THE EFFECTS OF BANCASSURANCE ON THE FINANCIAL PERFORMANCE OF SELECTED INSURANCE COMPANIES IN KENYA

KAMAU STEPHEN MAINA

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NOVEMBER, 2016
DECLARATION

Declaration by candidate:

This proposal is my original work and has not been presented for a degree in any other University

.................................................. ..................................................

Signature Date

Stephen Maina Kamau

D53/OL/CTY/24751/2014

Declaration by supervisor:

I confirm that the work in this proposal was done by the candidate under my supervision

.................................................. ..................................................

Signature Date

Dr. Eddie Simiyu

School of Business

Department of Accounting & Finance

Kenyatta University
DEDICATION
To the almighty God for strength, resources, instructions, divine grace, ability and capacity. To Sylvia my friend for support and encouragement.
ACKNOWLEDGEMENT

The completion of this project has been made possible by contribution of many people. First, I would like to appreciate my supervisor Dr. Eddie Simiyu for guidance, commitment to impart knowledge during the project writing.

Secondly I wish to register my appreciation to my parents for their assistance, support, and contribution in making my study not just a success but enjoyable. To the different members of staff of insurance companies for their support in data collection. Finally my data collectors you did an incredible job thank you and God bless all.
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ACRONYMS & ABBREVIATION

AKA: Association of Kenya

BMI: Business Monitor International

CAPM: Capital Assets Pricing Model

CBK: Central Bank of Kenya

CEO: Chief Executive Officer

DV: Dependent Variable

EU: European Union

GDP: Gross Domestic Product

IRA: Insurance Regulatory Authority

IV: Independent Variables

MBO: Management Buyout

MPT: Market Portfolio Theory

UK: United Kingdom

US$: USA Dollar
ABSTRACT

Financial performance of insurance companies has been declining due the decrease in profitability as a result of the rise in competition, changes in technology, deregulation and as well as globalization. The collaboration between insurance companies and financial institutions to distribute or cross-sell insurance products, through Bancassurance which provides a one-stop-shop platform whereby customers can access insurance services among other financial solutions, is the only platform to stabilize this industry in Kenya. The objective of this study was to assess the effects of bancassurance on the financial performance of selected insurance companies in Kenya. The specific objectives were to determine the effect of: insurance penetration, financial integration and innovation of product and services on financial performance of selected insurance companies in Kenya. The researcher adopted descriptive cross sectional research design, with a target population of six selected (Jubilee Holding Limited, Britam Holding, CIC Insurance Group, Kenya Re-insurance, Liberty Kenya Holding and Pan Africa Insurance). Purposive Sampling design was adopted in the study. Data was instrumented through a questionnaires, the use of both primary and secondary data is setting of this study. The use of descriptive statistic in collaboration with a multiple regression model and correlation analysis were conducted; this was conduct via use of with Statistical Package for the Social Sciences (SPSS). Finally the data was presented on graphs, tables and pie charts. The study found a strong and positive relationship bancassurance implementation and financial performance of insurance companies in Kenya. The specific objective; insurance penetration had a positive correlation with financial performance, while financial integration had low correlation relationship with financial performance of the insurance companies and finally innovation of products and services component of bancassurance have above average relation with financial performance of in insurance companies. The recommendation: Insurance penetration, financial integration and innovation products and services have a statistical significant leve of bancassurance influence on financial performance. This requires insurance companies, to enhance and strengthen their partnership with commercial banks through regulatory change, centralized marketing policies, and common research development.
**Operation of Definitions of Terms**

**Bancassurance** - An arrangement whereby a bank and an insurance company collaborate so that the insurance company can sell its products to the bank's client base. The arrangement is meant to profit both firms, banks earn additional revenue by selling the insurance products, while insurance companies expands their customer bases without having to expand their sales forces or pay commissions to insurance agents or brokers.

**Financial Performance** – An idiosyncratic measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

**Insurance Penetration** - The level of development of insurance sector in a country, measured as the ratio of premium underwritten in a particular year to the GDP.

**Financial Integration** - is a phenomenon in which financial markets in neighboring, regional and/or global economies are closely linked together.

**Innovation of Products and Services** - A creation and subsequent introduction of a good or service that is either new, or an improved version of previous goods or services.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Bancassurance is the concept of the combined selling of insurance and banking products by banks. Further Hughes (1994) defines the bancassurance model as a collaboration of enhanced selling skills insurance products strong clientele positioning and fidelity of banks.

Bancassurance is also said to be the involvement of banks, savings banks and building societies in authoring, publicizing and dispensing insurance products as personified by Leach in 1993. Finally Yuan (2011) observed the model as a process of banks selling insurance manufactured products and services by insurance subsidiaries owned by bank in their distribution channel as principals or agents.

According to Richard (2013), bancassurance is not a new model, since its development can be traced in the early 1980’s, or if not even earlier, as affirmed by Artikis et al. (2008) who stated that the earliest recorded usage of the term “bancassurance” was detected in France, in the 1980s where its presence was allied with the enlargement of the consumer and mortgage credit as well as the liberalization of the financial markets. Bancassurance has evolved over a short duration, as result of wideness of insurance market share globally, at the same time it has had mixed success within different markets and companies. Barclays bank pioneered a formalized event by entering into the insurance industry in 1965, through Barclays Life, to which collaboration of insurance companies and banks was birthday (Jaffer, 2007).
Bancassurance developed and grew immensely in Europe from 1984 to 2000, before embracement by Asian countries in 2002, later the ark shifted to United State of America and finally the entry to Africa through proxy gate of South Africa (Wu et al., 2008).

Banks involvement in insurance business was attributed to: development of the EU Single Market Programme, the internal market with integration and globalisation of financial markets, innovation in products and services, and innovation in their delivery aided by information technology as noted by Slattery & Nellis (2005). Another driver was diversification where non-banking services had more cash flow as compared traditional banking services and furthermore this reduced the firm’s level of risk (Rose, 1989). Further Nellis et al. (2000) observed an emergent trend by European banking organisations “universal banking”, aimed at increasing the overall size of operation and consented effort of cost reduction. This gave rise new alternatives activities such as bancassurance.

The regulation changes have permitted banks to enter the insurance market, as in the UK during the 1980s this has resulted to the cessation of traditional institutional obstacles to antagonism, most perceptible development of bancassurance (Waite, 2001).

This study was anchored both dependent and independent variables; the dependent variable being financial performance of insurance companies in Kenya operationalized by in-depth analysis of market share and profitability of insurance companies. On the other hand independent variables includes: Insurance penetration operationalized by; risk management, market size, diversification and regulation change. Financial integration coming as second ID operationalized by; market stability, client relationship, data management and sales and finally innovation of products and services operationalized by; information technology, new market and expansion of product and services
1.1.2 Financial Performance
Among the roles of accounting is to provide information on: business finance performance, financial position and change in financial position, where financial performance is measured from the perspective of monetary and nonmonetary values of accounting information (Hendriksen, & Breda, 1999).

Financial performance is a measure of an organization’s earnings, profits, appreciations in value as evidenced by the rise in the entity’s share price. In insurance, performance is normally expressed in net premiums earned, profitability from underwriting activities, annual turnover, returns on investment and return on equity. These measures can be classified as profit performance measures and investment performance measures. Profit performance includes the profits measured in monetary terms. Simply, it is the difference between the revenues and expenses, (Alexandru et al., 2009).

These two factors, revenue and expenditure are in turn influenced by firm-specific characteristics, industry features and macroeconomic variables. Investment performance can take two different forms. One the return on assets employed in the business other than cash, and two, the return on the investment operations of the surplus of cash at various levels earned on operations (Chen and Wong, 2004; and Asimakopoulos, Samitas, and Papadogonas, 2009).

