An investigation of the Effect of Bancassurance on the Performance of Financial Industry in Kenya
(A case study of financial industry within Nyeri Town)

By

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MAY, 2012
DECLARATION

This research project is my original work and has not been presented to any other institution of learning for academic purposes or for examination.

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DEDICATION

To my Mother Margret Nanjala Simba, Grandmother Lenna Nakitare and the late Grandfather Paul Nakitare okhwa Napwora for the immense role they have played in my education.
I give glory and honour to the Almighty God for giving me the strength, determination, resources and fortitude to pursue this course successfully. Writing this proposal has proved to be a long journey. I would not have completed it without the help and guidance of many. I would like to take this opportunity to thank some of them. Importantly, I express my deepest gratitude to my able supervisors Ms Ann W. Muchemi and Mr. Julius Murungi who tirelessly took their time in fruitful critique of my work with view and intention of helping me prepare a better document. Their attention to details and insightful comments proved to be invaluable to the enhancement and completion of this work. To my grandmother Lenna N. Nakitare, my great friend Carol Nanjekho Lusweti and my lovely mother Margret N. Simba who instilled a reading culture, persistency and importance of education. Their excitement and appreciation of good academic performance inspired me to further my education.

To my employer Equity Bank limited for giving me an opportunity to work in a very challenging environment that motivates self creativity, innovation and hard working. I am thankful to this institution. Special mention goes to all my Kenyatta University MBA lectures and class mates with special mention to individuals like Isaac Mungai, Munira, Karanja, Miano, Patrick, Eng. Mwangi and Mogere. Indeed I am deeply indebted to you. Lastly but not least, Jane Nderitu I do appreciate your insights in project writing.
The business world and specifically financial industry has become challenging and of uncertain business environment in terms of new technology, political dynamics, government policies and advanced human resources. This therefore calls for dynamic leadership that needs to be creative and innovative in creating their competitive strategies. To mitigate these challenges, some firms’ managements have designed management strategies to sustain growth, acquire new businesses or merely mitigate risk facing the business. This proposal considers strategic alliances in financial industry commonly referred to as bancassurance as a business strategy adopted by commercial banks, SACCOs and insurance companies as one of the pursuit of their diverse organizational objectives and challenges. The purpose of this research was to establish if financial organizations such as banks, SACCOs, and insurance companies can mitigate some of management problems such as high loan default leading to high credit risks, switching of customers due to dissatisfaction, declining profits, resistance to buy new insurance products hence minimum market growth among others. To achieve the mentioned objectives, the study used structured questionnaires and personal interviews on a randomly sampled target of 48 participants from banks, SACCOs, and insurance staff within Nyeri County to investigate the effect of this strategy on performance in the current turbulent financial markets. The data was collected and analyzed using content analysis, descriptive measures and correlation analysis. The study found out that, Bancassurance model was a good source of revenues, customer acquisition, and retention and as one of the factors that investors consider before taking the risk of investing in commercial industry. The study also revealed that Bancassurance has very minimal influence on determining the success and speed of compensating business losses, death of insured applicants among others regardless of the existence of the strategic alliances. The study will be of significance to law makers, policy makers, business entrepreneurs, scholars among others.
DEFINITION OF TERMS

**Annuity** - A contract sold by an insurance company designed to provide payments to the holder at specified intervals usually after retirement or a series of payment of set size and frequently often to the retiree.

**Bancassurance** - The provision of insurance (and bank) products and services through banks and SACCOs distribution channels to the same client base. It is a tailor made strategic alliance in financial industry.

**Credit insurance** - Is an example of an insurance coverage for a speculative risks where the insure pays the lender if the lender loses money because of the debtor fail to pay their debt e.g. through bankrupt.

**Credit risk** - The risk that a counter party defaults on some or all its contractual obligation. In lending operations, is the likelihood that a borrower will not be able to repay the principal or pay the interest.

**Deregulation** - The process of removing or reducing the rules or regulations on an industry with the objective of improving economic efficiency, competition and innovation in the market.

**Joint ventures** - An association or contractual business undertaking of two or more individuals or companies engaged in a solitary business enterprise for profit without actual partnership or incorporation.

**Life insurance** - A composite product providing both protections in the event of death and some form of long-term investment return.

**Management risk** - The risk that management lacks the ability to make commercially profitable and other decision consistently. It may also include the risk of dishonesty by employees and the risk that the bank will not have an effective organization.

**Mortgage** - A temporary conditional pledge of property to a credit as a security for performance.
of an obligation or repayment of a debt

**Non-life Insurance** – also called general insurance. A form of insurance normally concerned with protecting the policy holder from loss or damage caused by specific risks such as property insurance.

**Overdraft** - This is an automatic credit, up to a pre-agreed amount either to salaried or to clients with consistent income.

**Risk** - The probability that an actual return on an investment will be lower than or different from the expected return

**Underwriting** - Refers to the process of selecting and pricing applications for insurance. Decision to accept or reject the application
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<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>AKI</td>
<td>Association of Kenya Insurance</td>
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<tr>
<td>APE</td>
<td>Annual premium equivalent</td>
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<tr>
<td>ATM</td>
<td>Automated teller machine</td>
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<tr>
<td>CDO</td>
<td>Collateralized debt obligation</td>
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<tr>
<td>ERM</td>
<td>Enterprise risk management</td>
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<td>HNWI</td>
<td>High net worth individuals</td>
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<td>ICP</td>
<td>Insurance core principles</td>
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<td>IMF</td>
<td>International monetary funds</td>
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<td>KBA</td>
<td>Kenya bankers association</td>
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<td>LTV</td>
<td>Loan to value ratio</td>
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<td>MFI</td>
<td>Micro finance institution</td>
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<td>MRGR</td>
<td>Munich Re group report</td>
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<td>NSE</td>
<td>Nairobi securities exchange</td>
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<tr>
<td>ROA</td>
<td>Return on assets</td>
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<td>RBV</td>
<td>Resource based view</td>
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<td>RFI</td>
<td>Rural finance institution</td>
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<td>SACCO</td>
<td>Savings and credit cooperative society</td>
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1.0 INTRODUCTION

1.1. Background Information
Institutions are endeavoring to come up with ways of retaining and growing their customer. These can be through designing competitive strategy that entails moves to attract customers, withstand competitive pressure and strengthen a firm’s market position. The objectives of competitive strategies are to earn a competitive advantage, cultivate clientele of loyal customers and knock the socks off rivals. According to Porter (1980) competitive advantage is creating and sustaining superior performance, it is the factor that sets an organization apart or gives it a distinctive edge, which carries from the organization core competencies. This therefore calls various strategies to be employed by organizations. It is also noted that the realization of company resources with the demand of a new and more challenging business environment has seen the wide spread emergence of strategies of collaboration and partnership with other organization as a key element of the process of going to market. While precise terminology does not exist, these new organization forms and network arrangement have been variously termed as marketing partnership, strategic alliances and marketing networks (Hollenson, 2007).

Joint ventures (or strategic alliances as mostly referred) are formed for a variety of reasons; entering new markets, reducing costs, and developing and diffusing new technologies rapidly. Joint ventures are also used to accelerate products introduction by sharing market experience and outcome legal and trade barriers expeditiously (Hollenson, 2007). It is argued that, forming alliances is often the fastest, most effective method of achieving objectives. A good strategic alliance should be based on a well written legal binding contract stating clearly the conditions of the partnership (Hollenson 2007). The alliance should have proper tools of performance evaluation including cash flow, market share among others. This is because, research using game theory has suggested that alliance structures are inherently more likely that others be associated with a high opportunity to cheat, high behavioral uncertainty, among others (Trott 2008).
A firm competes by offering unique products that are widely valued by customers (differentiated products). Many firms find at least one attribute that allows them to differentiate themselves from competitors. Product differences might come from exceptionally high quality, extraordinary service, innovative design, and technological capability, offering varieties of products or any unusually positive brand image. Strategic alliances and partnerships with reputable firms and investments from well-established organization can also enhance the branding of the new firm and profitability of the organizations. Trott (2008) clearly writes that, when companies are faced with new levels of competition, many companies including competitors are sharing their resources and expertise to develop new products, achieve economies of scale, and gain access to new technology and markets. Typically, networks operations are guided by sophisticated information and decision support systems, often global in their scope, which perform many of the command and control functions of the traditional hierarchical organization. The resulting network is flexible and adaptable to change, and the more successful network designs are customer driven- guided by needs and preferences of buyers (Powell, 1990 and Hooley et al. 2008)

Cross-selling, which is complementary to cross-buying, is the practice of promoting additional services or products to a firm’s existing customers, which are in addition to the ones that the customers already have (Butera, 2000). In fact cross-selling and its benefits can only be achieved if consumers are willing to cross-buy (Polonsky et al.2001 and Kamakura et al. 2003). Selling additional products or services to existing customers may reduce the cost of customer acquisition and yield price advantages over competitors (Nbogo, 2004). The main objectives for alliances are to seek access to technologies, gain greater technical critical masses and share the risk of failure of technology development. Therefore, strategic business alliances will only achieve a substantial competitive advantage if they involve learning and knowledge transfer. The emphasis on learning helps to develop individual and organizational intelligence thereby ensuring the failure of success of the strategic alliance.
1.1.2 The Concept and origin of Bancassurance

The banking industry is usually defined to include central bank and commercial banks while the non-banking sector includes insurances, pension and mutual funds (Joseph, 2011). 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. This has led to increased competition in the sector which spawned a number of new financial instruments, increased internationalization of financial activity and the blurring of barriers which separate the services of one financial institution from another. The latter has evolved into the establishment of new institutions (financial conglomerates), which offer a complete range of financial services.

Strategic alliances in the financial services sector represent one of the many outcomes of the rapid transformation the industry has witnessed in recent 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.

Bancassurance (Allfinanz to the Germans) generally refers to 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 have been among the first countries to embark on this new activity. It is believed that the banking industry in Taiwan has experienced tremendous change and an increased growth in earnings from selling insurance products. Banks also enjoy significant brand awareness within their geographic regions, again providing for a lower per-lead cost when advertising through print, radio and/or television. Banks that make the most of these advantages are able to penetrate their customer base and markets for above-average market share. Therefore, insurance companies can leverage on this free publicity. A 2002 Sigma study for Asia suggests that the lower cost of bancassurance, estimated at 33% of
annual premium equivalent (APE) against 42% for independent agents and 78% for a direct sales force, has been a major driver for the bank channel in that market (Davis, 2007). Banking networks represent the major distribution channel for life insurance products. Most banks are looking for the same things better ways to retain customers and to increase income. Similarly, most insurers are looking for the same things more efficient distribution channels to sell policies and to expand premium incomes. To manage their relationship development efforts better, it is important for practitioners to understand the motivations that lead the customer’s to reduce their market choices and to engage in a relationship with a financial firm (Sheth and Parvatiyar 1995).

1.1.3 Bancassurance in Nyeri-Kenya

There are almost forty three commercial banks and thirty-three Insurance companies in Kenya. Of this, Nyeri town, a town in Central province almost two hundred kilometers from the capital city of the republic of Kenya, has ten commercial banks and approximately eight insurance companies and several agents. There are approximately four commercial banks and three SACCOs formerly practicing bancassurance. These banks include but not limited to Equity Bank Limited, Family Bank, Standard Chartered Bank, Co-operative bank of Kenya, Kenya Commercial Bank among others. These institutions practice this association (bancassurance) either purely as a strategic alliance, joint venture or through referrals.

The focus of this research paper will be to give an overview of the probable strategic implications of alliances between various financial institutions, and in particular commercial banks and insurance companies in regard of financial performance, quality of asset portfolio and customer base growth in Kenya financial industry.

