# THE ADOPTION OF BANCASSURANCE AS A COMPETITIVE STRATEGY TO IMPROVE PERFORMANCE OF COMMERCIAL BANKS: A CASE STUDY OF SELECTED COMMERCIAL BANKS IN NAKURU COUNTY, KENYA

**BY**

**JANE NDUTA KARANJA**

**D53/NKU/PT/27495/2013**

**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR DEGREE OF MASTER OF BUSINESS ADMINISTRATION (STRATEGIC MANAGEMENT OPTION) OF KENYATTA UNIVERSITY**

**NOVEMBER, 2020**

## Declaration

This research project is my original work and has not been presented for a degree or any other award in any University or other institutions of learning.

Signature …….. Date ……..

Jane Nduta Karanja
D53/NKU/PT/27495/2013

This research project has been submitted for examination with my approval as the University Supervisor.

Signature …….. Date ……..
Dr. Abel Anyieni,
Lecturer, Department of Business Administration,
School of Business, Kenyatta University

## Dedication

I dedicate this noble work to my sincere parents Mr. and Mrs. Joel Karanja due to their continuous assistance during my studies. Their selfless assistance has seen the completion of this research.

**Acknowledgements**

I am greatful to God Almighty for the chance and energy he gave me to complete this noble work. I would also like to pass my appreciation to the following persons for this contribution in this assignment.

First, I acknowledge the entire Kenyatta University fraternity especially the Nakuru Campus for the creation of a condusive environment for learning process. Special thanks to my mentors Dr. Abel Anyieni due to his thoughtful suggestions, guidance, comments and mentorship that acted as a source of inspirations throughout the research period. His inputs are much appreciated.

Secondly, appreciation goes to my family for caring and provision they gave me, without which this research could hardly be completed.

Table of contents

## List of tables

## List of figures

## Abbreviations

| | |
|---|---|
| **ATMs** | Automated Teller Machines |
| **BIM** | Bank Insurance Model |
| **CBK** | Central Bank of Kenya |
| **IRA** | Insurance Regulatory Authority |
| **KCB** | Kenya Commercial Bank |
| **MFIs** | Microfinance Institutions |
| **NIC** | National Industrial Corporation |
| **PBT** | Profit Before Tax |
| **RBV** | Resource Based View |
| **SPSS** | Statistical Packages for Social Sciences |
| **USA** | United States of America |
| **SA** | Strongly agree |
| **A** | Agree |
| **U** | Uncertain |
| **D** | Disagree |
| **SD** | Strongly Disagree |

## Operational definition of terms

| | |
|---|---|
| Bancassurance Strategy: | Involves goals determination, by the enterprise, on long term basis and objectives therein while still adopting cause of action and resource allocation essential in provision of financial services to fulfill insurance and banking requirements simultaneously. |
| Deposits Mobilization: | Process through which banks transform deposits into real life productive capital |
| Financial Performance: | Measure of overall financial ability of a sector/ company for a period of time. |
| Market Share: | A percentage of total sales volume in a market earned by a company for a certain time period. |
| Non-funded Income: | Income generated by banks through charges, fees and The income derived from bank charges and transaction fees among others. |

## Abstract

The financial performance of the commercial banks in Kenya is facing intense competition from the interbank and the non-bank financial services providers including Microfinance Institutions (MFIs), Saccos, mobile payment service providers such as Mpesa and unregulated financial services providers such as shylocks and merry go round schemes. These sources of competition has led to the shrinking of revenue from traditional sources of revenues for commercial banks such as loans both commercial and personal, custodial services, credit cards, maintenance fees, amongst others.

The commercial banks must therefore look for competitive strategies to increase their margins from the traditional sources of revenues either from decreasing the costs of servicing these sources or increasing the scope of these services. The commercial banks must also invent and embrace new sources of revenue generation. The bancassurance platform offers a competitive strategy that help to increase financial performance for commercial banks through economies of scope, economies of scale, cheap acquisition of lending funds, and commission from insurance sales.

The overall aim of this study is to analysis how bancassurance can be adopted as a competitive strategy in order to improve financial performance of commercial banks with a case study of selected commercial banks in Nakuru County, Kenya. To achieve this, three main specific objectives were applied.