Financial performance analysis through the traditional method of financial indices based on statement of financial position, comprehensive income statement and the statement of cash flow which an important themes and are widely used to summarize the information in a company's financial statements in assessing its financial health. Financial performance of a company, being one of the major characteristics, defines competitiveness, potentials of the business,
economic interests of the company’s management and reliability of present or future contractors (Gaspareto, 2004).

Financial performance analysis and identification of their weaknesses and strengths using financial performance indicators has its contribution to the management, shareholders, the public (customers of the insurance companies), the regulator (the government), the financial sector, and the economy as a whole. In a competitive financial market, insurance company’s performance provides signal to premium paid and investors whether to continue insuring their risks or pursue in other insurers (Gaspareto, 2004). Financial performance becomes an important tool to rank companies in a given industry, in the researcher case insurance industry.

1.1.1 Insurance Industry in Kenya
The insurance industry in Kenya owes its beginning to foreign nationals mainly of British and Asian origin. One of the early companies to open branches was Royal Exchange Assurance of London which opened a branch in Kenya in 1922. It was in 1930 that the first locally incorporated company was set up in the name of ‘Pioneer Assurance Society Limited’. The others that followed are Jubilee Insurance in 1937 and Pan Africa Insurance in 1946. There are about 200 registered insurance brokers, 193 loss assessors, 22 surveyors, 18 loss adjusters, 3 risk managers, about 5,515 insurance agents, 46 insurance companies and 2 local reinsurance companies. (IRA, 2015)

The Kenya Insurance Statement of Financial Position stood at Kshs 460.6 bn as of September 2015. The Statement of Financial Position recorded a 11.9% growth compared to September 2014 Total gross premiums stood at Kshs 134.9 billion at September 2015, with general business accounting for 65.1% of the total gross written premiums. Gross reinsured premium accounts for 9.5% of the total industry written premiums. The industry Retention Ratio for the life business stands at 92.9% while the general business stands at 74.2%. Life business has registered a much
stronger growth in premiums, posting a 20.2% CAGR compared to 18.8% growth in general business (Cytonn Research, 2015)

The Association of Kenya Insurers data, shows that the overall insurance penetration in 2014 dropped to 2.93 per cent from 3.44 per cent in 2013 being attributed to the rebasing of economy.

“But we are happy with the way bancassurance is shaping up,” (Makove, 2015)

Despite the fact that insurance penetration in the country dropped to 2.93 percent in 2014 compared to 3.44 percent in 2013, according to the AKI. However, ABC Capital Insurance sector report on the country says the sector’s average returns about 20 percent and the low penetration level have been a strong pull for investor seeking higher returns amidst trend of economic shocks in the other sectors. (IRA, 2016)

Kenya’s insurance industry has seen a lot of foreign interest from various regions, with recent entries, including Allianz from Germany, Sham Finances, Old Mutual, Prudential and Swiss Re. The market has also seen mergers and acquisition; Real Insurance Company, which was acquired by BRITAM, while Pan Africa Insurance bought 51 percent stake of Gateway Insurance. The country has started witnessing changes in the distribution channels from agents and brokers to mobile phones, direct channels and bancassurance, a revolution geared to increase financial penetration in the country (IRA, 2015)

1.2 Statement of the Problem
Insurance companies for a long time have been grappling with low performance in terms finances, attributed to: rise in competition, changes in technology, deregulation and globalization.

Nevertheless current market conditions and low uptake of insurance have put a strain on the income (BMI, 2014).
With the rise of financial innovation, Bancassurance is the way to go. Anja et al., (2010), describes Bancassurance as the selling of insurance through the bank distribution channel. Bancassurance provides both insurance companies and banks with the opportunity to acquire additional revenue streams while promoting customer retention. The Bancassurance sector in Kenya is regulated by strict guidelines that have seen only a handful of Commercial Banks given the green-light to provide insurance policies.

Globally there few studies on bancassurance have been carried out: Goran (1995) assessed the profitability of bancassurance for the European banks, Cheng-Ru et al. (2008) examined what forms of the bancassurance alliance model do customer preference and Richard (2013), on the development of bancassurance as method of selling insurance and how it fits within the regulatory environment in Ireland. Locally studies on bancassurance have not been done conclusively, among the studies is: Mwangi (2010) on the determinants of the growth of Bancassurance in Kenya, Omondi (2013) on the determinants of adoption of Bancassurance by Commercial Banks in Kenya and Ombonya (2013) on bancassurance as penetration used by insurance companies. The study identified a gap where there has been no study relating the effects of bancassurance on the financial performance of insurance companies in Kenya.

The studies focused on the development process, determinants and growth of bancassurance, with none assessing the effects of bancassurance. Therefore the researcher intended to fill the knowledge of gap by evaluating the effects of Bancassurance on the Financial Performance of insurance companies in Kenya? Where study established that implementation of bancassurance has effected financial performance of insurance companies in Kenya.
1.3 Objective of the Study
1.3.1 General Objective
The general objective of the study was to determine the effects of bancassurance on the performance of selected insurance companies in Kenya.

1.3.2 Specific Objectives
i. To determine the effect of insurance penetration on financial performance of insurance companies in Kenya.
ii. To establish the effect of financial integration on financial performance of insurance companies in Kenya.
iii. To evaluate the effect of innovation of products and services on financial performance of insurance companies in Kenya.

1.3.3 Research Questions
i. Has insurance penetration effected financial performance of insurance companies in Kenya?
ii. Has financial integration effected financial performance of insurance companies in Kenya?
iii. Has innovation of product and services financial performance of insurance companies in Kenya?

1.4 Significance of the Study
This study has made enormous contribution to theory and practice of bancassurance. On the theory part, the study has provided a framework that links bancassurance and financial performance of insurance companies. Existing literature has pointed to the need for more studies on application of bancassurance in insurance companies.

For the practioners; managers and management of insurance companies especially the developing countries, find this work useful in making decision regarding and operations of their organization.
Insurance companies’ face several challenges such as stiff competition and dwindling resource in their operations and this study provides bases on empirical evidence on the best ways to address them and therefore improve their performance.

The study has added value to policy makers; insurance regulatory bodies, governments, in Kenya and other developing nations where works of insurance companies greatly complements government efforts in developing services. Creating harmonious working relationship between government agencies and insurance call for clear understanding of the roles and responsibility of each.

1.5 Scope of the study
This study focused on establishing the effects of bancassurance on the financial performance of selected insurance companies in Kenya, which includes: Jubilee Holding Limited, Britam Holding, CIC Insurance Group, Kenya Re-insurance, Liberty Kenya Holding and Pan Africa Insurance. According to IRA and Cytonn Investment, these insurance companies are considered to be the largest in term of shareholding, diversification and also market leaders in year 2015. The research will be undertaken for period of 2 months (August and September 2015).

1.6 Limitation of the Study
The researcher encountered the problem on non-response, the researcher although the employment of drop and pick questionnaire strategy didn’t resolve the delinquent of non-response. Insurance institutions are also subjected to information confidentiality and therefore sharing of information. The researcher made appointments with managers before the actual of data collection, which created an environment and support element from the staffs of insurance companies.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction
This chapter contains theoretical, empirical and conceptual framework on the effects of bancassurance on the performance of financial insurance companies in Kenya

2.2 Theoretical Review
This study is affixed on financial intermediation theory, which is the conglomeration of theories such as informational asymmetry, transactional cost theory and the theory of regulation of monetary. Secondly agency theory, modern portfolio theory and alliance theory will be of greater use.