1.2 Statement of the Problem.

One of the most significant changes in the financial services sector over the past few years has been the appearance and development of Bancassurance. In its full holistic form it realizes the full potential of the customer database of the bank to develop an excellent customer focused service for consumers, and the highest value on returns for the bank and insurer. It is not just about selling insurance products to bank customers but exploits the true synergies
between, and respective strengths of the bank and insurer. The concept that originated in France now constitutes the dominant model in a number of European and other countries and the same is fast catching up in India and Africa as well (Davis, 2007 and Joseph, 2009).

In recent years, some commercial banks deposits and credit uptake have showed a declining trend in Kenya while others have reported a sharp profit increase. Some financial institutions such as banks and SACCOs have reported huge loan provisions due to non performing loans either resulting from death of borrowers, loss of business through natural disasters such as fires, floods, drought, political clashes (such as 2007/2008 in Kenya) or poor management styles.

Also, for insurance to have adequate funds to have a sustained compensation to claims made by its customers, insurance need to have enough pool of funds that can only be sustained through large number of clients taking up various types of insurance policies. This may be achieved through reaching out to many clients through proper channels of marketing. These calls probably for insurance companies to innovate other methods that can demystify the perception people have about their sincerity and practicability of the products they offer.

It is therefore hoped that by financial institutions joining the strategic alliance, the resulting synergies will have an improved economic status for respective institutions by mutually providing to each other the much needed viable customer numbers, risk management skills, and much needed profit growth. It is noted that most insurance companies have collapsed due to overreliance on traditional high risk products like motor insurance leading to high financial claims with little pooled funds. Banks have collapsed due to bad loans resulting from high customer default and reluctance for insurance compensation. Furthermore, little or no formal research has been done to establish the viability of strategic alliances in the financial industry as a management tool in Kenya. It is in this perspective that, this research tries to establish if financial organizations such as banks, SACCOs, and insurance companies can mitigate some of management problems such as high loan default, switching of customers, declining profits, resistance to buy new insurance products among others can be mitigated. The findings will also try to find out the perception of the stakeholders on the concept by providing important theoretical and managerial insights.
1.3.0 Research Objectives

The general objectives of this study were to investigate the effect of Bancassurance (strategic alliance in financial industry) on the performance of financial industry in Kenya.

1.3.1 The Specific Objectives of the Study

The study sought to fulfill the following objectives for financial industry engaged in these strategic alliances:

a) To establish the effect of Bancassurance on the profitability of financial industry.

b) To determine the effects of the Bancassurance on customer market share.

c) To find out whether the strategic alliances in the financial industry affects customer satisfaction.

d) To establish whether by financial institutions joining the Bancassurance, there is a reduced credit risks due to an effective and efficient risk management and compensation.

1.4 Research Questions.

The research was broadly seeking to answer the following questions as regards to this study:

a) To what extend has the bancassurance affected the profitability of the respective participants?

b) What is the effect of bancassurance on customer market share acquisition on respective parties?

c) How do bancassurance affect the customer satisfaction?

d) Does the financial institutions’ credit risk management improve when they form strategic alliances (bancassurance)?
1.5 Significance of the Study

The study was expected to be of benefit to the following groups:

1.5.1 Central Bank of Kenya and Other policy makers (such as AKI, KBA & NSE)

This study is intended to be of great benefit to Central bank of Kenya as a financial regulator and policy maker (on currency depreciation, credit quality control, and individual pension investment and deposit mobilization), Association of Kenya Insurance (AKI) and Kenya Bankers Associations (KBA) in their effort of standardization of institutions' policies and procedures in financial industry for mutual coexistence, portfolio growth and risk management, and finally the Nairobi Security Exchange (formally Nairobi Stock Exchange- NSE) may use the collected data when determining the nature of stock to be listed on its market.

1.5.2 Financial industry Investors and other Stakeholders

It is hoped that the findings of this research will be of a great help to the present investors and other stakeholders in formulating and implementing their investments strategies. The confirmation of business continuity, profitability, risk management, and growth are some of the key parameters that investors endeavor to be assured of before taking a risk of financial investments. Customers are more willing to take mortgages from commercial banks that are fully secured with reputable insurance companies hence need of this well researched information.

1.5.3 Kenya National Assembly and Law makers

It is hoped that Law makers, the government agencies and other policy makers may find the collected data useful in adjusting or reviewing the existing bancassurance legal framework and other relevant financial industry policies, in general to improve the confidence of the Kenyan citizenry and commercial banks especially in developing a desirable confidence level. Well researched parliamentary bills, legal statues, and legal amendments form a basis of enforceable contracts and other formal agreements.
1.5.4 Academician and Researchers in financial industries

Finally, the collected literature materials, data and findings will be of great use in guiding and progressing research in the areas of financial management, marketing, policy making among other fields for future researchers, customers and academic writers. It will also provide a basis of studying the financial industry performance and possibility of coming up with new models of financial management for the betterment of the industry.

1.6 The Scope of the Research

This research covered SACCOs, commercial banks in Kenya (Nyeri town) that are practicing Bancassurance and insurance companies that are in these strategic alliances. There are almost forty two commercial banks and at least thirty-three SACCOs in Kenya of which at least four are formally in Bancassurance. For insurance companies in Nyeri- Kenya, there are at least thirteen companies with a minimum of at least four in either a joint venture with banks or fully in the strategic alliance (bancassurance). Therefore, this research targeted bancassurance officers in some of the commercial banks in Nyeri town practicing this venture, the bank’s branch managers, bank branch credit managers, credit officers, insurance officers, SACCOs employees and insurance agents. These are the main individuals either directly or indirectly being involved in this exercise.

1.7 Limitation of the Study

The scope of the study was limited by the following factors:

1.7.1 Accessing Managers

From the study carried out, the researcher realized that, most of branch managers also acted the role of sales and marketing position. These therefore make them to have busy time schedule leading to minimal time for extra time to handle non business related issues. This limitation was minimized by the researcher planning for a private appointment to any other places where they were willing to be engaged.
1.7.2 Resistance
There was some resistance due to lack of faith, wrong speculation on the intentions of the research and fear of sharing of companies' confidential information to the public contrary to employee code of ethics and contractual obligation that was to undermine the depth and correctness of information being given on qualitative issues to the researcher. A pre-negotiation with the firm’s management to seek permission to engage its members in order to develop a higher confidence levels was done to minimize the effects on the quality of the research.

1.8 Assumption
The assumption of this study was based on the following:
The researcher assumed that, the answers given throughout the questionnaires stage were honest responses to the best of the respondent’s knowledge and understanding. This was because; the researcher had sought a prior consent from the employer and interviewed the staffs who had fully qualified in the area of their work hence giving almost accurate and reliable information.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter contains general background to the concept of strategy and strategic alliance in financial industry, specifically among commercial banks, SACCOs and insurance companies basically referred to as bancassurance and then narrows down to discuss each research objective in this study. Related literature materials in respective study objectives and companies prospectus will be discussed in detail citing credible source where possible. A conclusive relationship between the research questions in relation to this topic of the study will be drawn for quick review.

2.2 The concept of strategy
Strategy sprung from the need for people to defeat their enemies. The first treatises that discuss strategy are from the Chinese during the period of 400 – 200 B.C. Sun Tzu’s The Art of War, written in 400 B.C. (Casu et al 2006). Powell, 1990 discusses strategic decisions as those that, set broad objectives that direct an enterprise towards its overall goal, plan the path that will achieve this goals, stress long-term rather than short term objectives, and are often seen as above or detached from routine day-to-day activities. Therefore, strategy is often taken to be the pattern of decision that indicates the company’s overall path. The following are examples of different levals of strategies:

2.2.1 Functional level strategies
Functional-level strategies are concerned with coordinating the functional areas of the organization (marketing, finance, human resources, production, research and development, etc.) so that each functional area upholds and contributes to individual business-level strategies and the overall corporate-level strategy. This involves coordinating the various functions and operations needed to design, manufacturer, deliver, and support the product or service of each business within the corporate portfolio. Thus, functional strategies have a shorter time orientation than either business-level or corporate-level strategies. Accountability is also easiest to establish with functional strategies because results of actions occur sooner and are more easily attributed
to the function than is possible at other levels of strategy. Lower-level managers are most directly involved with the implementation of functional strategies (Porter 1985 and Ansoff 1990).

2.2.2 Business Level Strategies

Business-level strategies focus on overall performance of an organization. In contrast to corporate-level strategy, however, they focus on only one rather than a portfolio of businesses. Business units represent individual entities oriented toward a particular industry, product, or market. In large multi-product or multi-industry organizations, individual business units may be combined to form strategic business units (SBUs). Business-level strategies thus support corporate-level strategies. Business-level strategies are concerned with matching their activities with the overall goals of corporate-level strategy and navigating the markets in which they compete in such a way that they have a financial or market edge competitive advantage relative to the other businesses in their industry.

2.2.3 Corporate Level Strategies

Corporate-level strategies address the entire strategic scope of the enterprise. This is the bigger view of the organization and includes deciding in which product or service markets to compete and in which geographic regions to operate. In addition, because market definition is the domain of corporate-level strategists, the responsibility for diversification, or the addition of new products or services to the existing product/service line-up, also falls within the realm of corporate-level strategy. The myriad decisions required of these managers can be overwhelming considering the potential consequences of incorrect decisions. One way to deal with this complexity is through categorization; one categorization scheme is to classify corporate-level strategy decisions into three different types, or grand strategies. These grand strategies involve efforts to expand business operations (growth strategies), decrease the scope of business operations (retrenchment strategies), or maintain the status quo (stability strategies) (Poter 1985; Trott 2008 & Kirui 2009).

For instance, growth strategies are designed to expand an organization's performance, usually as measured by sales, profits, product mix, market coverage, market share, or other accounting and market-based variables. A typical growth strategy may involve a diversification strategy. A diversification strategy entails moving into different markets or adding different products to its
mix. If the products or markets are related to existing product or service offerings, the strategy is called concentric diversification, as in the case of bancassurance in the financial industry (Poter 1985; Trott 2008).

2.3 The concept of Strategic alliances

Business are slowly beginning to broaden their view of their business environment from the traditional go-it-alone perspective of individual firms competing against each other, to symbiotic marketing where the process of pooling resources to provide benefits to companies that would not be available to either one individual is the main objective. This association is basically referred to as strategic alliance or octopus strategy. Strategic alliances can occur intra-industry or inter-industry. It has also been noted that, alliances can involve customer, a supplier, or even a competitor. Thus, there are almost eight generic types of strategic alliances according to Trott (2008). These are: licensing, supplier relation, outsourcing, joint venture, collaboration (non joint venture), research and development (R&D) consortia, industry cluster (concentration of interconnected companies) and innovation networks (Trott, 2008).

With increasing costs associated with technology and product development combined with changing consumer preferences and government regulatory policy, symbiotic relationships (alliances) offer an alternative to internal development, mergers, and acquisitions in regard to various growth opportunities (Varadarajan and Rajaratnam 1986). Effective alliances are found to create firm value, as reflected in the rents that partners gain which exceed rents generated through alternative organizational configurations and shortening the product life cycle (Trott, 2008).

2.4 The Concept of Bancassurance

The theories of banking and insurance contain a number of similarities that contradict the traditional distinctions between the two businesses. Joseph (1997) explained that banks take advantage of economies of scale in portfolio management, which arises from the law of large numbers. Insurance economics rely on the law of large numbers, which states that the expected loss distribution approaches the true loss distribution as the sample grows. This enables insurance companies to pool individual reserves to protect against adversity.
Similarly, banks provide the insurance of financial security for their clients; the insurance premium is reflected in service charges and the spread between interest rates on loans and deposits. Levy-Lang (1990), argued that insurance companies undertake some form of fund management (a banking attribute) through the investment of their technical reserves. This function brings them closer to banking. Levy-Lang (1990) summarized the affinities of banking and insurance as follows: Both operate with reserves, rely on the law of large numbers, use economies of scale, and have expertise in administration and money management. They create liquidity and assume a risk-spreading function through reinsurance or refinancing.