The theoretical review of the study consisted of financial intermediary theory, theory of economies of scale and the modern portfolio theory. Population of 800 bank employees was targeted with 89 respondents as the size of the sample. Collected data were analyzed statistically using SPSS version 21 software. For frequency analysis, mean, standard deviation, linear correlation and regression tools were used for data analysis. Three financial performance indicators were used in the analysis including non-funded income, deposit mobilization and market share. Tables were used for data presentations.

Bancassurance is generally received well in the market though with some challenges.

All independent variable, including non-funded income, deposit mobilization and market share are statistically significant predictors on their own, for financial performance of banks. In terms of the order of influence, deposit mobilization was highly ranked, followed by non-funded income while market share was lowly ranked. Therefore, deposit mobilization influenced financial performance than either non-funded income or market share.

This study recommends the use of bancassurance products by commercial banks as a competitive strategy for better financial performance. This is because financial performance decreases in the absence of these strategies. The study further recommends that deposit mobilization be undertaken as a priority in the adoption of bancassurance products in commercial banks so as to increase financial performance.

Banks have wider customer trusted base in comparison to insurance companies. Marketing should therefore be taken aggressively. This can be achieved by making sure insurance products are integrated in bank sale management framework for the sole purpose of selling more. The two sectors should sell and market their products jointly and simultaneously.

Researcher recommends further studies in this topic through examining other strategies that can improve the financial performance for commercial banks.

# 1.0 CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

In the recent past, diverse reforms in insurance and banking sector has resulted to emergence and the embracing of the bancassurance services among commercial banks (Ramaabaanu & Elakkiya, 2014). These reforms include the liberalization and deregulation of the financial sector across different countries (Kimemia, 2015). For example, in the European countries, the 1989 Second Banking Coordination Directive which was effected in 1993, allowed the commercial banks operating in European Union countries to perform their functions in member states with no additional regulatory licenses (Saravanan, 2014). This directive was later amended to allow the commercial banks to undertake "financial activities, including underwriting and selling insurance and securities, commercial and merchant banking, investing in and developing real estate, and other approved financial activities" (Grover, 2013). In the context of the United States of America (USA), the deregulation reforms legalizing the provision of the bancassurance was through the Gramm-Leach-Bliley (or Financial Services Modernization) Act of 1999 (Saravanan, 2014). According to Scovier, 2013 "Gramm-Leach-Bliley act of 1999 in the USA ended the 1933 Glass-Steagall prohibitions on the separation of banks from investment banking and 1956 Bank Holding Company Act's prohibitions on insurance underwriting". Other factors that have led to the growth of the bancassurance services is the increase in the interbank competition as well as growing competition from non-banking financial institutions offering financial services that compete with the bank products (Clipici, 2011).

### 1.1.1 Concept of Bancassurance

The concept of bancassurance traces its origin in France in the 1980s before spreading to the rest of the Europe. According to Lovelin 2014, 70% of total insurance policies are sold through bancassurance model in France, Portugal and Spain. Accordingly, Scovier, 2013 noted that prior to 1980s, the insurance products sold by banks were closely related including currency theft insurance, consumer credit and also home property, which expanded with time and by 1990s banks especially in United Kingdom were giving whole life insurance.

The term bancassurance is derived from French words banque (bank) and assurance (insurance). Other terms used for bancassurance include all finance and Bank Insurance Model (BIM). According to Lovelin (2014), bancassurance refers to financial services package that can fulfill simultaneously most of insurance and banking needs. Elakkiya & Ramaabaanu , 2014 defined bancassurance as channeling insurance items through banking channels with a range of invest and banking products. Scovier 2013 noted that bancassurance as relationship between insurance and banks to sell insurance company through banking channel. Clipici 2011, defined bancassurance as system a bank has corporate agreement with insurance with objective of selling insurance products and bank earn revenue from that transaction.

While products of non- life and also life insurance can be sold via commercial banks, the life insurance are often the popular insurance services offered through commercial banks (Jongeneel, 2015). This has been attributed to the complementary nature for banking products and life insurance since they are involved in savings accumulation. Commercial banks also have experience selling savings oriented products which can be used for selling the life insurance products (Scovier, 2013). The lack of prevalence of the non-life insurance products in the bancassurance distribution channels can also be attributed to the special management and selling skills required to sell non-life insurance products. These skills are not readily available within the bank staff and as noted by Elakkiya & Ramaabaanu &, 2014, that those competencies require appreciable motivational investment hence additional costs.