2.2.1 Financial Intermediation Theory
Financial intermediation is the transfer of funds from agencies that have a surplus to agencies that have a deficit through Financial Intermediaries (Alexandru et al., 2009). The Theory behind Financial Intermediation arose from three different approaches namely; the theory of informational asymmetry, transactional cost theory and the theory of regulation of monetary regulation. (Bert and Dick, 2003) The theory of Informational asymmetry dates back to the 1960’s. It was developed by Gurley and Shaw (1960) and emphasized that intermediaries came about as a result of informational asymmetry leading to high transactional costs. The need to reduce the effects of imperfect markets gave rise to financial intermediaries as they were seen to eliminate or partially reduce some specific forms of transactional costs through pooling of resources of individual customers leading to scale economies (Alexandru et al., 2009)
The theory of Transaction cost, developed by Benston and Smith Junior (1976), emphasized on the impact of transactional technologies that were brought about by financial intermediation (Bert and Dick, 2003). Intermediaries are perceived to be a coalition of individual creditors and debtors who exploit the scale economy at the level of transactional technologies (Alexandru et al., 2009). Through their function of processing huge volumes of data at high efficiencies, clients perceive that they are experts at making the best financial decisions. The third approach to Financial Intermediation is based on the regulation of money production and of saving in and financing of the economy (Bert and Dick, 2003). This approach was developed by Guttentag and Lindsay (1968).

Insurance companies have found it increasingly difficult to maintain their profitability due to increased competition, mergers and acquisition, geopolitical movements of business and liberalization of the market. The need for specialized partnerships is seen to be imperative for the long-term growth and sustainability of these Financial Institutions as well as maintaining their liquidity. By comparison, Insurance companies have over the years found it increasingly difficult to maintain their competitive advantage in the ever-changing competitive environment, regulatory regimes. According to Kiragu (2014) noted that the increasingly competitive environment in the financial services market has resulted in the pressure to develop and utilize alternative delivery channels. With this, Insurance companies are striving to ensure that they can garner a huge customer base to increase their premiums.

Bancassurance proves to be a worthwhile vehicle for both the Bank and the Insurance Company through the concept of Financial Intermediation. As financial institutions faced with the backdrop of the ever-changing and competitive financial services industry, their partnerships allow them to take advantage of efficiencies in transactional technologies and reduction in transactional costs.
More importantly, their combined efforts increases customer loyalty as accumulators of funds as clients perceive that they will invest in the funds wisely.

2.2.2  

**Agency Theory**

Jensen and Meckling (1976), as mentioned by Copeland & Weston (1992), formulated the implications of agency problems. An agency relationship arises where one or more parties called the principal contracts/hires another called an agent to perform on his behalf some services and then delegates decision making authority to that hired party (Agent). As result of these relationships, there are different agency problems: shareholders and management, shareholders and creditors, shareholders and the government, shareholders and auditors and finally headquarter office and branch or subsidiary.

The drivers’ activing these agency problem: incentive, Consumption of “Perquisites, Different Risk-profile, Different Evaluation Horizons, Management Buy Out (MBO), Pursuing power and self-esteem goals, and Creative Accounting. As noted by Cf. Berhold (1971), Ross (1973, 1974a), Wilson (1968, 1969), and Heckerman (1975), in most agency relationships the principal and the agent will incur positive monitoring and bonding costs (non-pecuniary as well as pecuniary).

There are some divergence between the agent’s decisions and those decisions which would maximize the welfare of the principal. The dollar equivalent of the reduction in welfare experienced by the principal as a result of this divergence is also a cost of the agency relationship, and we refer to this latter cost as the “residual loss”.

Mutual firms have tended to be most successful in the financial sectors, such as insurance, banking, and mutual funds. Fama and Jensen (1983b) argue that the survival of the mutual form is due to the characteristics of financial intermediation. A recent concern is the effect of
demutualization on financial intermediaries. Heller (1986) notes that there have been many conversions from mutual to stock structure among financial firms. Many major insurers are still mutual organizations, and they are a major force in the marketplace.

The nature of the claims settlement process provides a complex set of incentives for customers, insurers, and agents. Claims settlement procedures differ according to the incentives associated with the various types of policies.

Mayers and Smith (1981) argue that insurers, like other firms, are driven by profit maximization—firms handle claims settlement in a fashion that minimizes costs. Incentives for claims settlement procedures are examined in the various organizational forms.

According to Manne (1965), as noted by Copeland & Weston (1992), there is a great emphasis for corporate control and viewed managers as a threat of takeover if a firm’s management lagged in performance either because of inefficiency or because of agency problems. On the other hand mergers may be a manifestation of the agency problem rather than the solution. One reason often given for a merger is that it will increase a firm’s market share, but it is not clear how increasing the market share will achieve economies or synergies. If increasing the firm’s market share really means that the firm will be larger, then it is the economies of scale. Increasing market share really means increasing the size of the firm relative other firms in an industry (Copeland & Weston, 1992).

2.2.3 Alliance Theory
Alliance formation theory introduced by Voutilainen in 2004, has been a growing trend among the financial industry during the last decades. The insurers in an alliance can be life and/or non-life companies. Alliances between banks and non-life insurance companies with no life counterparts are in practice rare. On the other hand, synergies between retail banking and life insurance are so significant that one often encounters alliances between banks and life insurers
without non-life counterparts. Financial alliances often include units like mutual fund managing companies, asset management companies, securities brokerages and corporate finance companies (Voutilainen, 2004).

Alliance structures can be classified in three main categories according to the degree of closeness of the members (Voutilainen, 2004). Cross-selling agreements; the banks are selling the insurance companies’ products to their own customers, Alliance of independent partners, we started witnessing the alliance of banks and insurance companies forming special-selling agreement e.g The Diamond Trust Bank and Jubilee Insurance company and Old Mutual Faulu Microfinance Bank UAP Insurance company in an asymmetry and one party's dominance of the alliance and finally Control by ownership, banks and insurance companies are dividing earnings and costs are divided and therefore no control by ownership.

Alliances between banks and nonlife insurance companies with no life counterparts are in practice rare. On the other hand, synergies between retail banking and life insurance are so significant that one often encounters alliances between banks and life insurers without nonlife counterparts. (Ryan, 2001)

The forces driving the financial alliance between the banks and insurance companies is driven by forces: narrowing profit margins in banks and insurance companies call for new sources of income by cross-selling; tight margins can also necessitate savings and cut-off programs which can be more effectively carried out by closer alliance structure; changing customer behavior such as one-stop shopping requires co-operation between all financial service providers; international trade agreements are dismantling tariffs and breaking down barriers to trade allowing more companies to enter new markets (Ryan, 2001); Regulators are espousing greater competition because they are recognizing the economic benefits to their countries and their customers (Ryan, 2001); cross-
selling can play, and has played an important role in preventing job losses and creating employment in the banking sector (Benoist, 2002).

Focarelli and Pozzolo (2001) observed that during the nineties the number and value of mergers and acquisitions increased rapidly in virtually all sectors of economic activity. They have been particularly frequent in the banking sector, thanks to widespread deregulation, which permitted the integration of financial activities such as banking, asset management, and insurance. Vander Vennet (2002) shows that financial conglomerates are more revenue efficient than their specialized competitors.

2.3 Empirical Review
Bancassurance has received great interest from a number of researchers who’ve documented the roots and expansion of bancassurance at certain parts of the world, as well as the challenges that lie ahead for the implementation of such corporate restructuring (Morgan et al., 1994), Molyneux et al. (1997), Benoist (2002), Dorval (2002), Falautano and Marsiglia (2003). There other researcher who have focused on new markets such as Greece, where the phenomenon had been in effect in a de facto mode (Kalotychou and Staikouras, 2007) for a long time; while elsewhere evidence is provided that there are significant cross-selling opportunities that mostly arise from consumer unawareness regarding insurance offerings by banks and their willingness to buy these new products (Lymberopoulos et al., 2004).