The business of banking around the globe is changing due to integration of global financial markets, development of new technologies, universalisation of banking operations and diversification in non-banking activities. Due to all these movements, the boundaries that have kept various financial services separate from each other have vanished. The coming together of different financial services has provided synergies in operations and development of new concepts. One of these is bancassurance (Sehgal & Abrol 2011). In this arrangement, insurance companies and banks undergo a tie-up, thereby allowing banks to sell the insurance products to its customers. This is a system in which a bank has a corporate agency with one insurance company to sell its products (Kirui, 2009). Bancassurance has grown at different places and taken shapes and forms in different countries depending upon demography, economic and legislative prescriptions in that country. It is most successful in Europe, especially in France, from where it started, Italy, Belgium and Luxembourg (Davis, 2007).

Bancassurance is seen as an emerging and important distribution channel globally and has risen in a relatively short time, to become a powerful force in the financial services sector. Its growth over the last 20 years has been driven by the need to reduce the ever increasing operational costs, increase efficiencies and conform to changing customer needs as well as develop synergies in the banking and insurance industries. From innumerable insurers, to affordable and quality covers for the consumer, from increase in distribution channels to incorporating information technology measures, from net selling to bringing about increased transparency. The ubiquitous agent is no more the only distribution channel today for insurance
products. Increase in distribution channels has among others also seen the concept of Bancassurance taking roots in many states, and it is emerging to be a viable solution to mass selling of insurance products. On the other hand, a series of mergers, takeovers and joint ventures between banks, SACCOs and insurance companies have also contributed to the growth of bancassurance over that period. Thus bancassurance has become a dominant force in key financial service sectors across the globe and this trend is set to continue (Kirui, 2009; Joseph, 1997 and Davis, 2007).

2.5 Corporate Performance
Effective performance measurement is of key importance in ensuring the successful implementation of an organization’s strategy. It is about monitoring an organization’s effectiveness in fulfilling its own predetermined goals or the requirements of stakeholders. In order to be successful, today’s company must perform better not simply in terms of cost or profitability but also in other dimensions such as quality, flexibility, market growth, value to the customer and so on. A performance measurement system that enables it to meet these demands successfully is essential as it helps ensure that decision-making at strategic and operational level is better informed and more effective. Comparison of outcomes against objectives enables the identification of problems so that timely corrective action can be taken (Crosby, 1987). Above all, measuring performance is an important tool of strategic analysis. Stakeholders will get a better indication of an organization’s strategy from observing what it measures and does than from its declared goals or what it says it does.

2.6 The Effects of Bancassurance on Performance of Financial Institutions
The strategic alliance as noted has been found to have a wide range of mutual benefits to the players including financial income generation, market share growth, customer satisfaction and risk management. Consequently, the literature on alliances (bancassurance) is thus discussed with research investigating the value strategic alliances generate for participating organizations.

2.6.1 Bancassurance and Financial Profitability
Supporters of transaction cost economics theory affirm that, firms form alliances to manage and minimize their costs and/or risks. Strategic alliances of this type represent an approach to
adapting to an uncertain environmental internalization process by which the firm minimizes its exposure to market uncertainties, accompanying negotiation, and risk (Williamson, 1979)

Intense competition between banks, against a background of shrinking interest margins, has led to an increase in the administrative and marketing costs and limiting the profit margins of the traditional banking products. New products could substantially enhance the profitability and increase productivity. Financial benefits to a bank’s performance can flow in a number of ways as: Increased income generated in the form of commissions and/or profits from the business (depending upon the relationship), reduction of the effect of the bank’s fixed costs- as they are now also spread over the life insurance relationship, opportunity to increase the productivity of staff- as they now have the chance to offer a wider range of services to clients (Kirui, 2009; Davis, 2007; Gallardo, Goldberg & Randhawa 2006).

Customer preferences regarding investments are changing. For medium-term and long-term investments, there is a trend away from deposits and toward insurance products and mutual funds where the return is usually higher than the return on traditional deposit accounts. This shift in investment preferences has led to a reduction in the share of personal savings held as deposits, traditionally the core element of profitability for a bank which manages clients’ money. Banks have sought to offset some of the losses by entering life insurance business. Life insurance is also frequently supported by favourable tax treatment to encourage private provision for protection or retirement planning. This preferential treatment makes insurance products more attractive to customers and banks see an opportunity for profitable sales of such products. For instance, banks in Europe, having been introduced to bancassurance by the ease with which they can sell tax-advantaged investment products, have found that they are also well equipped to offer relatively high-margin term life as a standalone product. One Dutch bancassurer thus calculates that term life offers the highest return on bancassurance capital at 15-20%, much higher than the fees earned now on selling the original investment product or even on fixed deposit accounts (Davis 2007 and Gallardo et al. 2006).

Figure 2.1, based on US data, does provide a rough indication of relative product profitability in terms of number of basis points. Fixed annuities and whole life lead the list with spreads of at
least 50 basis points, while term insurance, as indicated produces only five basis points. This therefore explains why commercial banks would like to have a joint operation with insurance firms to keep long term cash deposits for onward lending.

Figure 2.1: Relative profitability of selected products

As indicated above, the relative ease with which bank sales forces can cross-sell an insurance product can be a major competitive advantage. Thus, term life (e.g. fixed deposit accounts) may, in some markets, be a low-margin product, but a bank providing creditor life in connection with a new consumer loan may actually have a zero incremental selling cost.

The high operating expenses of bank branches (cost to income ratio) have led many banks to decrease their branch network, such as the case of Barclays bank of Kenya. The need for more efficient utilization of branches and bank employees is today as pressing as ever. However, in Italy the number of branches has increased due to the noticeable development in bancassurance (Munich Re Group report, MRGR). In the future, in view of ongoing consolidation, the bank branch networks will probably decrease as well. The insurance company can offer to carry out the administration activities of the bancassurer’s business, if for example the bancassurer is a separate company. Combining the bancassurer’s business with the other business of the insurer
can produce economies of scale in administration costs (including capital expenditure). This in turn allows the insurer to improve profitability and to price future products with narrower margins, which helps to make the insurer’s products more competitive (Williamson, 1979).

Apart from the benefits that can be derived from the possible wide spread of branches across the country, bancassurers can have a competitive advantage over traditional insurers (non-bancassurers), derived from the provision of customer service through automated teller machines (ATMs) hence reduced costs of marketing. In particular the bancassurer can provide its customers with an ATM card that can be used to gain access to any ATM and request information such as cash values, unit price, policy status, next premium due date, loan accounts, surrender values, etc (Kirui, 2009). This channel of customer service can easily be extended so that the customer can gain access to information regarding his bank accounts and insurance policies through his personal computer. ATMs can also be used to advertise insurance products and provide channels of online application of insurance policies hence reducing cost of marketing.

The realization that joint bank, SACCOs and insurance products can be better for the customer as they provide more complete solutions than traditional standalone banking or insurance products, has played a vital role of encouraging this model. For example, a policyholder takes out a permanent assurance with the aim of funding future education costs (education policy). At the same time, the policyholder can take out a loan (mortgage) and assign the life policy to the bank as beneficiary or collateral. For the bank, the benefits are increased sales or fees and a more widely based relationship with the customer than would be possible with bank products only. Also, banks’ core non-insurance products are under pressure and there is an increased focus on the sale of insurance products which generally have a low penetration to the banks’ customer base (Casu, 2006 and Davis, 2007).

One of the most important reasons of considering Bancassurance by Banks and SACCOs is increased return on assets (ROA). One of the best ways to increase ROA, assuming a constant asset base, is through fee income. Banks that build fee income can cover more of their operating expenses, and one way to build fee income is through the sale of insurance products. Banks that effectively cross-sell financial product can leverage their distribution and processing capabilities for profitable operating expense ratios (Casu 2006). For example, all employees in a SACCO or
a bank can be given a target of marketing and acquiring at least a specific figure of an insurance product client as one of their target for performance appraisals.

Another advantage banks have over traditional insurance distributors according to Kirui (2009) is the lower cost per sales lead made possible by their sizable, loyal customer base. Banks also enjoy significant brand awareness within their geographic regions, again providing for a lower per-lead cost when advertising through print, radio and/or television. Banks that make the most of these advantages are able to penetrate their customer base and markets for above-average market share. Therefore, insurance companies can leverage on this free publicity. A 2002 Sigma study for Asia suggests that the lower cost of bancassurance, estimated at 33% of annual premium equivalent (APE) against 42% for independent agents and 78% for a direct sales force, has been a major driver for the bank channel in that market (Davis, 2007).

A typical productivity study based on US data is provided in Figure 2.2 (below) for the bank and agency channels.

![Figure 2.2: Banks have higher productivity than traditional agents](image)

**Key:**
- **White:** salaried agents with warm leads from bank branches and **Grey:** traditional insurance agents

**Conversion rate**
- Traditional insurance agent: 10%
- Salaried agent with warm leads from bank branches (bancassurance officers): 25%

**Source:** McKinsey & Co (Submissions to the Canadian government task force, 2003 – latest available data)
Given the same number of client cases, the bank channel is deemed able to convert 25% into actual business against only 10% for the agent. Similarly, a study by the consulting firm Tillinghast estimates the bank productivity advantage at four times that of the agent. A study by Accenture indicates that the bancassurers' cost advantage translates into an internal rate of return of 8.3% over the cost of funds against 7.0% for traditional insurers (Davis, 2007).

In German, the dominant insurer with roughly 20% of the national market, Allianz, is midway through a comprehensive change programme called -Three plus One, which is designed to protect and enhance its capital base, improve profitability and reduce complexity. The programme aims to convert its subsidiary Dresdner Bank, the fourth-largest German bank with 5% of the German retail market, into a profitable bancassurer as well as reduce costs, revise inefficient and complex capital structures, divest itself of non-strategic investments, build its life insurance business in growth markets and improve cross-selling across the group. Good progress has been made in turning around the former loss-making Dresdner Bank, which has achieved a reasonable ROE of 12% in 2006. On a broader scale, since the first half of 2003, the group's shareholders’ equity has risen 53%, operating profits have soared 154% to €5.5 billion, and risk capital has been reduced by 6% (Davis, 2007).

The economics of the bancassurance operation may allow the insurer to offer products which are not feasible through the insurer’s existing channels. For example, sales costs incurred under existing channels may force premium rates for a product to be uncompetitive, so the product is not sold. The costs via the bancassurance channel may be low enough to make it feasible. According to (Kirui, 2009), some Asian markets have seen bancassurance make significant headway in recent times. For example, bancassurance accounted for 24% of new life insurance sales by premium income in Singapore in 2002. This is a significant increase on the equivalent 2001 statistic of 15% and is as a result of growth in significant bank-centric bancassurance operations. In Hong Kong the figure for 2002 is expected to be at the 20% level for the same basic reasons (Devis, 2007 and Frazer, 2005).
2.6.2 Strategic Alliances (Bancassurance) and Market Share

The notions of domesticated markets refer to the tendency of firms in industrial markets to form strong relationships with their customers and suppliers in order to provide superior customer value. This type of strategic alliances is perceived as the least risky and most effective means of providing services or products that will enhance the relationship with the customer base (Webster, 1992; Gomes, 1998).

Strategic behavior or competitive advantage theory focuses on a firm’s behavior from a managerial, rather than a marketing approach, explaining that companies are expected to seek cooperative arrangements if they believe those will improve their ability to meet strategic objectives, especially in maximizing profits or in protecting or enlarging market share (Gomes, 2000 and Kirui, 2009). Strategic alliances can be employed to scale up access of rural households and micro-business to financial services. The scaling up can be achieved through two approaches which require a rural finance institution (RFI) to seek out and form strategic alliances with other commercial institutions. The scaling up entails introducing new financial services to an existing client base thereby reducing drop-out rates and increasing client retention, increasing client satisfaction with overall quality and quantity of services available and attracting potential new clients.