There are diverse models of the bancassurance including strategic alliance model, full integration model and mixed models. The strategic alliance model of bancassurance involves the bank marketing the insurance products from an insurance company with no any other function (Alavudeen & Rosa, 2015). The full integration model involves the bank selling the insurance products under its own brand name in which it comes up with products and services that meet its customers' needs (Constantinescu, 2012).

The mixed model involves the commercial bank acting as a lead generator with the insurance sales staff doing the sales. In this context, the commercial bank sells its database to the insurance company. On the other hand, Mwangi (2010) categorizes the bancassurance models into

integrated model, non-integrated model and open architecture models. The integrated models are further divided into groups of joint venture and joint financial services. As observed by Lovelin, 2014 joint venture involves bank partnering with insurance company in creating new insurance company with exclusive distribution arrangement. Both banks and insurance companies can buy or build each other and venture into bancassurance in a joint venture financial service group. Nazeer, 2014 noted that non-integrated model involves setting up financial advisers' network who will be used to sell products of life insurance regulated and developed by bank. Finally, the open architecture method involves the commercial banks having non-exclusive distribution agreements with many insurance companies with diverse products. These products are then sold by staff in each branch in exchange for commission to be paid to the bank by the insurance firms (Waweru, 2012).

There are diverse advantages associated with the bancassurance model to both the insurance firms and the commercial banks (Scovier, 2013). In the context of the benefits to the insurance firms, the firms benefit through access to a wide range of bank's customers, reduction of cost of distribution through use of the bank's infrastructural distribution channels, quicker market penetration riding on the bank's brand presence, and easier premium collection through the bank debits (Clipici, 2011). The bank also pr ovides the insurance firm with a well-educated workforce that is easier to monitor and control as compared to independent insurance sellers (Kiragu, 2014). Finally, insurance company is allowed by bancassurance model to retain a small direct sale to sell their products by bank staffs through bank to bank customers.

There are also diverse advantages of the bancassurance model to the commercial banks including earning of insurance commission as a result of its insurance product sales, quicker growth of liabilities book in terms of insurance premiums, higher customer retention levels , and ability of the insurance items to augment banks' products (Scovier, 2013).

Other advantages to the commercial banks include the economies of scope. The economies of scope arise from similarities between the commercial banks and insurers in terms of financial risk management and need for liquidity creation (Saravanan, 2014). In this context, banks' could leverage on their customer contacts with additional service by charging though small increased cost(Constantinescu, 2012).

### 1.1.2 Bancassurance in Kenya

In Kenya, the mandate of regulating bancassurance products is vested in the Insurance Regulatory Authority (IRA). According to Scovier, 2013, bancassurance products were formally regulated in Kenya in 2010. Among the areas which were regulated includes; bancassurance products, guidelines on agreement between parties, inducement, compensation, insurance agency establishment, insurance agents, annual insurance reports, audited reports and disqualification (Kimemia 2015). Bancassurance concept has been widely accepted by most commercial banks in Kenya including Baclays Bank, National Bank of Kenya, Family bank, Chase bank, among other.

### 1.1.3 Concept of Financial Performance

Many scholars have examined the concept of financial performance in different ways. Onyango (2014) defined financial performance as general measure of financial health of a company for a period of time. He further noted that it can be used to make comparison of companies of similar kind or aggregation of sectors.

Nyaga (2014) defines financial performance as the ability of the firm in generating new resources from daily operations with time and gauged by cash and net income of operations.

Ngumi (2013) conceptualizes the financial performance as the measure of how good an organization is generating revenues from its capital.

According to Scovier, 2013, the analysis of components governing financial performance is categorized into five classes including profitability, growth, financial, liquidity, asset management, and debt/coverage financial performance.

### 1.1.4 Financial Performance of the Commercial Banks of Kenya

The mandate of the Central Bank of Kenya (CBK) is to regulate banks, give guidance, and monitor their operations. The table below shows the summary of the financial performance in terms of profit before tax of some selected banks as reported by CBK since 2012.