2.3.1 Insurance Penetration
Studies on the bancassurance shows that the insurance penetration, being characterized by risk management, increase in market size (growing interaction between insurance companies and banks), eventually, deciphering into some form of collaboration, synergy and intense competition (Szego, 1986), and regulation changes as noted by Saunders (1994) on the relaxation of the regulatory barriers between banks and commercial firms.
The insurance penetration is complemented by the investigation of the effects of universal banking on investment efficiency, on banking risk, and on social welfare (John et al., 1994). Furthermore, Kist (2001) and Flur et al. (1997) affirmed that insurance penetration can be achieved by integrating insurance, banking and asset management under one provider of financial services. Regulation change has always required the insurance provider to be stated in regulatory statements. However, there has been a growing trend of branding insurance products or more commonly known as white labeling (Burt, 2000).

2.3.2 Financial Integration
Bancassurance has also been driven financial integration, characterized by market stability where banc assurers have begun to finely segment the market, which has resulted in tailor-made products for each segment. The quest for additional growth (sales) and the desire to market to specific client segments (client relationship) (Benoist, 2002).

On the art innovation of products and services, bancassurance has seen expansion of product leading a shift from homogeneous, single channel sales approach to the adoption multiple channel distribution mechanism. Further the face-to-face contact is preferred, which tends to favor bancassurance development. New and emerging channels are becoming increasingly competitive, due to the tangible cost benefits embedded in product pricing or through the appeal of convenience and innovation (Kist, 2001).

2.3.3 Innovation of Products and Services
Innovations in information technology according to Knights et al. (1994) have facilitated increased and more flexible use of data in service distribution, new product development and increasing customer base.
Newman *et al.* (1998) identified that technology and a combination of computers, telephony and dedicated call centres working in sync has revolutionized sales of car insurance for a branch-based bank. The internet is facilitating both bancassurance and assurfinance activities in terms of the creation of ventures to trade online (Mullineux, 2007).

### 2.4 Summary of Literature & Research Gaps

Bancassurance has brought great transformation and massive shift in the Financial Service Industry on how financial institution conduct their business. This massive shift will causes insurance companies to move from their traditional products and services as aided bancassurance model.

Financial intermediation theory emphasis the need for insurance companies the need to reduce the effects of imperfect markets gave rise to financial intermediaries and on the impact of transactional technologies that were brought about by financial intermediation.

From agency theory there is a great need for insurance companies and bank to work together to minimize the agency problems arising from implementation of bancassurance model. From international arena the researchers have studied the factors for successful Bancassurance, it was however very clear that none of the researchers investigated the impact of Bancassurance on the Financial Performance of Insurance Companies. Back here in Kenya studies have focused on Bancassurance as a form of financial innovation, determinants for the growth and adoption of Bancassurance as well as management perception of Bancassurance in banks.

Bancassurance model was a good source of revenue, customer acquisition and retention. The results of these various studies showed that, indeed, Bancassurance was a viable strategy and its adoption could be beneficial to the insurance companies through retention of customers, fostering customer loyalty, increasing market share and attracting investors and a form of financial
innovation. The Empirical Literature, however, did not focus on its effect on the Financial Performance of Insurance Companies. Faced with the gaps from both the international and local literature, the study aims to investigate the effect of Bancassurance on the Financial Performance of Insurance Companies in Kenya.

2.5 Conceptual Framework

Fig 2.1 Conceptual Framework

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Penetration</td>
<td>Financial Performance of insurance Companies</td>
</tr>
<tr>
<td>• Risk management</td>
<td>• Market Share</td>
</tr>
<tr>
<td>• Market size</td>
<td>• Profitability</td>
</tr>
<tr>
<td>• Diversification</td>
<td></td>
</tr>
<tr>
<td>• Regulation Change</td>
<td></td>
</tr>
<tr>
<td>Financial Integration</td>
<td></td>
</tr>
<tr>
<td>• Market Stability</td>
<td></td>
</tr>
<tr>
<td>• Client Relationship</td>
<td></td>
</tr>
<tr>
<td>• Data Management</td>
<td></td>
</tr>
<tr>
<td>• Sales</td>
<td></td>
</tr>
<tr>
<td>Innovation of Products &amp; Services</td>
<td></td>
</tr>
<tr>
<td>• Information Technology</td>
<td></td>
</tr>
<tr>
<td>• Expansion of Products</td>
<td></td>
</tr>
<tr>
<td>• New Markets</td>
<td></td>
</tr>
</tbody>
</table>

From the conceptual framework (figure 2.1) bancassurance is independent variable (IV) consisting: insurance penetration, financial integration, and innovation of products and services. Financial performance of insurance companies as dependent variable (DV) containing market share and profitability.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
This chapter discusses the research methodology that were used in the study, comprising: research design, target population, sampling design, data collection instrument, data collection procedure and finally data analysis and presentation to be adopted by the researcher. The chapter further highlights the ethical consideration observed by the researcher.

3.2 Research Design
Research design refers to the way a study is planned and conducted, the procedures and techniques employed to answer the research questions (Saunders & Thornhill, 2008). The study used descriptive, cross-sectional survey design. The descriptive research design is considered appropriate for this study as it allows for collection of data from samples and drawing of objective conclusions (Cooper & Schunder, 2006). The objective of this design is to portray a precision profile of person, events or situations.

3.3 Target Population
The target population of study was of six selected insurance companies: (Jubilee Holding Limited, Britam Holding, CIC Insurance Group, Kenya Re-insurance, Liberty Kenya Holding and Pan Africa Insurance). According to Cooper and Schindler (2008) a target population refers to a particular group of people that is identified by the researcher upon which he wishes to draw inferences. The key informant of this study were senior managers (bancassurance manager, operations managers and finance manager) who were deemed to have the specific knowledge on bancassurance and financial performance. The researcher targeted five managers dealing with bancassurance, finance, operations, development and research or innovation from each insurance companies bring a total of thirty respondents.
3.4 Sampling Design
The sampling design for this study was Purposive Sampling design and sample of forty five managers. The adoption of the design was informed by its allowing the researcher to use cases that have the required information with respect to the objective of the study, as observed by Cooper & Schunder, (2006).

3.5 Data Collection Instrumentation
3.5.1 Reliability of the Instrumentation
Reliability is the degree to which an instrument produces consistent data over time and that the collected data, will represent the phenomena being studied as well as a representation of the whole population under study (Babbie, 2010). To ensure the reliability of the data collection method, the researcher conducted a pilot study thereby distributing five sample questionnaires to the targeted population after which relevant adjustment were done on the instrument. The inconsistencies were be rectified and the tool retested achievement of the desired reliability.

3.5.2 Validity of the Instrumentation
Validity is the extent to which an instrument measures what it is supposed to measure and performs as it is designed to perform (Babbie, 2010). Validity is important in collecting dependable information. To ensure validity in this study the researcher used simplified questions and multiple choices questions, the study reorganized in the questionnaire in a Likert scale manner used for easy use of multiple choices questions.

3.6 Data Collection Procedure
Both primary and secondary data were used in the study. The primary data was collected mainly through questionnaires. The questionnaires were hand – delivered and administered on a personal basis, to be bring-out understanding to the respondent with open and closed ended question. Secondary data will be obtained from, journals, published data, and relevant websites, articles among other published materials.
3.7 Data Analysis, Presentation and Inferential Statistics
Data was analyze by use of descriptive statistics and inferential statistics. Descriptive statistics which includes: frequency distribution, cross-tabulations, measures of central tendencies and standard deviation was conducted. The study used a multiple regression model and correlation analysis to establish the relationship between the variables, as test for inferential statistics.