Banks, micro-finances and SACCOs have expertise on the financial needs, saving patterns and life stages of the customers they serve. Banks and SACCOs also have much lower distribution costs than insurance companies and thus are the fastest emerging distribution channel. For insurers, tying up with banks provides extensive geographical spread and countrywide customer access; which is the logical route for insurers to take. However, the evolution of bancassurance as a concept and its practical implementation in various parts of the world, have thrown up a number of opportunities and challenges. Aspects such as the most suited model for a given country with its economic, social and cultural ramifications interacting on each other, legislative hurdles, and the mindset of persons involved in this activity, have dominated the study and literature on bancassurance (Kirui, 2009).
Life insurance companies mobilize and channel savings. They mobilize savings from the household sector and channel them to the corporate and public sectors. As the maturity of life insurance liabilities is generally longer than the maturity of bank liabilities, life insurers can play a large role in the equity and bond markets. In addition, their portfolios are less prone to liquidity crises. Countries with higher savings rates tend to show faster growth. Insurance mobilizes personal savings: In general, countries with high savings rates are those showing fastest growth. An IMF study in 1995 indicated that of the world’s 20 fastest-growing economies over the previous 10 years, 14 had savings rates greater than 25 per cent of GDP, and none had a saving rate of less than 18 per cent. But 14 of the 20 slowest growing countries had savings rates below 15 per cent. Insurers have a key role in enhancing savings rates and in channeling domestic savings into domestic investment; and, through long-run investments, matched to risks and generally located in the host economy in which they operate, insurers are key holders of equity and bond portfolios (Davis, 2007 and Rejde, 2008). This therefore implies that banks enter into these strategic alliances to boost its long term client numbers hence stability or customer retention.

Banks are used to having long-term relationships with their customers. Banks have developed skills in deepening the relationship with their customers over time, for example by marketing extra services such as deposit funds, credit products, share trading or taxation advices. Life insurance operations are also used to managing a relationship over the long term with their customers. This allows similar skills to be practiced and the bancassurer can make use of the best that each partner has to offer, reduced switching behaviours of customers.

Banks are experiencing the increased mobility of their customers, who to a great extent tend to have accounts with more than one bank. Therefore there is a strong need for customer loyalty to an organization to be enhanced. Client relationship management has become a key to total quality management strategy. To build and maintain client relationships, banks and insurers are forming partnerships to provide their clients with a wide range of bank and insurance products from one source. It is believed that as the number of products that a customer purchases from an organization increases the chance of losing that specific customer to a competitor decreases (Davis, 2007). This attachment, whereby customers cannot leave the financial institution on
simple reasons due to highly differentiated value returns are some of the key underlying functions of the bancassurance.

Banks have extensive experience in marketing to both existing customers (for retention and cross selling) and non-customers (for acquisition and awareness). They also have access to multiple communications channels such as; statement inserts, direct mail, ATMs, telemarketing, etc. Banks' proficiency in using technology has resulted in improvements in transaction processing and customer service. Also, Insurers have much to gain from marketing through banks. Personal-lines carriers have found it difficult to grow using traditional agency systems because price competition has driven down margins and increased the compensation demands of successful agents. Over the last decade, life agents have sold fewer and larger policies to a more upscale client base. Middle-income consumers, who comprise the bulk of bank customers, get little attention from most life agents. By capitalizing on bank relationships, insurers will recapture much of this underserved market (Kirui, 2009).

Liberalization invariably brings with it increased competition, and for business and exporters in particular, this meant a demand for innovative financial products to support their outward thrust. For the financial institutions, in order to maintain and increase market share in Trinidad and Tobago, it meant diversification, financial innovation and investment in computer technology. 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 (Joseph, 1997 & Kirui, 2009). It has been argued that the bank’s clients may form a very different group (e.g. by age, sex, purchasing habits) to the one which the insurer has previously courted. For example, an insurer who previously concentrated on high net worth individuals (HNWIs) can now gain access to a wider range of customers who will not all be HNWIs.
India, being the one of the most populous country in the world with a huge potential for insurance companies, has an envious chain of bank branches as the lifeline of its financial system. Banks with over 65,000 branches & 65% of household investments are the backbone of the Indian financial market. In India, there are 75 branches per million inhabitants. Clearly, that's something insurance companies - both private and state-owned - would find nearly impossible to achieve on their own. Life insurance premium represents 55% of the world insurance premium, and as the life insurance is basically a saving market. So it is one of the methods to increase deposits of banks (Kirui, 2009). This therefore has greatly boosted clients taking up insurance products hence the much needed numbers.

Bancassurance now accounts for an estimated one-third of the overall European retail life insurance market and perhaps 5-10% of the non-life sector. Europe is often characterized as having two distinct models – the bank-dominated countries like France and Spain, where banks control at least half of the life market, and the broker model, which dominates in the UK and the Netherlands. The database on Germany is sparse, but it would appear that all three channels – traditional agents and employees, brokers and banks, have significant shares of the market (Davis, 2007).

More specifically, there has been massive attrition of agents and company salesmen in markets like France, which have been particularly impacted by bancassurance. Figure 2.3 plots the 42% fall in the number of tied agents in France over the period from 1985 to 2003 (Davis, 2007).
This therefore indicates that bancassurance has contributed to the declining or displacement of brokers and company not in strategic alliances with financial institution.

**2.6.3 Bancassurance (strategic alliance) and Customer Satisfaction**

The aims of alliances is to augment a responsibility to ensure efficiency, so the chain members must be able to quickly identify and remove the constraints and ensure that they can continue to precisely meet changing customer requirements (Mouri 2005). In addition to this, Mouri (2005) stated that organizations have to understand the needs of the customers first, as well as the high-quality processes that are capable of continuously delivering value-added solutions to the marketplace. Simonin and Ruth (1996) agreed that the importance of satisfying consumer needs is the vital goal for business success.

Simonin and Ruth (1996) argue that, there are various reasons as to why it is important to assess the impact of marketing alliances on the consumer. There are two main reasons, one managerial, the other theoretical. From a managerial perspective, no matter how attractive an alliance might be in terms of cost reduction or access to resources, if the consumer is not taken into account when committing to an alliance strategy, the alliance might fail. They highlight the importance of customers in inter-organizational collaborations and note that for an alliance to be successful,
customers should be given respect and attention when deciding to engage in a strategic alliance. Not only does the alliance run the risk of failure if the customer is not taken into account, but the alliance may turn out to be detrimental to the firm. A relatively unknown weak brand (say brand A) might be doing very well targeting a limited niche market. If the brand decides to partner with a stronger better-known brand (brand B), customer expectations of brand A might rise to match their expectations of the stronger brand B because of the new brands associations. If brand A cannot deliver its products or perform its services in accordance with the new and higher expectations of consumers, this might lead to lower satisfaction levels for brand A’s products and services. Therefore, strategists and executives should thoroughly investigate the relevance and foresee the meaning and implications of strategic alliance decisions on the ultimate downstream link of the firm’s value chain: customers (Davis 2007; Simonin & Ruth 1996).

From a theoretical perspective, although inter-firms cooperation has been shown to be beneficial for organizations, their effect on consumers is not as clear. Two divergent schools of thought present different views on this debate. Under the assumption that competition among firms is beneficial for consumers, the first view argues that collaborations among firms are largely procompetitive because alliances help firms reduce risk and lower costs. In this vein, Teece (1992) argues that because interorganizational relationships allow firms to gain access to critical industry information, they support rather than impede innovation and competition, and therefore enhance consumer welfare (Clarke 1983; Teece 1992). On the other hand, opponents of inter-organizational relationships argue that although strategic alliances benefit participating firms, some types of alliances might do so to the detriment of customers. That is because firms tend to reduce their in-house research and development activities, which in turn reduces incentives for independent innovative activity. This has a negative impact on competition, and ultimately on the consumer (Mouri 2005)

Rindfleisch and Moorman (2003) note that although both viewpoints have theoretical merit, neither side has much empirical evidence: The scant research conducted in this area only indirectly tackles the issue of how interfim cooperation affects customers, because it is largely derived from econometric models that are based on macro market indicants, such as industry price movements. The effect of interfim cooperation on customers is thin in terms of empirical
Customer satisfaction has come to represent an important cornerstone for customer-oriented organizations (Zeelenberg and Pieters 2004). The concept emphasizes delivering satisfaction to consumers and obtaining profits in return (Yi 1990). Customer satisfaction is important to marketers because it is generally assumed to be a significant determinant of repeat sales, positive word-of-mouth (PWOM), and customer loyalty. It is important to consumers because it reflects a positive outcome following the outlay of scarce resources and or the positive fulfillment of prior needs. Thus, maximizing satisfaction is seen as an important objective for both the firm and the consumer.

2.6.3.1 Consequences of Satisfaction

Relative to the antecedents of satisfaction, fewer studies investigate the consequences of satisfaction. Anderson and Sullivan (1993) underline the need for developing a deeper understanding of the consequences of satisfaction. The behavioral responses constitute word of mouth, loyalty, and switching behavior (Zeelenberg and Pieters 2004; Zeithaml et al. 1996).

2.6.3.1.1 Word of Mouth Behavior

Researchers have examined word-of-mouth as one of the consequences of customer satisfaction or dissatisfaction. Word of mouth behavior includes negative and positive word of mouth (NWOM and PWOM respectively). NWOM is expected to increase in the face of a dissatisfying experience, particularly if the product or service failure is severe, attributions for the failure are external, or the seller’s responsiveness to complaints is perceived negatively by the customer (Zeelenberg and Pieters 2004). Nyer (1999) lists the reasons that might lead consumers to engage in NWOM. These include getting back at the organization by informing others of disappointing offerings, releasing tension, gaining sympathy from others, regaining control over a distressing situation, and conveying to others one’s high standards (Nyer 1999).
Customers satisfied with their consumption experience with an alliance entity should exhibit higher levels of word of mouth than satisfied customers with a standalone entity. Again, the cumulative effect of customer satisfaction with the alliance brands will generate a higher level of customers' word of mouth. The positive relationship between satisfaction and word of mouth will be stronger for the group comprised of alliance customers as compared to the group comprised of customers of standalone entities.

2.6.3.1.2 Loyalty

Oliver (1997) defines customer loyalty as a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior. Customer loyalty has been subject to a number of investigations in the last decade (Anderson and Sullivan 1993; Fornell et al. 1996). The rationale behind this stream of research is that firms that achieve higher loyalty levels should be more successful in the marketplace due to retained customers' higher price tolerance (Reichheld and Sasser 1990). Therefore, much research has been directed at identifying the drivers of customer loyalty (Keaveney 1995; Mittal and Kamakura 2001).

Social exchange theory posits that exit or maintenance of exchange relationships depends on future expectations regarding costs and benefits of the relationship, weighted against the expected benefits of alternative relationships (Thibaut and Kelley 1959). In short, in the event that an individual has multiple options, s/he will choose the most beneficial relationship, and s/he will remain in that relationship as long as expectations regarding costs and benefits from the relationship are higher than a threshold, called the comparison level of alternatives (Mouri 2005). Expectations regarding costs and benefits of the relationship mainly depend on past experience, and satisfying experiences increase the motivation and the likelihood that an individual remains in the relationship. Therefore, a positive relationship between customer satisfaction and customer loyalty is in accordance with social exchange theory. Thus, there is wide agreement that customer satisfaction is one of the key factors in determining customers' loyalty levels (Anderson and Sullivan 1993; Bloemer and Kasper 1995; Mittal et al. 1998).
Customers satisfied with their consumption experience with an alliance entity should be expected to have even stronger loyalty levels because of the cumulative effect of their satisfaction with the brands involved in the alliance (Mouri 2005). Existing research shows that in an alliance situation, consumers do transfer their brand evaluations to the partner brand (Levin et al. 1996). Satisfied customers are thus more likely to transfer their positive evaluations to the partner brand and exhibit higher loyalty to the alliance product. Therefore the positive relationship between satisfaction and loyalty will be stronger for the group comprised of alliance customers as compared to the group comprised of customers of standalone entities.

