitability

The adoption of bancassurance by the selected commercial banks in Kenya contributed to improvement in their profitability. The profitability of the banks was increased as a result of; Increased employee productivity, creation of new stream of profits through commissions and/or profits from life insurance and new returns from insurance products and mutual funds.

The study established that; Bancassurance has improved profitability of our bank (Mean=4.2750); Bancassurance has increased revenue arising from commissions and/or profits from life insurance (Mean=4.2000); Bancassurance has increased the productivity of staff (Mean=3.8500);

Bancassurance has brought change from deposits and towards insurance cover as well as mutual funds whose return is usually greater than the revenue on traditional deposit accounts (Mean=3.8000) respectively.

5.2.2 Bancassurance and cost reduction

The bancassurance implementation by commercial banks in Kenya brought significant reduction in operational costs through; reduction of office space and equipment, reduction of operational staff due to bank-based sales as well as reduced promotional expenses.

It was revealed that; There is reduction of operational staff due to bank-based sales (Mean=4.1000); There is reduction of office space and equipment (Mean=4.0750); There is reduction in marketing staff numbers (Mean=4.0250); There is a fall in promotional expenses (Mean=3.8000); There is cost-cutting in logistical and operational expenses (Mean=3.7750); There is less need in hiring or leasing technical capacity (Mean=3.6000) respectively.

5.2.3 Bancassurance and return on asset

The study established that the ROA grew from 2.65 in 2011 to 4.51 in 2015 which was 70.2% rise in ROA for the period 2011-2015. Therefore, the financial performance of the eight commercial banks offering bancassurance increased steadily over the study period 2011-2015 with minimal variation across the studied banks.

During the same period (2011-2015), the revenue generated through bancassurance also grew from 1.375 billion in 2011 to 2.9 billion in 2015 which was a 111% rise in revenue generated through bancassurance. Therefore, the bancassurance opened a new window of opportunity for the money-making banks to improve their performance financially in the highly competitive sector where the a number of banks reconded decline in their financial performance. Thus, bancassurance positively influenced the banks financial performance.

5.2.4 Bancassurance and liquidity

It was also revealed that the bank has witnessed rising sales (Mean=4.0500); There have been no credit period glitches with suppliers due to liquidity (Mean=4.0500); The bank has no negative feedback from audit reports on liquidity ratios (Mean=3.8000); The banks liquidity was good and it met its claims on time (Mean=3.7250); The bank has good profitability ratios since bancassurance adoption (Mean=3.6750); The bank has better liquidity ratios since the time bancassurance was adopted (Mean=3.6500); A bancassurance system enables managers to improve from experience (Mean=3.2500); and that investigations on bancassurance services to new banks are allowed (Mean=2.8250) respectively.

Therefore, bancassurance had a significant contribution on improving the commercial banks liquidity. Through implementing bancassurance, the commercial banks had exponential growth in sales and they effectively paid their suppliers and clients' claims.

The study further established that; Rising EPS since implementation of bancassurance (Mean=4.1750); Growing market share owing to bancassurance (Mean=4.0500); Cost reduction since adoption of bancassurance (Mean=3.9000); Increasing profitability since adoption of bancassurance (Mean=3.8250) and that the rising bancassurance sales since its adoption (Mean=3.3500) respectively. Therefore, the financial performance of commercial banks in Kenya offering bancassurance had a positive outlook given the rising earnings per share, market share, profitability and sales while on the other hand bancassurance enhanced cost reduction.

From the multiple regression analysis conducted it was established that bancassurance contributed to 80.82% of variance in the financial performance of commercial banks in Kenya while other variables not studied contributed 19.18% of variance.

It was also determined that a unit increase in bancassurance will lead to a 0.577 increase in financial performance of commercial banks while; a unit increase in bank size will lead to a 0.094 increase in financial performance of commercial banks in Kenya. Therefore, bancassurance contribute significantly to improvement in financial performance of commercial banks in Kenya.

5.3 Conclusion

The study achieved its purpose as it confirmed a solid association between bancassurance and the financial performance of commercial banks in Kenya in terms of profitability, cost reduction, return on asset and liquidity. The selected commercial banks that offered bancassurance over the period 2011 to 2015 recorded a significant growth in both revenues generated through the bancassurance and in their financial performance where bancassurance explained over eighty percent of banks financial performance. However, there was variation in the revenues generated through the bancassurance and financial performance among the eight banks as a result of a host of other critical factors beyond bancassurance like IT application, corporate governance among others, implying that bancassurance should be implemented as part of the banks corporate strategy and not a stand-alone strategy.