The multiple regression model as expressed below
\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon_0 \]

Where \( Y \) = Financial Performance

\( X_1 \) = Insurance Penetration

\( X_2 \) = Financial Integration

\( X_3 \) = Innovation of Product & Service

\( \varepsilon_0 \) = Error

3.8 Diagnostic Test
The study tested the element of multicollinearity between the independent variables (insurance penetration, financial integration and innovation of products and services) and dependent variable (financial performance of insurance companies in Kenya. Multicollinearity was tested through correlation analysis. The threshold being \( r = \pm 0.8 \).

3.9 Ethical Consideration
Ethical consideration is defined as a method, procedure, or perspective for deciding how to act and for analyzing complex problems and issues. Blaxter et al, (2001) noted that common cause of ethical challenge is conflict of interest between the researcher and the researched. The researcher ideas and being keen in-depth high quality data from those most closely affected by whatever they
are researching. The principle of truth telling is important (Cormack, 2000) hence the researcher was demonstrated this study by providing the subject with introductory letter detailing all the key information about the researcher, reasons why the information is required, the researcher process in explained in clear and concise manner and assurance of confidentiality of the information and the identity of the researcher.
CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction

The main objective of this chapter is to present the results of the study on the effects of bancassurance on the financial performance of selected companies in Kenya. Both primary and secondary data was used by the researcher. The primary data was obtained from questionnaires filled by managers of insurance companies. The secondary was also obtained from the specific insurance companies financial statements for period of five years (from 2011 to 2015).

The researcher analyzed the data in this ways; first conducted a descriptive statistics via finding the frequencies of the background information on the respondents, secondly conducted both regression analysis and correlation analysis and finally put into consideration the general comments on the effects of bancassurance on the financial performance of insurance companies in Kenya.

4.2 Response Rate Analysis

Out of the sixty respondents targeted by the researcher; forty six respondents responded through filling the questionnaire representing seventy seven percent. Five of the questionnaire were used for pretesting the data; as a way instrumenting reliability of the study. Forty one questionnaires were used for final analysis.

4.2.1 Gender of Respondents

The study sought to establish the gender of the respondents at the level of management of insurance companies in Kenya. Assessment on gender in study is in line with implementation of one third gender rule by the government of Kenya. The findings on gender of respondents are presented in table and figure 4.1.
Table 4.1 Gander of Respondents

<table>
<thead>
<tr>
<th>Gander of the Respondents</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>21</td>
<td>51.2</td>
<td>51.2</td>
<td>51.2</td>
</tr>
<tr>
<td>Male</td>
<td>20</td>
<td>48.8</td>
<td>48.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher Findings

Figure 4.1 Gander of Respondents

Source: Researcher Findings

Female respondents represented 49% of the respondents while that of male counterparts represented 51% of the respondent. The researcher noted that the difference between the two groups was 2%. The further observed that most insurance companies have implemented the three third gender rule and even exceeded; most insurance companies management is being taken over by the feminine gender.
4.2.2 Age of Respondents
The study sought to establish the age of respondents at the management level in insurance companies in Kenya. The age is key since there a general assumption age comes with experience in implementation of systems in an organization. The age findings are present on table and figure 4.2.

Table 4.2 Age of Respondents

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 - 30 Years</td>
<td>11</td>
<td>26.8</td>
<td>26.8</td>
</tr>
<tr>
<td>31 - 40 Years</td>
<td>12</td>
<td>29.3</td>
<td>56.1</td>
</tr>
<tr>
<td>41 - 50 Years</td>
<td>16</td>
<td>39.0</td>
<td>95.1</td>
</tr>
<tr>
<td>51 - 60 Years</td>
<td>2</td>
<td>4.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher Findings

Figure 4.2 Age of Respondents

The age of the respondents varied from 20 years to 60 years and above. Most of the respondents were within the age of 41-50 years contributing to 39%, following next was 31- 40 years contributing 29%, 27% being the age of 20 -30 years specifically acting managers or some top manager requested the journal managers to help in filling the questionnaire. Finally 5% contributed
for age 51-60 and above, most the insurance companies are having their core leadership managerial position being held by young individual or youthful personnel, therefore most the managers are within the age of 31 to 40 years. It was great effect that the managers would relate with the effects of bancassurance to performance of the dockets.

### 4.2.3 Level of Education

The study sought to determine the highest level of education of the respondents; education level is key component when adopting or implementing any system in an organization. The higher the level of education the greater the success of implementation or adoption and vice versa. The education level finding are presented in table and figure 4.3.

#### Table 4.3 Level of Education

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diploma / Certificate</td>
<td>2</td>
<td>4.9</td>
<td>4.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Graduate Degree</td>
<td>15</td>
<td>36.6</td>
<td>36.6</td>
<td>41.5</td>
</tr>
<tr>
<td>Post Graduate Degree</td>
<td>8</td>
<td>19.5</td>
<td>19.5</td>
<td>61.0</td>
</tr>
<tr>
<td>Undergraduate Degree</td>
<td>16</td>
<td>39.0</td>
<td>39.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

#### Figure 4.3 Level of Education
Source: Researcher Findings

Level of education was also put into questions in the study, and an observation; that most managers have undergraduate degree certificate contributing 39%, coming next was the holders of graduate degrees gunning 36.6%, post graduate degrees contributing 19% and 5% of diploma and certificate. To note was the 5% diploma holder had worked in the industry for many years, therefore longevity of their experience earned them these positions. It worthwhile to note that managers within the insurance industry are well schooled; some even with postgraduate degrees and their age brackets being 30 -50 years. For this reason implementing bancassurance systems; didn’t face resistance and was easily implemented since managers are knowledgeable.

4.2.4 Working Experience

Further the study sought to establish the working experience in relation effects of bancassurance on the performance of insurance companies in Kenya. Working experience determines the alacrity to which a systems can be implemented or adopted; the longer the working experience the greater the success to implementation. The findings on working experience are presented on table and figure 4.4.

Table 4.4 Working Experience

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>1 - 4 Years</td>
<td>9</td>
<td>22.0</td>
<td>22.0</td>
</tr>
<tr>
<td></td>
<td>10 - 14 Years</td>
<td>3</td>
<td>7.3</td>
<td>29.3</td>
</tr>
<tr>
<td></td>
<td>5 - 9 Years</td>
<td>29</td>
<td>70.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Working experiences was under scrutiny by the researcher to establish its effects on implementing the bancassurance concept. Observation were made as follow: between one year and fours contributed 22% of the respondents, five to nine years 71%; recalling the previous observation relating to the age of respondents the youthful generation being the managers is in agreement with 71% of the respondents. 10 to 14 years carried 7%. The managers were able to compare the effect of bancassurance with other concepts that have been implemented within the insurance industry and how bancassurance stands out to effect the financial performance of the insurance companies.

Source: Researcher Findings
4.2.5 Bancassurance Implementation

The study sought to determine when was bancassurance implemented or adopted in specific insurance companies in Kenya. The reason being some insurance jumpstarted the process before issuance of the guideline by insurance regulatory authority of Kenya. Further determine whether those companies that adopted the model in early stages have had more effects those who adopted in later years. Bancassurance implementation findings are presented on table and figure 4.5.