2.6.3.1.3 Switching Behavior

Switching refers to customer’s termination of a relationship with a provider. Zeelenberg and Pieters (2004) note that this termination may either be followed by initiating a relationship with another provider, refraining from purchasing the product or service altogether, or in the case of services, by the consumer performing the service him/herself. Several researchers have shown that dissatisfied customers are more likely to switch than satisfied ones (Oliver 1997; Rust and Zahorik 1993; Mouri 2005). Causes leading to customer switching behavior include perceptions of poor quality (Rust and Zahorik 1993), overall dissatisfaction (Crosby and Stephens 1987), and service encounter failures (Kelley et al. 1993).

Customer switching can prove to be detrimental for the company. Rust and Zahorick (1993) emphasized the negative effects of customer switching on firm market share and profitability. Losing customers not only leads to opportunity costs because of lack of sales revenue, but also to the cost of attracting new customers, which includes promotion, discounts, effort to know customer needs, and time to build sustainable relationships. In 1970, Hirschman suggested that individuals in institutional or commercial exchange relationships have essentially two response options to deteriorating service: communicate their displeasure, or exit the relationship (switch).

In the case of alliances, the negative relationship between satisfaction and intentions to switch should be expected to be even stronger when customers are dissatisfied. This would happen for two reasons: first, customers who are dissatisfied with one of the alliance partners will transfer their dissatisfaction feelings to the second partner, leading to a desire to switch from both
partners. Second, since two organizations are involved in providing the product or service, customers might feel that chances of product failure should be minimized. When product failure occurs, customers will attribute the failure to both organizations involved in the alliance and thus decide to discontinue their patronage of both organizations. Therefore the negative relationship between satisfaction and intention to switch will be stronger for the group comprised of alliance customers as compared to the group comprised of customers of standalone entities (Mouri 2005). Research by Mouri (2005) however also indicates that engaging in alliances is a time consuming and costly process for companies, and has numerous risks. These range from leakage of proprietary information, to brand dilution, to inadvertent and gradual dependence on alliance partners. Many factors can lead to the failure of the alliance. Rarely a secret, this can lead to loss of confidence in management’s vision and judgment in addition to financial losses. Therefore managers need insights that help them make better informed alliance decisions so as to increases the chances of alliances success.

2.6.4 Bancassurance and Financial Risk Management

Early studies estimated that thirty to thirty five percent of United State and North American companies had adopted Enterprise Risk Management (ERM). Organization adopting ERM program did so for several reasons. Among the reasons cited were: holistic treatment of risks facing the organization, advantage over competing business, positive impact upon revenues, reduction in earnings volatility and compliance with corporate governance guidelines (Rejda 2008).

When property and liability loss exposure are not eliminated through risk avoidance, losses that occur must be financed in some other way. The risk manager must choose between two methods of funding losses: risk retention and risk transfer. Retained losses can be paid out of current earnings from loss reserves, by borrowing, or by a captive insurance company. Risk transfer shifts the burden of paying for losses to another party, most often a property and liability insurance company. Decisions about whether to retain risks or to transfer them are influenced by conditions in the insurance market place. These conditions may include: the underwriting cycle, consolidation in the insurance industry and securitization of risk (Casu, Girardone and Molyneux 2006, Rejda 2008 and Darfman 2003)
2.6.4.1 Banking Risk

For any privately owned bank, management’s goal is to maximize shareholder’s value. If the institution is publicly listed and markets are efficient, returns are proportional to the risk taken; if the bank is small and unlisted, managers will try to maximize the value of the owner’s investments by seeking the highest returns for what they deem to be acceptable level of risk. For higher returns, banks have to assume higher risks and at the same time, manage these risks to avoid losses (Casu et al. 2006)

2.6.4.1.1 Credit Risk

According to the Basle committee on banking supervision (2000), credit risk is the potential that a bank borrower or counterparty will fail to meet its obligation in accordance with agreed terms or simply probability of default increasing. Banks managers should minimize credit losses by building a portfolio of assets (loans and securities) that diversifies the degree of risk. This is because very low default risk assets are associated with low credit risk and low expected return, while higher expected returns assets have a higher probability of default (i.e. higher credit risk). This therefore calls for investigating borrower’s ability to repay their loans before and after the loans has been made because of the aim to maximize value and the responsibility they have towards their depositors and deposit insurers to be safe and sound (Hampel & Simoson 1999 and Casu et al 2006)

While it is accepted that all banks experience some loan losses, the degree of risk aversion varies significantly across institutions. All banks have their own credit philosophy established in a formal written loan policy that must be supported and communicated with an appropriate credit culture. Loan policies reflect the degree of risk bank management is ready to take and may change over time. A credit culture is successful when all employees in the bank are aligned with the management’s lending policies (Hampel and Simonson 1999)

Since in the presence of credit risk the mean return on the banks assets portfolio is clearly lower than if the loan portfolio say was entirely risk-free, the bank will find it necessary to minimize the probability of bad outcomes in the portfolio by using a diversification strategy. Diversification will decrease unsystematic or firm specific credit risk. This is derived from micro
factors and thus is the credit risk specific to the holding of loans or bonds of a particular firm.

While diversification decreases firm specific credit risk, banks remain exposed to systematic credit risk. This is the risk associated with the possibility that the default of all firm’s may increase over a given period because of economic changes or other events that have an impact on large sections of the economy or market (e.g. in economic recession, firms are less likely to be able to repay their debts).

2.6.4.1.2 Credit Risk Management

The goal of credit risk management is to maximize a bank’s risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage credit risk arising both from individual transactions and the risk inherent in their entire portfolio. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization (Casu et al 2006 and Wilson 1997). Casu (2006) rightly argued that in most banks, loans are the largest and most obvious source of credit risk; however, often sources of credit risk exist throughout the activities of a bank, both on and off the balance sheet. Traditionally, banks have monitored credit risk through a number of standard procedures, such as ceiling placed on the amount lent to any one customer and or customers within a single industry and or customers in a given country.

Market transactions also generate credit risk. For instance, the inability of a company to serve a swap, future or options agreement, or make dividend repayments on bonds is also regarded as a credit risk (Casu 2006). The loss in the event of default depends on the value of these instruments and their liquidity. McD Donald (2006) argues that credit risks arises with loans, corporate bonds, and derivative contracts and market making activities generally leaves dealers exposed to credit risk. McD Donald (2006) suggests the concept of use of a collateralized debt obligation (CDO). A collateralized debt obligation (CDO) is a financial structure that repackages the cash flows from a set of assets. Collateralized debt obligation is created by pooling the returns from a set of assets and issuing financial claims to this pool. Collateralized debt obligation claims are trenched, meaning that the different CDO claims have differing priorities with respect to the cash flows generated by the collateral.
Today the insurance sector is a major global industry covering a huge range of risks ranging from natural disasters and environmental hazard, through life and disability and standard property risks (fire, explosion, burglary, and so forth) to various types of liability under tort and civil codes to protecting the balance sheets of credit granting institutions. In the latter case the sector has developed overlaps with, and become the backstop for significant sections of the banking and shadow banking sectors. It is also a significant source of investment funds (Lester 2009).

Research has shown the central role of insurance in supporting credit creation and trade finance, and the development of equity and long term debt markets (Impavido 2003). Recent financial crises have also pointed to the unreliability of bank lending (particularly cross border lending) under stress and the importance of developing more reliable long term sources of funding. Finally it is now becoming clear that risk markets can play a key role in protecting developing countries from fiscal and liquidity stresses following major natural catastrophes. There are very few examples of insurance sector failure adversely systemically affecting the economy. In most cases where this has occurred it has arisen from links with the banking sector: the Jamaican meltdown in the late 1990s is perhaps the best known example (Lester, R 2009). Micro insurance for the poor and informal sectors is still at an early stage of development but has considerable potential, both in the credit related sense through MFIs and for social safety net purposes through mutual and community based organizations (2011 and CIFP Knowledge series).

Financial insurance includes such lines as mortgage lenders' insurance, which typically covers default risk on higher levels of LTV ratios (particularly if secondary mortgage markets have formed), debenture guarantee insurance (which supports debenture credit ratings), project finance insurance (covering large long term projects dependent on supplier or end user financing), retail consumer credit insurance and fiduciary insurance (which covers the dishonest behavior of company officers handling financial transactions and is known as bankers blanket bonds for banks). It can be argued that, like reinsurers, credit insurers are centers of specialized underwriting and risk management expertise, able to support a wider range of originators. However it also needs to be recognized that credit related risks have parallels with catastrophe reinsurance as the law of large numbers tends to be irrelevant within a given jurisdiction when
such insurance is really needed (that is, arising from some combination of systemic events such as high interest rates and high unemployment) (Casu 2006).

2.6.4.1.3 Credit insurance

Credit insurance can be offered in cases where a loan is granted to the customer and serves as additional security for the bank and financial protection to the customer’s property in the case of his death prior to the repayment of the loan. This normally involves a decreasing term life cover with an initial sum insured equal to the amount of the loan. For example, if the amount of loan taken is shillings 10, then the policy will have an initial sum assured of shillings 10. The sum insured would decrease in line with the repayment of the loan amount. Upon the death of the insured person the amount payable would be equal to the outstanding loan amount, with or without the accrued interest at that time. If the outstanding loan amount decreases on a predetermined basis, then it is possible to calculate the appropriate premium at the date on which the loan was granted. Annual premium or single premium contracts can be offered in cases where the loan amount at all periods can be predetermined. Where the loan amount can fluctuate, single premiums are not permitted. In the case where a single premium is charged the premium amount is frequently added to the loan amount (Chen et al 2008, Casu 2006, Joseph 1997 and Lester 2009).

Almost all loans covered under credit insurance schemes are of short repayment duration, i.e. up to 5 years. In cases where this scheme is a compulsory part of a loan the premiums charged can reflect the fact that there is no selection against the insurer on medical grounds (anti-selection). In such cases the company can limit itself to simplified underwriting. The reduced processing costs can be passed on in the form of lower premiums. Permanent total disability benefit may be offered together with the decreasing term insurance since the ability of the borrower to repay the loan may depend on the borrower maintaining his income. In some cases temporary total disability benefit covering the installments payable is also offered. It is also possible for a bank to pay the premiums, which are very low, and use this as a marketing tool in order to attract new customers and sell its products more easily. The marketing tool is to offer (free) protection in the case of death or permanent total disability. The bank will include the
cost of protection in the interest rate charged to borrowers (CIFP Knowledge series and Koguchi 1993).

2.6.4.1.4 Overdraft insurance

Usually banks offer overdraft facilities to their customers. This is automatic credit up to a pre-agreed amount. For salaried customers this amount is usually three or four times their monthly salary. This facility has no repayment term provided the salary is deposited in the bank and the credit always stays within the pre-agreed amount. In the case where the customer who was using the credit facility dies, this amount has to be repaid by the heirs of the deceased. This practice usually creates problems for both the heirs and the bank. Overdraft insurance can help. For example, the cover can be equal to the credit facility used and a monthly premium is paid according to this amount. In the case where the customer dies and this credit facility has been used, the outstanding amount due will be repaid to the bank by the insurance company (Casu et al 2006; Hampel & Simonson 1999). In deciding whether to offer this option, the insurer must consider the risk that people who know their health is very poor can sharply increase the amount of credit taken shortly before their death (CIF knowledge series).