**Table 1.1.4: Financial performance in terms of profit for some selected banks according to CBK**

| Banks/Years | KCB | Equity | Barclays | Co-operative | Standard Charted |
|---|---|---|---|---|---|
| 2012 | 14.081 | 12.10 | 12.01 | 6.16 | 8.25 |
| 2013 | 15.75 | 16.06 | 13.02 | 9.57 | 11.51 |
| 2014 | 17.76 | 18.23 | 11.92 | 10.70 | 13.31 |

The report by the Central Bank of Kenya 2012, KCB bank performed very well in previous year as compared to other banks. Although there is a gradual increase in the profit margin from 2012, 2013 and 2014 in all the banks, Equity banks had the highest increase in profit margin which was as high as 6 billion shillings. It is also worth noting that standard charted bank was ranked last among the selected banks in the year 2012 since it had a low profit margin but in the year 2014, it was ranked third since it performed quite well thank Barclays and co-operative banks. Mutai, 2012 noted that although Kenyan banks make high profits, they have registered huge returns on shareholders' fund compared with global counterparts.

## 1.2 Problem Statement and Justification

For the past few years, the commercial banks in Nakuru County, Kenya have experienced low income resulting from low performance. According to Muthama 2013, commercial banks earn revenue either through interest income or non-funded income. These two income generating avenues can shrink because of unhealthy competition resulting from increase in interbank and non-financial service providers such as Microfinance Institutions (MFIs), Saccos, mobile payment service providers and unregulated financial services providers such as shylocks and merry go round schemes. In addition, this increase in financial competition among the service providers does not correspond to the increase in population and hence the market growth is slower than competition hence low performance.

According to Abondo 2013, interest income forms the largest component of commercial bank interest and is based on the lending activity which is also dependent on the deposit levels. Increase in financial institutions incorporated with slower market growth influences competition leading to low performance as the institutions battle out to win the borrower.

In addition, Niaga 2012 observed that bancassurance products, which are a form of non-funded income, offer the commercial banks with an easy access to funds at low cost and long term purpose. Moreover, Ilovi 2011 noted that where the commercial bank has developed the insurance products the insurance policies create an avenue for deposit mobilization in terms of policy premium.

Since the deposits forms a huge component of the commercial banks' liabilities, then factors that affect deposits mobilization have a higher effects in the financial performance on commercial banks due to ability to lend.

Therefore, in order for commercial banks to be sustainable in provision of the service, they must source other financial platforms and embracing them. Bancassurance, which is not popular among Kenyan commercial banks, have been identified by scholars as the best non-fund source of generating income.

According to Magu (2013), Kimemia (2015), Lui (2014) and Kirimi (2011), bancassurance enables competitive strategy that commercial banks can utilize to increase their performance through generation of revenue enabling them remain competitive.

The studied literature reviles that there is a major gap on areas of bancassurance on performance in banking sector. The knowledge is not widely developed and researchers have only concentrated on few variable of bancassurance. All the necessary and additional variables that affect the same are covered by this study. There are few studies that have been done pertaining to bancassurance in Nakuru County, Kenya. In order to fill this gap in knowledge, the study of bancassurance to the commercial bank is required hence need to do this study.

## 1.3 Objectives of the Study

### 1.3.1 General Objective

The main objective of this study is to analyze how bancassurance can be adopted as competitive strategy in order to improve financial performance of commercial banks; a case study of commercial banks in Nakuru County, Kenya.

### 1.3.2 Specific Objectives

i. Establish role of non-funded income on performance of the commercial banks in Nakuru County
ii. Examine effects of the financial performance of the commercial banks in Nakuru County
iii. Determine the influence of the market share of the performance of the commercial banks in Nakuru County

## 1.4 Research Hypothesis

The following are the hypotheses used in this study;

$H_{01}$: No significant statistical relationship between non-funded income and performance of commercial banks in Nakuru County

$H_{02}$: No significant statistical relationship between deposit mobilization and performance of the commercial banks in Nakuru County

$H_{03}$: No significant statistical relationship between the market share and performance of the commercial banks in Nakuru County

## 1.5 Significance of the Study

The knowledge from this study will be important to the insurance firms, Insurance Regulatory Authority (IRA), commercial banks, Researcher and also Central Bank of Kenya (CBK). The researchers will gain knowledge on subject matter as it expands the available knowledge on the bancassurance within Kenyan. Insurance Regulatory Authority (IRA) will also understand contemporary issues of bancassurance in the banking sector of Kenya. This information will thus be critical in policy formulation and policy compliance efforts. On the other hand, the Central Bank of Kenya (CBK) will gains an understanding of the practice of the bancassurance within the Kenyan banking sector with a view of policy formulation and policy compliance drives based on the findings. The insurance will understand the practice of the bancassurance to develop competitive strategies to counter the competition from the commercial banks. The commercial banks will understand the best practices to improve their performance and adopt the services. To the scholars and academicians, it will increase the knowledge on bancassurance and how it impacts the banking sectors in Kenya and also suggest areas of further research.