Table 4.5 Bancassurance Implementation

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>32</td>
<td>78.0</td>
<td>78.0</td>
<td>78.0</td>
</tr>
<tr>
<td>2013</td>
<td>6</td>
<td>14.6</td>
<td>14.6</td>
<td>92.7</td>
</tr>
<tr>
<td>2014</td>
<td>2</td>
<td>4.9</td>
<td>4.9</td>
<td>97.6</td>
</tr>
<tr>
<td>2015</td>
<td>1</td>
<td>2.4</td>
<td>2.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher Findings

Figure 4.5 Bancassurance Implementation
As to when the concept was introduced in the individual companies; 2012 was the major date of implementation. Nearly all the managers in stated 2012 apart from a few who said 2013, 2014 and even one stating 2015. It counted to be lack of knowledge or mistake from the managers themselves. The concept of bancassurance was introduced to Kenya in year 2011 as concept of financial inclusion but it adoption kicked off on 2012 by most in most insurance companies. The government was to later issue the guidelines on bancassurance in early 2014 for compliance and harmonization by insurance regulator (Insurance Regulatory Authority). The so five years of implementation and adoption can be used to assess the effects of the model on the performance of the insurance industry.

4.3 Diagnostic Test
The study conducted a diagnostic test to whether there were any element of collinearity or multicollinearity. As define by Feinstein (2002), Multicollinearity is problem that you can run into when you’re fitting a regression model, or other linear model. It refers to predictors that are correlated with other predictors in the model. The study conducted a correlation analysis to determine whether there existed any collinearity. Multicollinearity occurs within the range: \( r = +0.8 \) or \( r = -0.8 \). The findings on correlation analysis are presented on table 4.6, and the interpretation follow on the discussion below the table.
### 4.3.1 Correlation Analysis

#### Table 4.6 Correlation Analysis

<table>
<thead>
<tr>
<th></th>
<th>Financial Performance</th>
<th>Insurance Penetration</th>
<th>Financial Integration</th>
<th>Innovation of Products &amp; Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Performance</strong></td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.915</td>
<td>.645</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.057</td>
<td>.004</td>
<td>.006</td>
</tr>
<tr>
<td>N</td>
<td>41</td>
<td>41</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td><strong>Insurance Penetration</strong></td>
<td>Pearson Correlation</td>
<td>.303</td>
<td>1</td>
<td>.534**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.057</td>
<td>.000</td>
<td>.111</td>
</tr>
<tr>
<td>N</td>
<td>41</td>
<td>41</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td><strong>Financial Integration</strong></td>
<td>Pearson Correlation</td>
<td>.276</td>
<td>.642**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.080</td>
<td>.000</td>
<td>.001</td>
</tr>
<tr>
<td>N</td>
<td>41</td>
<td>40</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td><strong>Innovation of Product &amp; Services</strong></td>
<td>Pearson Correlation</td>
<td>.299</td>
<td>.074</td>
<td>-.235</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.058</td>
<td>.648</td>
<td>.145</td>
</tr>
<tr>
<td>N</td>
<td>41</td>
<td>41</td>
<td>41</td>
<td>41</td>
</tr>
</tbody>
</table>
From the table 4.6 the problem of multicollinearity is traced in the dependent variable (financial performance of insurance companies in Kenya), where $r = 0.915$. When compared with the benchmark range of $r = +0.8$, Financial performance is above 0.8 and therefore there is elements of multicollinearity but since financial performance is weighed against financial performance collinearity must be present.

Among the independent variables: insurance penetration, financial integration and innovation products and services, there exist no traces of collinearity as enumerated in the following passages. First the relationship between insurance penetration and financial performance $r = 0.303$, when compared with benchmarked range of $r = +0.8$, insurance penetration as variable has no problem fitting the regression model; since $r = 0.303 \leq +0.8$. therefore study concludes the absence of multicollinearity between insurance penetration and financial performance of insurance companies in Kenya.

The relationship between financial integration and financial performances lacks elements of multicollinearity. When weighed against the expected range of $r = +0.8$, financial integration has $r = 0.276$, therefore there no elements of multicollinearity since $r = 0.276 \leq +0.8$. Similarly innovation of products and services and financial performance diagnostic test shows no element multicollinearity since innovation of products and services $r = 0.299$ and therefore when gauged against the expected $r = +0.8$ no traces of multicollinearity since $r = 0.299 \leq +0.8$.

In conclusion the diagnostic test in the study shows no problem running into while fitting a regression model, since all predictors independent variables (insurance penetration, financial integration and innovation of products and services) correlated dependent variable (financial
performance). Therefore the regression model is corrected and accurate, as shown in model summary 4.6.

4.4 Regression Analysis
In establishing the effects of Bancassurance on the financial performance of insurance companies in Kenya, the researcher conducted multiple regression analysis using IBM SPSS Statistics version 20, where financial performance of the insurance companies was the dependent variable, while insurance penetration, financial integration and innovation of product and services being the independent variable.

Table 4.7 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.927a</td>
<td>.901</td>
<td>.851</td>
<td>.0211</td>
</tr>
</tbody>
</table>

Source: Researcher Findings

The coefficient of determination which is the adjusted R squared, which discusses the variation of the dependent variable (performance of insurance companies in Kenya), due to the change in the independent variables. Basing the argument from the table above the adjusted R was 0.851 a clear indication that there was variation of 85.1% on financial performance of insurance companies in kenya due to change on insurance penetration, financial integration and innovation of product and services at 92.7% confidence level interval.

The study indicated that 90.1% changes in financial performance of insurance companies in Kenya would be attributed implementation of bancassurance; measured by insurance penetration, financial integration and innovation of products and services. The relationship between the independent variables and dependent variable is shown by R which is the correlation coefficient.
The researcher found a positive relationship the dependent variable and independent variables indicated by 0.93 or 93% degrees of confidence level interval.

In terms of standard error of estimate it’s at .0211 which is 2.11%; it can accredited that other factors effecting the changes in financial performance of insurance companies in Kenya can only contribute to 8% since the researcher finding indicates that the margin of error is 2.11% which is quite low. Therefore the researcher can conclude there is strong relationship between implementation of bancassurance model and financial performance of insurance companies in Kenya.

Table 4.8 ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>14.436</td>
<td>9</td>
<td>1.604</td>
<td>4.916</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>9.461</td>
<td>29</td>
<td>.326</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23.897</td>
<td>38</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher Findings

Table 4.8 shows ANOVA statistics findings and the adequacy for the study. From the table 4.8 above just reflect how adequate the model was. There is a clear demonstration that data is perfect for conclusion and recommendation since the population parameters are well represented. The researcher find more confident to use the data since the significant level is 93% and while the required is 95%.

Turning to the F test (table 4.8 above) or F critical at 7% level of significance 23.897 degree level of freedom was 2.31 and since the calculated F is 4.916 is greater than the F critical of 2.31; representing insurance penetration, financial integration and innovation of products and services has significantly effects the financial performance of insurance companies in Kenya.
# Table 4.9 Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.12&lt;sup&gt;xx&lt;/sup&gt;</td>
<td>.430</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Insurance Penetration</td>
<td>.786&lt;sup&gt;xx&lt;/sup&gt;</td>
<td>.264</td>
<td>.051</td>
<td>2.083</td>
</tr>
<tr>
<td>2. Financial Integration</td>
<td>.126&lt;sup&gt;xx&lt;/sup&gt;</td>
<td>.015</td>
<td>.067</td>
<td>0.831</td>
</tr>
<tr>
<td>3. Innovation of Products and Services</td>
<td>.284&lt;sup&gt;xx&lt;/sup&gt;</td>
<td>.107</td>
<td>.062</td>
<td>2.623</td>
</tr>
</tbody>
</table>

Dependent Variable: financial performance of insurance companies

**Source: Research Findings**

The empirical model is presented by: \( Y = 1.12 + 0.786x_1 + 0.126x_2 + 0.284x_3 \)

As observed from the empirical equation which forms a multiple regression that (implementation of bancassurance) where \( Y \) being the financial performance is given constant which can be referred to implementation of bancassurance combined with: insurance performance, financial integration and innovation of products and services; resulting 1.12. A component of insurance penetration contributes .786 of the financial performance of insurance companies in Kenya. A unit of financial integration contribute to .126 of the financial performance of insurance companies in Kenya.
Finally a detail of innovation of products and services contributed .284 of the financial performance of insurance in Kenya.