2.3 Critical Review of Literature

The process of deregulation has brought many profound changes in the financial services industry over the past decade. The momentum of the 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, a one-stop shop for financial 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.

In this paper, the reviewed literature reveals that, the mutual alliances have had a positive impact on overall economies of countries practicing the concept. The concept (bancassurance) paints a positive trend in showing financial gains, customer growth, financial risk management and basic efficiency and or effective service deliveries that leads to customer satisfaction. It is fully demonstrated that, positive consistent growth can only be achieved through product diversity,
innovative management, spread of risk through sharing portfolio and mutual marketing. However, with all these various researches, no formal and intensive research has been carried out to investigate the viability of the concept in Kenya and its neighborhoods.

2.4 Conceptual Frame work

This study focused on assessing functional relationship between performance of financial industry as a dependant variable that can be viewed in terms of profitability, customer acquisition and retention, customer satisfaction, and credit risk in embracing bancassurance as the main independent variable. The relationship among the above stated variables may be affected by such intervening variables such as government laws, policies and institutional regulations. The figure 2.4 below provides a brief summary of the relationship between variables.
Dependent Variables

Profit growth
- operational fees
- reduced operational costs
- high returns on assets

Customer acquisition
- increased number of channels
- increased client base
Increased geographical coverage

Customer satisfaction
- word of mouth
- loyalty
- switching behavior

Credit risk management
- credit default risk
- management risk
- overdraft risk

Independent Variables

BANCASSURANCE

Intervening Variables

Environmental conditions
- technology innovation
- government policies
- demographic factors
- political activities

Source: (researcher, 2010)

Figure 2.4 Conceptual Framework
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers research methodology that the researcher adopted to achieve the research objectives. The project research design, the targeted population, sample size, sampling strategy, and the data collection procedures are presented. The data analysis tools and the expected outputs are indicated.

3.2 Research Design

Ghauri and Gronhang (2005) wrote that for the research problem that is well structured and well understood, descriptive approach should be considered. The research therefore used descriptive survey method as it is also best suitable to gather data from a large population at a particular point in time, with an intention of describing the nature of existing situation. This research design is also in agreement with views of Koul (1984) who agrees that descriptive studies are designed to obtain pertinent and precise information concerning the status of a phenomenon. Descriptive studies permits one to analyze interrelationships among a large number of variables in single study and allowing to identify degree of relationship between variables being studied,

3.3 Target Population

The population of interest consisted of the six SACCOs, ten commercial banks, twelve insurance branches and insurance agents located within Nyeri town. Specifically, the data captured was from the main sampled branches. The following stakeholders were identified to provide information that was used for analysis to cover the scope of the study adequately. They included: top managers of the branches, middle cadre managers of the branches and lower cadre manager of the branches totaling to approximately 48 individuals. The above categories of the sample was considered as they had a better understanding of the business flow, handle institution data and form part of the strategy implementation team in their companies.

3.4 Sample Size and Sampling Procedure

The specification of a sample size for a survey invariably contains a large element of guesswork.
Sample size determines the precision with which population values can be estimated (Mugenda 2008). If the population is significantly homogenous on a given measure, a small sample will produce accurate estimate of the measure. A stratified simple random sampling helps the researcher achieve the desired representation of various sub-groups in the population as it allows selection from distinct categories of different level (Mugenda 2008). As Ghauri and Gronhaug (2006) put it, stratified sampling reduces standard error of estimate.

According to Kothari (2004), 30% of the target population is a representative sample. The researcher therefore adopted 30% of the target population as this was adequate and representative of the universe. The parent population was divided into a mutually exclusive and exhaustive subset (stratum) so that a simple random sample of 30% each of the stated above categories was chosen independently from each subset. The table below gives a summary of the participant the researcher used in carrying out the research.

<table>
<thead>
<tr>
<th>Category</th>
<th>Title</th>
<th>Population</th>
<th>Sample (30% of target population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>Branch managers</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Head of credit dept</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Credit Officers</td>
<td>40</td>
<td>12</td>
</tr>
<tr>
<td>Insurance Industry</td>
<td>Branch managers</td>
<td>12</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Sales officers</td>
<td>42</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Insurance Agents</td>
<td>20</td>
<td>6</td>
</tr>
<tr>
<td>SACCOs</td>
<td>Branch managers</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Credit officers</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>156</strong></td>
<td><strong>48</strong></td>
</tr>
</tbody>
</table>

Source: (Researcher, 2012)

3.7 Data Collection

The researcher collected data through the administration of questioners, personal interviews to the 48 respondent and analyzed some of institution records. Both open-ended and close-ended
questioners were administered on drop and later pick basis and by use of electronic mails (E-mails). The use of open ended questions was adopted as it gave freedom of response while close-ended type facilitated the consistency of certain data across the respondents.

3.8 Data Analysis and Presentation.

The researcher collected both qualitative and quantitative data. Use of graphs to describe distributions, descriptive measures (such as mode, mean and median) and measures of dispersion about central value such as standard deviations was used in analyzing quantitative data. The researcher also tested some variables such as customer growth numbers and profitability if they linearly related to the performance of bancassurance industry by using correlation analysis. In correlation analysis, the resulting correlation coefficient that normally takes the values between -1 to +1 (-1 ≤ r ≤ +1) tells us whether the variables perfectly covary positively, perfectly inversely relate or not related at all (Ghauri 2005). The coefficient was calculated from the formula:

\[
r_{xy} = \frac{\hat{\sigma}_{xy}}{\sqrt{\sigma_x^2 \sigma_y^2}}
\]

Where:

\[
\sigma_x^2 = \text{variance of } x
\]
\[
\sigma_y^2 = \text{variance of } y
\]
\[
\hat{\sigma}_{xy} = \text{covariance of } x \text{ and } y
\]

The qualitative data was analyzed by using content analysis. The qualitative data was therefore presented using written narratives. The measure of the independent variables was determined by the use of likerts scales which ranked how strongly each independent variable affected the dependent variable.
CHAPTER FOUR
4.0 DATA ANALYSIS AND INTERPRETATION

4.1 Introduction
This chapter presents both descriptive and analytical results of the study. The descriptive results avail information on social and demographic characteristics of the study sample such as type of organization, experience and position an individual hold in an organization. Presented in this chapter, are variables that try to investigate the effects of Bancassurance on the performance of financial industry.

4.1.1 Response Rate
A total of 48 respondents were reached via an e-mail and all of them respondent positively. The completed questionnaires were returned either by currier services or picked by the researcher. This presented a 100% return rate of the questionnaires. This information is summarized in table 4.1 below.

Table 4.1 Type of organization you work

<table>
<thead>
<tr>
<th>Type of organization</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank/Saccos</td>
<td>30</td>
<td>62.5</td>
<td>62.5</td>
<td>62.5</td>
</tr>
<tr>
<td>Insurance</td>
<td>18</td>
<td>37.5</td>
<td>37.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>48</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field data, 2012

4.2 General Information

4.2.1 Organization
The study sought to find out the organization that the respondents were working for. This was done to ensure a fair presentation of views from both parties engaging in the financial alliance that is being referred to as Bancassurance. Thus as indicated above, 62.5% of the respondents were from banking sector (including SACCOs) and 37.5 were from insurance companies.

4.2.2 Employment Experience
The respondents were asked to state the duration they had taken in their respective organizations
and or in the field they were working for. The researcher found out that the majority had worked for their respective organization for a period of 1-5 years representing 85.42% of the sample and those who had worked for a period of 6-10 years represented 14.58% of the sample while none of the respondent had worked more than 10 years in their respective organizations. The figure 4.2 below indicates the pictorial presentation of work experience in the respective organization.

![Pie chart showing work experience](image)

Fig 4.2 Presentation of work experience in respective organizations
Source: (Researcher, 2012)

### 4.2.3 Position in the Company

In terms of the position an individual respondent held in his organization during the filling of the questionnaires, the study found out that 10.4% were branch managers, 22.9% were credit managers, 35.4% were credit officers and 31.3% were insurance officers. This therefore gives the nature of the respondents with majority being lower cadre of employees in their organizations who actually faces the real challenges of implementing the alliance strategies

### 4.2.4 Alliances/ Strategic Partnership

The researcher wanted to establish the extent to which organizations that the respondents were working for had engaged in any form of alliances. It was established that at least all organization were in an alliances but in varying degree as shown in the table 4.2. Of the 48 respondent, 32 fully agreed that the organization they are working for are in a form of partnership with other financial organization while 16 believed that they were not largely in the alliances.
Table 4.2 The degree of alliances/partnerships with other financial industry

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>To small extent</td>
<td>16</td>
<td>33.3</td>
<td>33.3</td>
<td>33.3</td>
</tr>
<tr>
<td>To a large extent</td>
<td>32</td>
<td>66.7</td>
<td>66.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>48</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field data, 2012

4.3 Strategic Alliances and Revenue growth

In order to find out whether the Bancassurance model was considered to be a revenue generating source of income for its strategic participants, the researcher collected the following responses indicated in the table 4.3 below. It was established that all respondents believed although in varying degree that the model was self sustainable. For instance, 64.6% agreed to a great extent, while 0.0% believed that the model has no revenue to sustain it. The Pearson Correlation coefficient of 0.156 indicates that there is indeed a positive correlation between revenue collection and existence of this model. Thus in the research findings it was shown that strategic alliances among financial organizations contributes in revenue growth hence a positive effect for organization.
Table 4.3: The percentage effects of strategic alliances on revenue growth in organizations

<table>
<thead>
<tr>
<th>TEST ITEMS</th>
<th>EXTENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No extent (%)</td>
</tr>
<tr>
<td>Bancassurance and company profitability.</td>
<td>0.0</td>
</tr>
<tr>
<td>1. The income collection from cross selling insurance is sustainable in running bancassurance as a department.</td>
<td>0.0</td>
</tr>
<tr>
<td>2. Deposits collected from insurance related products are cheaper for on onward lending as opposed from borrowing from other sources.</td>
<td>4.2</td>
</tr>
<tr>
<td>3. The process of marketing insurance policies through the bank or SACCO is not expensive.</td>
<td>0.0</td>
</tr>
<tr>
<td>4. There is more income fees collection for insurance emanating from Banks/SACCOs as compared to insurance brokers.</td>
<td>4.2</td>
</tr>
<tr>
<td>5. Bank/SACCOs spend more funds on training a bancassurance officers</td>
<td>8.3</td>
</tr>
<tr>
<td>Source: (Researcher, 2012)</td>
<td></td>
</tr>
</tbody>
</table>

4.4 Strategic Alliances and Market Share growth

In an effort to determine the influence of strategic alliance on the growth of market share for respective organizations, the researcher found that 45% believed that the model was a very effective way of retaining clients with 25% just satisfied with the model. None of the respondent dismissed the model. The summary of the findings in relation to the growth of market share is presented in the table 4.4 below. It is evident that people have more faith in banks than insurance hence; they develop interest in insurance products when seen or associated with banks. For instance, 60.4% of clients (to a great extent) develop some interest in seeking information once they see an insurance advertisement in a banking hall with interestingly 43.8% (to a great extent) even seeking more clarification for those insurance products being offered by those banks/SACCOs.