This research studies will also increase the knowledge to the banking and insurance sectors on the areas they should major on to enable them to grow their businesses resulting to good financial performance.

### 1.6 Scope of the Study

This study aims at analyzing the impact of how the performance of banking sector in Nakuru County, will be influenced by bancassurance being incorporated in their system. It also involves necessary data collection, analysis and examination. The study concludes by highlighting some recommendations that the future scholars can use for their research.

### 1.7 Limitation of the Study

Several challenges faced data collection. First, data could only be collected during morning or evening hours for the fear by the managers of disrupting normal operations. Hence a lot of time was wasted idling around with an aim of collecting data.

Secondly, the respondents who were the bank employees also displayed apathy towards filling the questionnaires due to fear of divulging sensitive information of the bank that could be used by the competitors. The concern was mitigated through a consent statement which guaranteed that the sole purpose of study is academic. The respondents were also guaranteed data confidential as well as anonymous.

### 1.8 Study Organization

It has five chapters. Chapter one deals with background study, objectives, problem statement and hypothesis. In addition, significant of study, limitation and scope of study are contained in this chapter. Chapters two examine necessary and appropriate literature while chapter three highlights methodogy. Moreover, chapter four contains a discussion of results of the data that was analyzed. Part one used descriptive statistics while second part used the inferential statistics. Finally, chapter five summarizes the results, conclusion, findings, and necessary recommendations.

# 2.0 CHAPTER TWO: LITERATURE REVIEW

## 2.1 Theoretical Review

The bases of theoretical review include financial intermediary, economies of scale and the modern portfolio theory.

### 2.1.1 Financial Intermediary Theory

Bhunia et al., 2011, defined this theory as ability of an agency with surplus to agency with deficit via financial intermediaries. Within the context of the commercial banks, the financial intermediary theory is concerned with the ability of a financial institution to create a financial commodity that is specialized (Mitiku, 2014). According to Abondo, 2013, further noted that when intermediary notes that through this theory they can get expected prices by selling them when covering all production cost both opportunity and direct cost. The commercial banks are also able to create the specialized financial products that they can sell through pooling of resources hence reducing the overall costs of providing these services.

The application of this study is important to this study if the commercial banks are able to use their huge distribution infrastructure to cheaply provide insurance services in a cost effective manner (Ndung'u, 2013). The commercial banks due to their knowledge of dealing with saving products are able to develop financial products that their customers would be interested in and distribute them through the existing distribution infrastructure (Kamau, 2013).

### 2.1.2 Theory of Economies of Scale

This theory traces its origins to 1890 as advanced by Marshall and is concerned with advantage of cost which an organization obtain due to its output, size and/or operation scale.(Ongore & Kusa, 2013). The theory of the economies of scale is applicable to this study in diverse ways. The commercial banks develop insurance services and products that they distribute using existing distribution infrastructure with little or minimal expenditure in infrastructure development or human resource development (Kabira & Ndiema, 2013).

The distribution of the insurance products through the commercial banks also enables the banks to benefit from the economies of scope due to the similarity of some of the insurance products and the bank products (Beyanga, 2011). The economies of scope arise from similarities between the commercial banks and insurers in terms of financial risk management and need for liquidity creation. This theory is applicable if the commercial banks exploit the economies of scale in terms of branch infrastructure, and bank staff with a view of cheaply distributing insurance products. The bancassurance services therefore enables the bank to cheaply distribute the insurance products while creating a cheap way of getting insurance sales commissions as well as deposit mobilization.