5.3.1 Bancassurance and profitability

From the findings, it’s evident that adoption of bancassurance by the selected commercial banks in Kenya contributed to great improvement in their profitability. The profitability of these banks was increased as a result of increased employee productivity, creation of new stream of profits through commissions and/or profits from life insurance and new returns from insurance products and mutual funds.

5.3.2 Bancassurance and cost reduction

The bancassurance implementation by selected commercial banks in Kenya brought significant cost reduction in their operations through as a result of reduction of office space and equipment, reduction of operational staff due to bank-based sales as well as reduced promotional expenses.

5.3.3 Bancassurance and return on asset

The bancassurance opened a new window of opportunity for the scaling up their profitability in the highly competitive sector where the a number of banks recorded decline in their financial performance. Thus, bancassurance positively influenced the banks financial performance. There was high variation in revenue generated through bancassurance among the eight commercial banks.

5.3.4 Bancassurance and liquidity

Bancassurance had a significant contribution on improving the commercial banks liquidity. Through implementing bancassurance, the commercial banks had exponential growth in sales and they effectively paid their suppliers and clients' claims.

It was further evident that the financial performance of commercial banks in Kenya offering bancassurance had a positive outlook given the rising earnings per share, market share, profitability and sales while on the other hand bancassurance enhanced cost reduction. The study further concludes that bancassurance contribute significantly to the financial performance of commercial banks in Kenya.

5.4 Recommendations

Both practice and policy recommendations are presented based on the study findings.

5.4.1 Practice

i. Bancassurances contributed to improvement in profitability of the selected commercial banks in Kenya. Banks management should understand their target market segments and adopt best criteria for market segmentation for bancassurance products.

ii. The bancassurance implementation by selected commercial banks in Kenya brought significant cost reduction. The management of the commercial banks should scale up the bancassurance utilization through allocation of more financial resources as well as hiring competent personnel.

iii. Bancassurance positively influenced the banks financial performance. Therefore, the top management of the banks should fully support the adoption and implementation of bancassurance given the important encouraging link between bancassurance and financial performance of commercial banks.

iv. Bancassurances had a significant contribution on improving the commercial banks liquidity. Therefore, the bank management should regularly review their policies to enhance clarity and recognition of bancassurance as a corporate strategy.

5.4.2 Policy Recommendations

It was evident that bancassurance in Kenya is only offered by eight commercial banks in spite of the great prospect for expansion due to unfriendly regulatory framework in place. The government through Central Bank of Kenya and the IRA, the bancassurance regulator should overhaul the current Banking Act and relevant policy with a view to making them more open and responsive to the growing Bancassurance needs in the Kenya given the positive economic outlook. This should be coupled with seeking input from all the banking players.

5.5 Areas for Further Studies

From the multiple regression analysis, bancassurance was revealed to enlighten 80.82% of variance in the financial performance of commercial banks in Kenya while other variables not studied in this study contributed 19.18% of variance in financial performance. Therefore, further research should be conducted to establish these variables contributing 19.18% variation in financial performance of commercial banks in Kenya offering bancassurance.

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Protocol reference number : HSS/1934/018M

Project title : The effect of Bancassurance on Financial Performance of Commercial Banks in Kenya

ACKNOWLEDGEMENT:
BREACH OF ETHICAL PROCESSES AT UKZN

I, the undersigned,

Student Name (Student Nr)	:	Mrs Dorothy Wambui Muigai (214581815)
School	:	Graduate School of Business & Leadership
Campus	:	Westville

as the Principal Investigator ("the Applicant") in the above stated project, do hereby acknowledge that:

1. The University of KwaZulu-Natal's (hereinafter "UKZN") Research Ethics Policy (V) does not make provision for Retrospective Ethics Approval;
2. All researchers (both students and staff) at UKZN are obliged to be familiar with this policy;
3. I have been informed that research cannot be done without obtaining full ethical clearance as per the policy and guidelines of the University;
4. **Research for the above project was undertaken by myself without final ethical clearance being obtained;**
5. The University reserves its right to, at any stage and time, withdraw the relevant degree obtained by myself if:
   5.1 It becomes known to UKZN that there was an additional ethical breach during any field work or whilst collection data for the above stated project, and / or
   5.2 I fail to apply for ethical clearance for any future research projects.
6. In addition to point 5 above, the appropriate disciplinary processes will follow should this occur again.

I further acknowledge that should there be any legal implications/actions emanating from the research in terms of any ethical violations, I will be personally liable and hereby indemnify UKZN against any legal action that may arise from my failure to adhere to the University Research Ethics Policy (V).

Signed at on the 26TH day of NOVEMBER 2018

Signature of applicant: [redacted]

Signed at on the day of 2018

Signature of Chair (HSSREC): [redacted] Date: 28-01-2019

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