43
Table 4.4: Percentage effects of strategic alliances on market share

<table>
<thead>
<tr>
<th>TEST ITEMS</th>
<th>EXTENT</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bancassurance and market share growth</td>
<td>No extent (%)</td>
<td>Very small extent (%)</td>
<td>Great extent (%)</td>
<td>Very great extent (%)</td>
</tr>
<tr>
<td>1. A client who buys an insurance cover as a condition of his credit facility comes for repeat time without necessarily as a condition for a loan</td>
<td>2.1</td>
<td>45.8</td>
<td>41.7</td>
<td>10.4</td>
</tr>
<tr>
<td>2. A client upon seeing an insurance advert in the banking hall will seek more information and probably buy it.</td>
<td>0.0</td>
<td>22.9</td>
<td>60.4</td>
<td>16.7</td>
</tr>
<tr>
<td>3. It is easier to convince a client who has had once an insurance policy with my bank/SACCO to buy a different insurance policy.</td>
<td>0.0</td>
<td>12.5</td>
<td>54.2</td>
<td>33.3</td>
</tr>
<tr>
<td>4. Customers ask for bank/SACCO products of insurance companies that are known to have links with Banks.</td>
<td>4-2</td>
<td>29.2</td>
<td>43.8</td>
<td>22.9</td>
</tr>
</tbody>
</table>

Source: (Researcher, 2012)

4.5 Bancassurance and Customer Satisfaction

On customer satisfaction, the researcher tried to establish the extent to which employees rate the effectiveness and efficiency of the model on improving service delivery to the customers in their respective organization. The researcher established that the organizations improved their customer satisfaction once they entered into partnerships with stronger strategic partners. For instance, all respondents had positive views with the model with 52.1% (great extent), 39.6% (very great extent) hence the standard deviation of 0.624 showing skewness towards the agreement. In regards to loyalty by a satisfied customer in relation to seeking other products offered by the same organization, the findings showed that, more customers will seek other products with 68.8% of the respondent agreeing to a very great extent and 31.3% of the respondent agreeing to a great extent. The researcher found out that majority of the respondents indicated that a dissatisfied client with a partners product is likely to switch, however there was a variation in the views of the respondents as indicated by the standard deviation of 0.8 and a correlation coefficient of 0.0. On whether the satisfied clients with products of a partner will
seek clarification on other partner organization product, the researcher established that most respondent had divergent views as indicated by a larger standard deviation of 0.87 from the mean of 2.95. Table 4.5 gives the summary of the views above.

### Table 4.5: Effects of Bancassurance on customer satisfaction

<table>
<thead>
<tr>
<th>TEST ITEMS</th>
<th>EXTENT</th>
<th></th>
<th></th>
<th></th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bancassurance and company partnerships.</td>
<td></td>
<td>No extent (%)</td>
<td>Very small extent (%)</td>
<td>Great extent (%)</td>
<td>Very great extent (%)</td>
</tr>
<tr>
<td>1. Partnership with other strong financial brands increased my customers' satisfaction about our brands</td>
<td>0.0</td>
<td>8.3</td>
<td>52.1</td>
<td>39.6</td>
<td>0.624</td>
</tr>
<tr>
<td>2. A satisfied client remains loyal and is likely to seek other products</td>
<td>0.0</td>
<td>0.0</td>
<td>31.3</td>
<td>68.8</td>
<td>0.468</td>
</tr>
<tr>
<td>3. A dissatisfied client with my partner’s products/services switches from our products</td>
<td>4.2</td>
<td>22.9</td>
<td>47.9</td>
<td>25.0</td>
<td>0.8</td>
</tr>
<tr>
<td>4. A satisfied client with my partners products seeks less clarification before buying my products</td>
<td>4.2</td>
<td>27.1</td>
<td>37.5</td>
<td>31.3</td>
<td>0.87</td>
</tr>
</tbody>
</table>

Source: (Researcher, 2012)
## 4.6 Bancassurance and Risk Management

Table 4.6: Effects of Bancassurance on risk management

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree (%)</th>
<th>Agree (%)</th>
<th>Neither agrees nor disagree (%)</th>
<th>Strongly disagree (%)</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bancassurance and company alliances.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. The insurance company tends to prioritize compensation for physical</td>
<td>29.2</td>
<td>54.2</td>
<td>12.5</td>
<td>4.2</td>
<td>1.96</td>
<td>0.89</td>
</tr>
<tr>
<td>loss incurred by a strategic partner.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Death and disability claims by the SACCO/banks are promptly settled</td>
<td>14.6</td>
<td>0.0</td>
<td>4.2</td>
<td>77.1</td>
<td>4.7</td>
<td>2.02</td>
</tr>
<tr>
<td>by insurance company with formal working relation than with individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>clients, hence quality loan book portfolio.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Banks/SACCOs are less exposed to credit default resulting from</td>
<td>41.7</td>
<td>31.3</td>
<td>6.3</td>
<td>12.5</td>
<td>2.1</td>
<td>1.3</td>
</tr>
<tr>
<td>discontinuity of business in an event of loss resulting due to business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>discontinuity by fires, malicious damages etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Banks/SACCOs with well managed risks(insured portfolio) attract more</td>
<td>54.2</td>
<td>45.8</td>
<td>0.0</td>
<td>0.0</td>
<td>1.4</td>
<td>0.503</td>
</tr>
<tr>
<td>investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (Researcher, 2012)

From table 4.6 above, the respondent were of equally varying opinion on whether insurance companies prioritizes compensation for physical loss incurred by a strategic partner as compared to individual clients. This is shown by the large standard deviation and a well spread out percentages of respondents as shown above. Although there was also varying opinion on speed at which insurance compensate strategic partners on credit loss incurred as a result of death and disabilities, 77.1% of respondents disagreed as shown above. Also, the majority of the respondent with 54.2% strongly agreeing and 45.8% agreed that a well insured Bank/SACCO portfolio tends to attract more investors with none of the respondent having doubt on the issue. This is further affirmed by small standard deviation of 0.503 (skewing to the agreement side) and a positive correlation coefficient of 0.384.
CHAPTER FIVE
5.0 FINDINGS, CONCLUSION AND RECOMMENDATIONS OF THE STUDY

5.1 Introduction
The researcher collected data on Bancassurance and analyzed various issues in order to investigate the effect of this model (Bancassurance) on the performance of financial industry in Kenya. The conclusions were drawn from the findings in line with the specific objectives of the study. From the outcome and output of the study, some important recommendations were developed in relation to what was covered. The following are some of the findings and conclusion based on the analyzed data.

5.2 Major Findings of the study
The model of Bancassurance exists in Kenya although very few banks, insurances and SACCOs engage into it. This model exists in various formal ways such as strategic alliances or partnership and informal ways such as through referrals from relevant departments. It was also established that majority of employees in financial industry are relatively young with the organization they are working with only management cadre having worked for more than 10 years.

The Bancassurance model was found to be a good source of revenue to the partners in terms of increased collection of fees, reduced costs of marketing products from insurance companies. It was also found out that, the cost of recruiting, maintaining and training a Bancassurance officer was less expensive to both insurance and commercial banks.

On the effects of Bancassurance on market share growth, it was found out that most clients trust insurance products given through banks hence they become repeat customers for the products. Therefore the confidence customers have over the commercial banks and SACCOs have greatly improved market growth for insurance products.
Whether customers’ satisfaction improves with the introduction of the Bancassurance model to industry players, the research revealed that clients tend to be satisfied with products given by strong organization brands regardless of the product nature. It was also established that a satisfied client with the organizations’ products tend to seek many other products offered by same organization hence ease of cross selling. Contrary, it was also established that not all clients will switch to other organization due to dissatisfaction of one product of the organization.

The research also found out that, in Bancassurance model, the commercial banks and SACCOs are not given any special treatment or priorities in loss compensation whatsoever. Therefore all parties whether in this strategic partnership or as an individual entity are subjected to same policies and procedure of the insurance company. Contrary, it was established that commercial banks with clients who have insured their business assets or stock are not likely to default even if policies are followed. The research further revealed that investors prefer investing with Banks or SACCOs that have insured their credit portfolio hence well managed risks.

It was also generally revealed that, Bancassurance is a cheap method or model of improving the profitability of the relating parties. Most respondents also preferred that the model be made part of every bank or SACCOs.

5.3 Conclusions

The following conclusions were drawn from the study findings in line with the specific objectives of the study. The study concludes that financial industry tends to have a high turnover of workforce probably due to its tough employee performance targets or the industry is too demanding. This is demonstrated by relatively few employees with more working experience at entry levels.

The study concludes that, the Bancassurance model (strategic alliances in financial industry) is likely to be one of easiest way of generating income through fee collections, reduced cost of operations through sharing of marketing channels, maximum utilization of employees resources through cross selling of products by individual employees and as a source of interest free funds for onward lending by commercial banks/SACCOs. It is therefore agreed that Bancassurance
model has a positive contribution towards revenue growth.

It was also concluded that one method of improving the growth of customer base in insurance services was by leveraging its services on the good reputation the banks have with their clients. The study demonstrated that clients developed an interest in advertized insurance products through banks and majority seeking products from insurance companies that have working links with the banks/SACCOs. The study concludes that customers develop a positive perception on insurance services when they are offered through banks and SACCOs hence insurances benefits a lot on Bancassurance model.

On the issue of customer satisfaction, the study concludes that partnership with strong brands improves customer satisfaction with individual organizations’ products and services. Even if the satisfaction leads to improved loyalty, the study affirms that any dissatisfaction with partner’s products does not necessarily leads to switching away from the other parties products contrary to the researchers expectation. It was also concluded that client’s quest for more knowledge about products from other organization being distributed through banks is not necessarily influenced by their satisfaction on products being given by the organization.

The study further concludes that in Bancassurance model, it is not always that strategic partners are considered in loss compensation as expected by the researcher. It was revealed that insurances strictly apply uniformly their policies and procedures both when dealing with individual clients and when dealing with strategic partners. This is depicted by the percentage disagreement by respondents when the researcher tried to imply that death and disability claims are easily settled by insurance companies. The research concludes also that investors prefer investing in companies that have well managed risks through insurance of their loan portfolio.
5.4 Recommendations

From the research study, a number of recommendations were drawn based on the findings and conclusions of the study. The researcher recommends that investors of strategic partners in the Bancassurance model should embrace the model more since it helps their organizations in generating more revenues through reduced costs of operations and more income fee collections.

The research also recommends that for enhanced demystification of insurance image, insurance organizations should form formal strategic alliances with banks and SACCOs since they tend to have good reputation towards their clients. This will drastically improve their market shares.

It is further recommended that for customer satisfaction and retention, strategic partners should keenly choose their counterparts as strong brands in the market increases customer satisfaction. It is recommended also that customer should be given varieties of product to sustain their loyalty and satisfaction.

The researcher recommends that banks and SACCOs should insure with a reputable insurance company their credit portfolio in order to attract more investors. It is also recommended that banks should make provisions for their non performing loan book that results from none payment due to death or disability since it is not mandatory for insurance companies to compensate any loss before due process is followed and approved demonstrated in this research.

The study concludes that Bancassurance regardless of some of its drawbacks demonstrated in this reports, the model is positively considered as part of the deregulation processes that add value to the financial industry.

5.5 Areas for Further Research

It is proposed that the following areas may be researched by other researchers and scholars.

i) Challenges facing implementation of Bancassurance model in Kenya

ii) The role of government in implementation of Bancassurance model

iii) Emerging threats facing the adoption of Bancassurance
REFERENCES


Chen, Z., Li, D., Moshirian, F. & Tan, J (2008). Does Bancassurance add value to Banks? Evidence from mergers and acquisitions between European Banks and Insurance companies.


Frazer, P. PPI: The next Miss-selling Scandal’’, Retail Banker International, December 2005

Gallardo, J., et al. (2006). Strategic alliances to scale up financial services in rural areas.


http://www.bis.org/public/bcbs 75.pdf


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APPENDICES

APPENDIX I (A): COVER LETTER

Sospeter Wafula Sitati
Department Of Business Administration,
School of Business Kenyatta University,
P.O. Box 43844-00100
Nairobi-Kenya

Dear Respondent,

I am a post-graduate student pursuing a Masters Degree in Business Administration at Kenyatta University. I am currently conducting a study on investigation of the Effect of Bancassurance on the Performance of Financial Industry in Kenya with the focus of financial companies within Nyeri town. This information is useful in future concerning strategic alliances in financial industry (bancassurance).