### 2.1.3 Resource Based View (RBV) Theory

The RBV approach advanced by Wernerfelt's in 1984 is on the notion that the firm's performance and growth through creation of competitive advantage is dependent on the firm's resources. There are diverse assumptions that the RBV theory of firms are heterogeneous in nature with respect to resource bundle they control. Another assumption is that heterogeneity of resources should persist for a period of time since those resources used in implementing strategies of firm are not perfectly movable across firms (Beyanga, 2011).
The use of the bancassurance as means of mobilization of deposits for the purposes of lending ensures that the commercial banks have a valuable resource for deposit mobilization Kabira & Ndiema, 2013). In the context of this theory the bancassurance products within the bank can be viewed as resources that the commercial banks can use to have superior performance.

### 2.1.4 Dynamic Capabilities Theory

The dynamic capabilities concept was advanced by Gary Pisano, David Teece, and also Amy Shuen, in 1997 (Karimi, 2011). "Dynamic capabilities have been defined as the ability to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments. The dynamic capabilities reflect on the firm's ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions"

(Kabira & Ndiema, 2013). This help firms to continuous renew their operational capabilities thereby sustaining their long term performance.

This theory can be applied to the study in context that bancassurance products create dynamic capabilities within the bank. This is because diverse usage of the bancassurance services leads to superior performance of the commercial banks.

### 2.2 Bancassurance strategic empirical Review

There are three main independent variables whose roles have previously been employed to indicate the financial performance on the commercial banks. They include non-funded income, deposit mobilization and market share.

According to Muthama 2013, there are two main avenues that the commercial banks can generate income including interest income and non-funded income. Ogori 2014 observed that the interest income arises from the lending activities that the commercial banks undertake through diverse services such as overdrafts, credit cards, mortgages, business and personal loans amongst other products. The customer is expected to pay back amount that is over what they borrowed which the difference being referred to as interest income save the administration costs of the credit facility. On the other hand, non-funded income refers to income generated by the commercial banks from diverse services other than lending activities. Leparleen 2014 noted that the sources of the non-funded income include account commission and diverse user fees such as statement printouts, Automated Teller Machines (ATMs) usage, over the counter withdrawal fees amongst other services.

In addition, bancassurance services provide the commercial banks with a critical source of the non-funded income through commissions resulting from the sales of the insurance services. The commercial banks are able to earn this commission through the development, marketing and sales of the insurance products using the existing bank distribution infrastructure with little or minimal investment in the distribution infrastructure. In this context, Fan et al., (2013) notes that policies for insurance are marketed via established and organized branch network without any forming a new business wing to deal with the same.

Non-funded income plays a critical role in financial performance. In the 2013 financial year, the total income for the banking sector was ksh 362.177 billion composed of 273.487 billion shillings in interest income and 88.69 billion shillings in non-funded income. The nun funded income therefore consisted of 24.48% of the total funded income. On the other hand, the CBK (2015b) noted the total income for the banking sector in 2014 financial year was Ksh 418.7 billion composes of 314.672 billion interest income in interest income and 104.208 billion non-funded income. Therefore, the non-funded income for the commercial banks consisted of 33% of the total income revenue for the commercial banks. Therefore, there was an increase in the amount of the non-funded income from 24.48% of the total income in 2013 to 33% of the total income in 2014 financial years.

Deposit mobilization is another form through which commercial banks can raise their revenue thereby increasing performance. According to Kanu & Okorafor, 2013 deposits levels in commercial bank assist it into two different dynamics including liquidity level and earning of the interest income. Liquidity is the ability of the financial institution to finance increase of asset holdings in order to meet obligations.

Ishengoma, 2011, observed that bank managers usually face the tough choices in balancing act of ensuring that funds are available to cater for withdrawals from deposits, meet short- term obligations when they fall due and provide funds for short-term lending. On the other hand, the interest income from lending activities is the largest component of the commercial bank's income generating activities. Central Bank of Kenya 2015b noted that the total income levels for the commercial banks were kshs.362.177 billion and kshs.418.7 billion leading to the interest income of kshs.273.487 billion shillings and kshs.314.672 billion for the 2013 and 2014 respectively.