The results presented in table 4.8 coefficient, found that insurance penetration has statistical positive coefficient ($\beta = .786, P - Value = 0.05$), this means that increase insurance penetration has positive influence on financial performance of insurance companies in Kenya. This results is supported by Szego (1986), Saunders (1994), John et al. (1994), Kist (2001), Flur et al. (1997) and Burt, (2000).

On financial integration the study found a statistical positive coefficient($\beta = .126, P - Value = 0.06$), this means increase in financial integration has positive influence on financial performance of insurance companies in Kenya. This results is supported by Benoist 2002 and Kist (2001).

Finally on innovation of products and services has statistical positive coefficient($\beta = .284, P - Value = 0.05$), this means increase innovation of products and services has positive influence on financial performance of insurance companies in Kenya. This results is supported by Knights et al. (1994), Newman et al.(1998) and Mullineux, 2007).

4.5 Discussions
The researcher conducted both regression analysis and correlation analysis. Starting with regression analysis the equation $Y = 1.12 + .786x_1 + .126x_2 + .284$; the positive relationship between financial performance and the independent variables: insurance penetration, financial integration and the innovation of products and services. Taking the constant to be the bancassurance and it being1.12 ; the relationship between financial performance and bancassurance; there appear to have a strong and positive relationship. This positive relationship is supported by various scholars among are Richard (2013), on the development of bancassurance.
as method of selling insurance; he found out that bancassurance had strongly influenced the selling of insurance policies within Ireland. Next Mwangi (2010) on the determinants of the growth of Bancassurance in Kenya; in his findings he noted that bancassurance growth was triggered by insurance wanting to increase their profitability and enhancing their financial performance of financial institution in this case commercial banks and insurance companies; whose findings were supported by Omondi (2013).
CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter provides a summary of the major findings of the research carried out regarding the effects of bancassurance on the financial performance of insurance companies in Kenya. Further it contains conclusions of the study and some of the recommendations by the researcher and lastly, it gives suggestions for further studies.

5.2 Summary

The main objective of this research was to analyze the effects of bancassurance on the financial performance of selected insurance companies in Kenya. Both primary and secondary was collected: the primary data was instrumented by use of questionnaires; which were filled by top managers within the insurance companies. Secondary was obtained from financial statement of these insurance companies; most of the insurance companies have their financial statement on their websites. The data was hence analyzed using multiple regression

Bancassurance in massively has led to insurance penetration, financial integration and innovation of products and services, as observed from both regression and correlation analysis. From the regression analysis, the following equation was obtained $Y = 1.12 + .786x_1 + .126x_2 + .284$. this a clear demonstration the positive relationship between financial performance and the independent variables: insurance penetration, financial integration and the innovation of products and services. Taking the constant to be the bancassurance and it being 1.12; the relationship between financial performance and bancassurance; there appear to have a strong and positive relationship. The researcher used ANOVA in establishing the above equation.
From results of the adjusted R squared, which discussed the variation of the dependent variable (performance of insurance companies in Kenya), due to the change in the independent variables (insurance penetration, financial integration and innovation of product and services). The adjusted R was 0.851 a clear indication that there was variation of 85.1% on financial performance of insurance companies in Kenya due to change on insurance penetration, financial integration and innovation of product and services at 92.7% confidence level interval. This is clear demonstration of the positive relationship between effects of bancassurance and financial performance of insurance companies in Kenya.

On micro level the relationship between insurance penetration as independent variable and financial performance of insurance companies was single picked from both regression analysis and correlation analysis. A component of insurance penetration contributes .906 of the financial performance of insurance companies in Kenya. Meaning 90.6% of changes in the financial performance of insurance in Kenya was as result of adoption of bancassurance model. The current insurance penetration by insurance companies can be attributed to implementation of bancassurance; the researcher noted that insurance products have reached areas where insurance companies have not branched but commercial bank have branches. The usage of commercial bank’s clientele data bases is the main source of these massive change. This intend has contributed to financial performance of both insurance companies and commercial banks (financial industry).

On relation to financial integration and financial performance of insurance companies in Kenya; the researcher observed that .29 or 29% of change in the financial performance of insurance companies in Kenya is attributed to implementation of bancassurance. Financial integration is part of financial inclusion with the financial industry has tried to deepen over numbers of years, bancassurance is major milestone in achievement of financial inclusion. The insurance companies
and other players within the financial industry have shifted from competition to synergy and collaboration as result of effects of bancassurance implementation.

Turning to innovation of products and services as independent variable and assessing the contribution of innovation to financial performance of insurance companies in Kenya, marker of .911 or 91.1% on effect of financial performance of insurance companies is attributed to the implementation bancassurance. Insurance companies in Kenya have made a great stride in innovating new products and services but bancassurance stand very strong in contribution to the growth of financial performance of financial in industry in Kenya.

5.3 Conclusions

Having assessed the relationship dependent variable and independent variables through regression analysis, correlation analysis and general comment on bancassurance. The researcher came with the following conclusion. First there is strong relationship between financial performances of insurance companies in Kenya and implementation of bancassurance model by insurance companies. This anchored on the strong positive correlation analysis of the first independent variable (insurance penetration) and financial performance of insurance companies thus concluding there is significant effects of insurance penetration in Kenya and implementation of bancassurance.

Secondly, the relationship financial integration as component of bancassurance and financial performance of insurance companies in Kenya; there minimal effects of financial integration on financial performance since banks are acquiring insurance companies instead of full embracing the model. The minimal effects shows that factor are driving the change significance as opposed
to financial integration. Financial integration a component of financial inclusion is a step to integration but other factors within bancassurance out ways it.

Finally innovation of products and services a component of bancassurance is strong ingredient and have positive correlation to financial performance of insurance companies in Kenya. Innovation is driving change in development of financial industry and effects of bancassurance can’t go unnoticed. Both regression analysis, correlation and open comments from the respondent demonstrated unprecedented relationship between the effects of bancassurance and financial performance of insurance companies in Kenya.

5.4 Recommendations

Insurance penetration has a statistical significant level of bancassurance influence on financial performance. This requires insurance companies, to enhance and strengthen their partnership with commercial banks through regulatory change, centralized marketing policies, and common research and development. This will have a positive influence on the financial performance of both insurance companies and commercial bank.

Financial integration has a statistical significant level of bancassurance influence on financial performance. This demands insurance companies and commercial banks to deepen and fully integrates their services through one stop shop services delivery common client relationship management and central client data management. This will have a positive influence on the financial performance of both insurance companies and commercial bank.

Innovation of products and services has a statistics significant level of bancassurance influence on financial performance. This necessitates insurance companies to strengthen their partnership with commercial banks, through adoption of common information technology policies and facilities,
common research and development centres. This will have a positive influence on the financial performance of both insurance companies and commercial bank.

5.5 Limitation of the Study

The usage of questionnaires by the researcher to collect data and the major challenge was that several people declined to fill in the questionnaire and those who filled the questionnaires had to pushed to fill. The usage of selected insurance companies that have partnered with several commercial banks in implementing the bancassurance model was also another challenge since they can’t fully represent all insurance companies in Kenya.

Usage of financial statements data as part of the secondary data was also a setback; some two companies had wrong information on their websites. On the open comment from the respondent the variation in opinion was also challenge.