Please be free to complete this questionnaire and make additional notes on the instrument where necessary. All information will be treated confidentially and response will only be treated as group data in the final report.

Your response will be highly appreciated.

Yours faithfully,

Sospeter Wafula Sitati.

APPENDIX I (B): QUESTIONNAIRE

Competition within financial industry is obviously becoming stiff hence companies have opted to
start devising survival techniques. One method being adopted seems to be through strategic alliances which are mostly referred to as BANCASSURANCE in financial sector (Banks, SACCOs and Insurance)

SECTION A: PERSONAL AND ORGANISATION DETAILS

1. Among the organization categories listed, place a tick [✓] in the box corresponding to the one you work for.

<table>
<thead>
<tr>
<th>Category</th>
<th>Bank</th>
<th>Insurance</th>
<th>SACCOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Please tick [✓]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Indicate the range of years among those indicated below that best suit the duration you have worked for the chosen organization

<table>
<thead>
<tr>
<th>Years of service</th>
<th>1-5</th>
<th>6-10</th>
<th>Over 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Please tick [✓]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. What is your position in the company you are working for?

<table>
<thead>
<tr>
<th>Position</th>
<th>Branch manager</th>
<th>Credit manager</th>
<th>Credit officer</th>
<th>Insurance officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Please tick [✓]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. To what extent does the organization you are working for engage in any form of alliances/partnership with other financial industry

<table>
<thead>
<tr>
<th>Extent</th>
<th>To no extent</th>
<th>To small extent</th>
<th>To a large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Please tick [✓])</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SECTION B: EFFECTS OF STRATEGIC ALLIANCES ON REVENUE GROWTH.

Please tick [✓] in one of the boxes under the column EXTENT that corresponds with your view to each of the statements.
<table>
<thead>
<tr>
<th>TEST ITEMS</th>
<th>EXTENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bancassurance and company profitability.</td>
<td>No extent</td>
</tr>
<tr>
<td></td>
<td>Very small extent</td>
</tr>
<tr>
<td></td>
<td>Great extent</td>
</tr>
<tr>
<td></td>
<td>Very great extent</td>
</tr>
<tr>
<td>1. The income collection from cross selling insurance is sustainable in</td>
<td></td>
</tr>
<tr>
<td>running bancassurance as a department.</td>
<td></td>
</tr>
<tr>
<td>2. Deposits collected from insurance related products are cheaper for on</td>
<td></td>
</tr>
<tr>
<td>onward lending as opposed from borrowing from other sources.</td>
<td></td>
</tr>
<tr>
<td>3. The process of marketing insurance policies through the bank or</td>
<td></td>
</tr>
<tr>
<td>SACCO is not expensive.</td>
<td></td>
</tr>
<tr>
<td>4. There is more income fees collection for insurance emanating from</td>
<td></td>
</tr>
<tr>
<td>Banks/SACCOs as compared to insurance brokers.</td>
<td></td>
</tr>
<tr>
<td>5. Bank/SACCOs spend more funds on training a bancassurance officers</td>
<td></td>
</tr>
</tbody>
</table>
SECTION C: EFFECTS OF STRATEGIC ALLIANCES ON MARKET SHARE GROWTH

1) On a scale of 1 to 7 how important and effective on customer acquisition and retention would you say the alliance between your bank/SACCO and insurance? [Please circle]

Not effective 1 2 3 4 5 6 7 Very effective

2) On a scale of 1 to 7 rate the chances of clients who had an insurance policy with your bank coming back for renewal instead of going to an advertised company.

Rare 1 2 3 4 5 6 7 Often

3) Please tick [✓] in one of the boxes under the column EXTENT that most closely indicates how much you agree or disagree with the following statements.

<table>
<thead>
<tr>
<th>TEST ITEMS</th>
<th>EXTENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bancassurance and market share growth</td>
<td>No extent</td>
</tr>
<tr>
<td>1. A client who buys an insurance cover as a condition of his credit facility comes for repeat time without necessarily as a condition for a loan</td>
<td></td>
</tr>
<tr>
<td>2. A client upon seeing an insurance advert in the banking hall will seek more information and probably buy it.</td>
<td></td>
</tr>
<tr>
<td>3. It is easier to convince a client who has had once an insurance policy with my bank/SACCO to buy a different insurance policy.</td>
<td></td>
</tr>
<tr>
<td>4. Customers ask for bank/SACCO products of insurance companies that are known to have links with Banks.</td>
<td></td>
</tr>
</tbody>
</table>
SECTION D: EFFECT OF BANCASSURANCE ON CUSTOMER SATISFACTION.

To what extent do you agree with the following statements in relation to customer satisfaction in business partnership? Please tick [✓] in one of the boxes under the column that corresponds with your view to each of the statements under the column.

<table>
<thead>
<tr>
<th>TEST ITEMS</th>
<th>EXTENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bancassurance and company partnerships.</td>
<td>No extent</td>
</tr>
<tr>
<td></td>
<td>Very small extent</td>
</tr>
<tr>
<td></td>
<td>Great extent</td>
</tr>
<tr>
<td></td>
<td>Very great extent</td>
</tr>
<tr>
<td>1. Partnership with other strong financial brands increased my customers’ satisfaction about our brands</td>
<td></td>
</tr>
<tr>
<td>2. A satisfied client remains loyal and is likely to seek other products</td>
<td></td>
</tr>
<tr>
<td>3. A dissatisfied client with my partner’s products/services switches from our products</td>
<td></td>
</tr>
<tr>
<td>4. A satisfied client with my partners products seeks less clarification before buying my products</td>
<td></td>
</tr>
</tbody>
</table>
SECTION E: EFFECT OF BANCASSURANCE ON RISK MANAGEMENT

Please tick [✓] in one of the boxes under the column that mostly closely indicates how much you agree or disagree with the following statements about your experience in Banks, SACCOs and insurance alliance on risk.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Level of agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bancassurance and company alliances.</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>1. The insurance company tends to prioritize compensation for physical</td>
<td>Agree</td>
</tr>
<tr>
<td>loss incurred by a strategic partner.</td>
<td>Neither agree nor</td>
</tr>
<tr>
<td>disagree</td>
<td>disagree</td>
</tr>
<tr>
<td>2. Death and disability claims by the SACCO/banks are promptly settled</td>
<td>Neither agree nor</td>
</tr>
<tr>
<td>by insurance company with formal working relation than with individual</td>
<td>disagree</td>
</tr>
<tr>
<td>clients, hence quality loan book portfolio.</td>
<td>Strongly disagree</td>
</tr>
<tr>
<td>3. Banks/SACCOs are less exposed to credit default resulting from</td>
<td></td>
</tr>
<tr>
<td>discontinuity of business in an event of loss resulting due to business</td>
<td></td>
</tr>
<tr>
<td>discontinuity by fires, malicious damages etc.</td>
<td></td>
</tr>
<tr>
<td>4. Banks/SACCOs with well managed risks(insured portfolio) attract more</td>
<td></td>
</tr>
<tr>
<td>investors</td>
<td></td>
</tr>
</tbody>
</table>

Do you have any additional information, views or concerns about this bancassurance model?

Thank you very much for your time and responses.
APPENDIX II: LIST OF COMMERCIAL BANKS IN KENYA

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. Chase Bank (Kenya)
7. Citibank
8. Commercial Bank of Africa
9. Consolidated Bank of Kenya
10. Cooperative Bank of Kenya
11. Credit Bank
12. Development Bank of Kenya
13. Diamond Trust Bank
14. Dubai Bank Kenya
15. Ecobank
16. Equatorial Commercial Bank
17. Equity Bank
18. Family Bank
19. Fidelity Commercial Bank Limited
20. Fina Bank
21. First Community Bank
22. Giro Commercial Bank
23. Guardian Bank
24. Gulf African Bank
25. Habib Bank
26. Habib Bank AG Zurich
27. I&M Bank
28. Imperial Bank Kenya
29. Jamii Bora Bank
30. Kenya Commercial Bank
31. K-Rep Bank
32. Middle East Bank Kenya
33. National Bank of Kenya
34. NIC Bank
35. Oriental Commercial Bank
36. Paramount Universal Bank
37. Prime Bank (Kenya)
38. CFC Stanbic Bank
39. Standard Chartered Bank
40. Trans National Bank Kenya
41. United Bank for Africa
42. Victoria Commercial Bank

APPENDIX III: LIST OF INSURANCE COMPANIES IN KENYA

1. APA Insurance Company Ltd
2. Africa Merchant Assurance Company Ltd
3. British American Insurance Company Ltd
4. Cannon Assurance Ltd
5. Chartis Kenya Insurance Co. Ltd
6. Concord Insurance Co. Ltd
7. CIC Insurance Group Ltd
8. Corporate Insurance Co. Ltd
9. Fidelity Shield Insurance Co. Ltd
10. First Assurance Co. Ltd
11. GA Insurance Limited
12. Gateway Insurance Co. Ltd
13. Geminia Insurance Co. Ltd
14. Insurance Company of East Africa Ltd
15. Intra Africa Assurance Co. Ltd
16. Invesco Insurance Co. Ltd
17. Kenindia Assurance Co. Ltd
18. Kenya Orient Insurance Co. Ltd
19. Lion of Kenya Insurance Co. Ltd
20. Madison Insurance Co. Ltd
21. Mayfair Insurance Co. Ltd
22. Mercantile Insurance Co. Ltd
23. Occidental Insurance Co. Ltd
24. Pacis Insurance Co. Ltd
25. Phoenix East Africa Assurance Co. Ltd
26. Real Insurance Co. Ltd
27. Takaful Insurance of Africa Ltd
28. Tausi Assurance Co. Ltd
29. The Monarch Insurance Co. Ltd
30. The Heritage Insurance Co. Ltd
31. Trident Insurance Co. Ltd
32. UAP Insurance Co. Ltd
33. Xplico Insurance Co. Ltd

Source: http://www.ppoa.go.ke/index.php?option=com_content&view=article&id=175%3Alist-of-authorised-insurance-companies&catid=55&Itemid=1
# APPENDIX IV: RESEARCH BUDGET

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>QUANTITY</th>
<th>AMOUNT (KShs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synopsis</td>
<td>Internet research</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>Printing/Photocopying</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td><strong>Sub Total</strong></td>
<td>1,500</td>
</tr>
<tr>
<td>Piloting</td>
<td>Travelling</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Data collection and analysis</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Sub Total</strong></td>
<td>5,000</td>
</tr>
<tr>
<td>Project Writing</td>
<td>Internet access</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Printing/photocopying</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Distribution of questionnaires</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Miscellaneous</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Av. Sub Total</strong></td>
<td>35,000</td>
</tr>
<tr>
<td>Draft Document</td>
<td>Printing</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td>Typesetting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Data processing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Miscellaneous</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Av. Sub Total</strong></td>
<td>5,000</td>
</tr>
<tr>
<td>Final Document</td>
<td>Data collection analysis</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td>Printing and binding of final</td>
<td></td>
</tr>
<tr>
<td></td>
<td>document.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Miscellaneous</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Av. Sub Total</strong></td>
<td>30,000</td>
</tr>
<tr>
<td></td>
<td><strong>GRAND TOTAL</strong></td>
<td>76,500</td>
</tr>
</tbody>
</table>

Table 1: showing expenditure for the preparation of project
### APPENDIX V: WORK PLAN

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>Month 1</th>
<th>Month 2</th>
<th>Month 3</th>
<th>Month 4</th>
<th>Month 5</th>
<th>Month 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synopsis writing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Literature search and review</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposal Writing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Designing of instruments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Field Work</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data Analysis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Report writing and Submission</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Chart1: Bar chart of six-month Research Project Plan