Moreover, Abondo 2013 argued that the interest income which forms the largest component of the commercial bank's interest is based on the lending activity which is dependent on the deposit levels. The deposit funds avail finances for lending purposes in commercial banks. In the Kenyan context, the deposits levels in commercial banks have kept on increasing over the years. For example, according to Central Bank of Kenya 2015b, the customers' funding "grew by 18.4% from Kshs.1, 935.7 billion in December 2013 to Kshs.2, 292.2 billion in December 2014". In addition, Central Bank of Kenya, 2013 noted that the customer deposits had grown from 1.71

trillion in December 2012 to 1.9 trillion by December 2013 representing a 13.5% growth in customer deposits. CBK continued to argue that the customer deposits had grown from "kshs.1.49 trillion in December, 2011, to kshs.1.71 trillion by December 2012" representing a 14.8% growth in customer deposits. This indicates that the commercial banks deposits have continued to increase by double digits across the years.

Since the deposits forms a huge component of the commercial banks' liabilities, then factors that affect deposits mobilization has a huge impact on the financial performance due to ability to lend. For example, by December 2011, the commercial banks had a total liability book of kshs.1.7 trillion of which the customers' deposits contributed kshs.1.4 trillion that is 82.35% of the liabilities(Central Bank of Kenya, 2012). By December 2012, the commercial banks had a total liability book of kshs.1.9 trillion of which the customer deposits constituted kshs.1.7 trillion that is 89.47% of the total liabilities(Central Bank of Kenya, 2013). By December 2013, the commercial banks had a total liability book of kshs.2.2 trillion of which the customers' deposits accounted for 1.9 trillion that is 86.36% of the total liabilities(Central Bank of Kenya, 2013). Finally, by December 2014, the commercial banks had a total liability book of 2.7 trillion of which the customers' deposits accounted for 2.3 trillion that is 85.18%(Central Bank of Kenya, 2015b).

Niaga 2012 observed that bancassurance products offer the commercial banks with an easy access funds at low cost and long term purposes. Ilovi, 2011 added that where the commercial bank has developed the insurance products, the insurance policies create an avenue for deposit mobilization in terms of policy premiums.

Market Share as an independent variable influences the Financial Performance in the banking sector. This is due to the shifting market share on diverse aspects including customer numbers. Central Bank of Kenya (2012) noted that in 2012, KCB was the largest bank with a "14.52% market share, Equity bank (9.98%), Barclays Bank (8.90%), Cooperative Bank (8.41%) and Standard Chartered Bank (7.74%) for the 2011 financial year". Accordingly, Central Bank of Kenya, 2013 observed that in "2012 financial year, KCB had 13.54% market share, Equity Bank (10.06%), Cooperative Bank (8.74%), Standard Chartered Bank (8.29%) and Barclays Bank (8.08%). The 2012 financial year saw the market share for KCB eroded while Equity bank marginally gained. For the 2013 financial year, KCB had 12.83% market share, Equity bank

(9.79%), Cooperative Bank (8.61%), Standard Chartered Bank (8.096%) and Barclays bank (7.65%)" as noted by the Central Bank of Kenya, 2014.

There are diverse ways in which the bancassurance product leads improved market share. The diverse advantages of the bancassurance model to the commercial banks including earning of insurance commission as a result of its insurance product sales, quicker growth of liabilities book in terms of insurance premiums, higher customer retention levels, and ability of insurance items to augment the bank's products (Magu, 2013).

Other advantages to the commercial banks include the economies of scope. The economies of scope arise from similarities between the commercial banks and insurers in terms of financial risk management and need for liquidity creation.

### 2.3 Summary of Reviewed Literature

The bancassurance services provide the commercial banks with a critical source of the non-funded income through commissions resulting from the sales of the insurance services. The commercial banks are able to earn this commission through the development, marketing and sales of the insurance products using the existing bank distribution infrastructure with little 'or minimal investment in the distribution infrastructure. The bancassurance products offer the commercial banks with an easy access to funds at low cost and long-term purposes. This is because in the context of where the commercial bank has developed the insurance products the insurance policies create an avenue for deposit mobilization in terms of policy premiums.

There are diverse ways in which the bancassurance product leads improved market share. The diverse advantages of the bancassurance model to the commercial banks including earning of insurance commission as a result of its insurance product sales, quicker growth of liabilities book in terms of insurance premiums, higher customer retention levels of its customers, and the ability of the insurance products to augment the bank's products. Insurance can also be sold at a higher price than other networks with low costs in practice of accessible groundwork in use for banking.

Other advantages to the commercial banks include the economies of scope. The economies of scope arise from similarities between the commercial banks and insurers in terms of financial risk management and need for liquidity creation. Economy of scale results when saving gained by producing two or more items of distinct nature is more than if each item was produced separately.