5.6 Suggestion for Further Study

This research did not exhaust all the aspects of bancassurance as the scope was limited to selected insurance companies. A research on effects of bancassurance on the financial performance of selected insurance companies within east Africa would also be a topic of study. It would also be worth considering the impact of bancassurance on growth of commercial banks, saving credit cooperative society and micro finances with key interest on liquidity and profitability.
REFERENCES


Laderman, E.S. (1999), The potential diversification and failure reduction benefits of bank expansion into nonbanking activities, working paper, Federal Reserve Bank of San Francisco.


www.irago.ke as at December 2015

www.irago.ke as at December 2016

Appendix I: QUESTIONNAIRE
Section A
Background Information

1. Name of the insurance company (optional)__________________________

2. Gender
   Male    
   Female  

3. Age
   20 – 30 Years    
   31 – 40 Years    
   41 – 50 Years    
   51 – 60 Years    
   Above 60 Years  

4. Level of education
   Post Graduate Degree    
   Graduate Degree        
   Undergraduate Degree   
   Diploma / Certificate  
   O-Level                

5. How long have worked in this organization?
   1 – 4 Years    
   5 – 9 Years    
   10 – 14 Years  
   Above 15 Years 

6. Your designation in the company
   Bancassurance Manager   
   Operation Manager       
   Product Development Manager 
   Finance Manager         
   Marketing Manager       

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7. How long has your insurance company operated in Kenya
   1 – 4 Years  □
   5 – 9 Years  □
   10 – 14 Years □
   Above 15 Years □

8. How many branches does your organization have?
   Upton 10 Branches □
   11 – 20 Branches □
   21 – 30 Branches □
   Over 50 Branches □

9. When was bancassurance implemented in your organization?
   2012 □
   2013 □
   2014 □
   2015 □
SECTION B

OBJECTIVES OF BANCASSURANCE

To what extent do you agree with the following statement relating effects of bancassurance in terms of insurance penetration, financial integration, innovation of product & services and fiscal long term saving  (Please TICK the number that best represents your choice)

Key: 1 = Not at all, 2 = to small extent, 3 = to moderate extent, 4 = a large extent and 5 = to a very large extent

<table>
<thead>
<tr>
<th>Description of items</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Insurance Penetration</strong></td>
<td></td>
</tr>
<tr>
<td>1 My company’s cost of doing business has reduced significantly as result of bancassurance implementation</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>2 My company has penetrated in rural areas where we don’t have no branches as result of bancassurance implementation</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>3 Our customers can use their policies as collateral in banks as one aspect of bancassurance</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>4 My company market share has increased as many banks’ clients are buying insurance policies in banking halls</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>5 My company has entered into a merger or acquisition with banks attributed to bancassurance implementation</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>6 My company has adopted the new guideline regulating bancassurance products</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>7 We are now sharing risks with banks, therefore increasing our margins since we insuring high risk items</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>8 My company is experiencing increased growth in distribution channels and massive geographical spread</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>9 Our laws regulating the implementation of bancassurance are now more flexible &amp; simplified</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>10 My company has seen the loosening constraints influencing poor perception towards insurance product by IRA</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>11 My company has segmented and differentiated our product from those of our competitors</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td><strong>Financial Integration</strong></td>
<td></td>
</tr>
<tr>
<td>1 My company has integrated and expanded the range our services as result of financial integration with banks</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>2 Our converged financial services with banks has increased products and services</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>3 My company has been experiencing challenges of integration of back offices, databases and other information systems has been solved by bancassurance</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>4 Our client’s base fragmentation has been replaced by client data consolidation part of bancassurance section</td>
<td>1 2 3 4 5</td>
</tr>
</tbody>
</table>
My company has seen increase in sales resulting from bancassurance implementation

My company has seen the growth and Increase in transactions attributed to bancassurance

My company has seen automation of selling by bank’s staff and therefore simplifying new business data entry done in the bank branches

My company is now conducting its staff training together with banks in relation to client’s relationships; on issues pertaining bancassurance

My company is experiencing seamlessness with banks in implementing of bancassurance has seen financial industry market stabilization

<table>
<thead>
<tr>
<th>Innovation of Products &amp; Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 My company has seen the increase and expansion of range of products and services resulting from bancassurance implementation</td>
</tr>
<tr>
<td>2 My company has seen massive spreading new technology as component of bancassurance</td>
</tr>
<tr>
<td>3 My company has seen increased in tailored made products suiting every segment of the market</td>
</tr>
<tr>
<td>4 My company has embraced direct marketing and Internet banking as tools to distribute our products</td>
</tr>
<tr>
<td>5 As result of bancassurance implementation my company has introduced non-interest related income through bancassurance implementation</td>
</tr>
<tr>
<td>6 Innovations in information technology has facilitated increased and more flexible use of data in service distribution, new product development and increasing customer base in my company</td>
</tr>
<tr>
<td>7 We are using internet to facilitate both bancassurance and assurance activities in creating ventures to trade online</td>
</tr>
<tr>
<td>8 My company is now designing new product aimed to cater for classes of clients e.g farmers, livestock keeps</td>
</tr>
<tr>
<td>9 My company is now accessing new markets previously predominated by banks and their agents</td>
</tr>
</tbody>
</table>
SECTION C

OPENED ENDED QUESTION ON BANCASSURANCE

1. What is your general view of the entire process of bancassurance adoption and implementation by insurance companies in Kenya?
   __________________________________________________________________________
   __________________________________________________________________________

2. Has your organization successfully incorporated bancassurance as core area of income stream?
   __________________________________________________________________________
   __________________________________________________________________________

3. Has bancassurance effected the general performance of your organization?
   __________________________________________________________________________
   __________________________________________________________________________

4. Has bancassurance implementation effected the market size of your organization?
   __________________________________________________________________________
   __________________________________________________________________________

5. What other benefits has bancassurance brought about to your organization and insurance industry or financial industry?
   __________________________________________________________________________
   __________________________________________________________________________

SECTION D

FINANCIAL PERFORMANCE OF INSURANCE COMPANIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Item Description</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Net Premium</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Profitability from Underwriting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Annual Turnover</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Return on investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Earnings per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean.graduate@ku.ac.ke
Website: www.ku.ac.ke

Internal Memo

FROM: Dean, Graduate School
TO: Kamau Stephen Maina
C/o Accounting and Finance Department.

DATE: 27th September, 2016
REF: 1953/01/CTY/ 24751/2014

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL,

This is to inform you that Graduate School Board, at its meeting of 21st September, 2016, approved your Research Project Proposal for the MBA Degree Entitled, “The Effects of Bancassurance on the Financial Performance of Selected Insurance Companies in Kenya”.

You may now proceed with data collection, subject to clearance with the Director General, Commission for Science, Technology & Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking forms per semester. The form has been developed to replace the progress report forms. The supervision tracking forms are available at the University’s website under Graduate School webpage downloads.

Thank you!

GIDEON KAMENYI
DEAN, GRADUATE SCHOOL

C/C. Chairman, Department of Accounting and Finance

Supervisors:

The Eddie Kinyera
C/o Department of Accounting and Finance
Kenya University

[Signature]
Appendix III: Research Permit

NATIONAL COMMISSION FOR SCIENCE,
TECHNOLOGY AND INNOVATION

NACOSTI/P/16/72445/14152

25th October, 2016

Stephen Maima Kamau
Kenyatta University
P.O. Box 43844-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on “The effects of bancassurance on the financial performance of selected Insurance Companies in Kenya.” I am pleased to inform you that you have been authorized to undertake research in Nairobi County for the period ending 24th October, 2017.

You are advised to report to the Chief Executive Officers of selected Insurance Companies, the County Commissioner and the County Director of Education, Nairobi County before embarking on the research project.

On completion of the research, you are expected to submit two hard copies and one soft copy in PDF of the research report/thesis to our office.

DR. STEPHEN K. KHIIRU, Ph.D.
FOR DIRECTOR-GENERAL/CEO

Copy to:

The Chief Executive Officers
Selected Insurance Companies,

The County Commissioner
Nairobi County.