### 2.4 Conceptual Framework

The concept of bancassurance have been examined by different scholars including; Scovier, (2013), Kimemia (2015), Fan, Lai, & Lu (2013) and Mwangi (2010) amongst others. The following conceptual framework has largely been adopted.

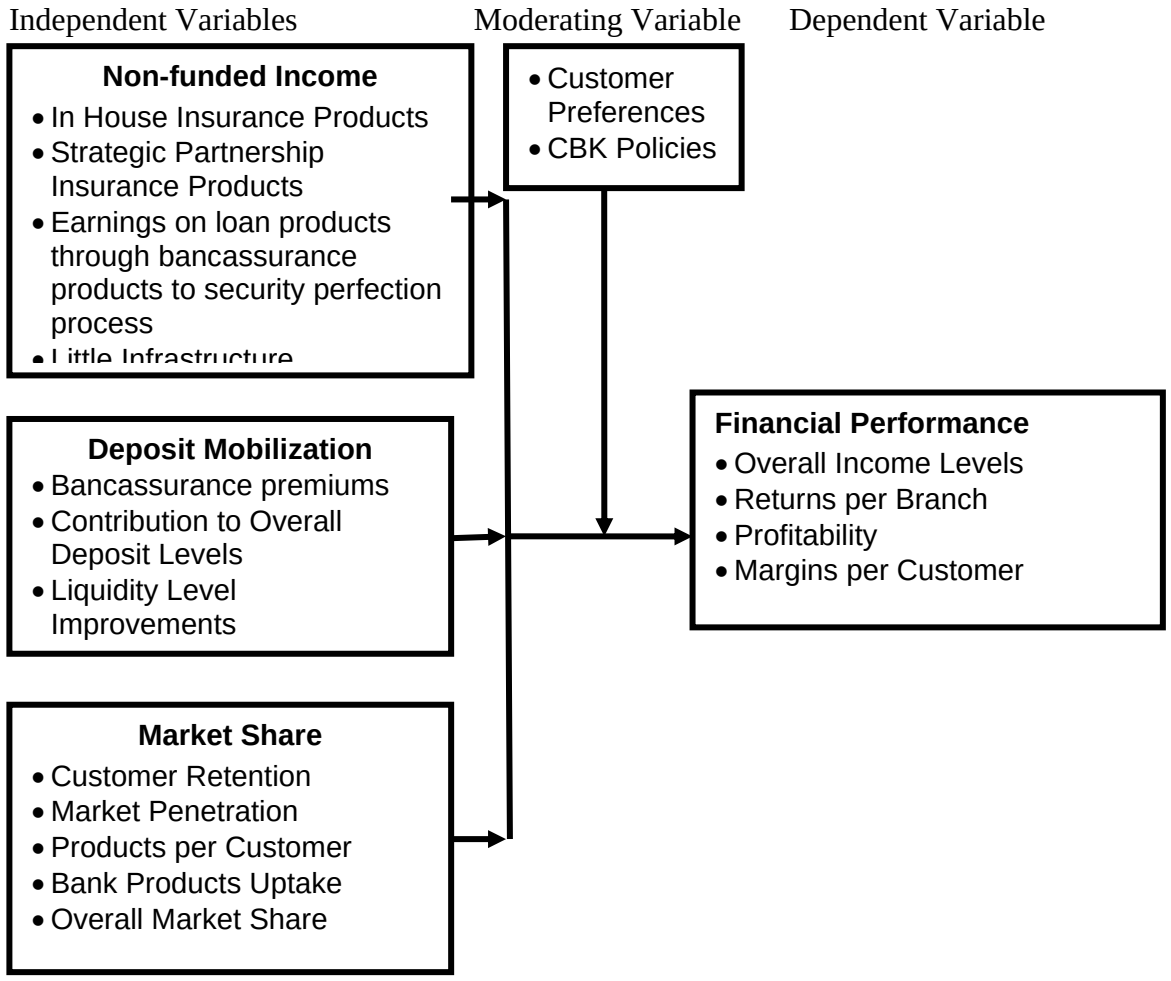


Figure 2.1: Conceptual Framework (Source: Researcher, 2017)

## 2.5 Research Gap

This study demonstrates the ways in which the bancassurance impacts on insurance financial performance especially in Kenya. The distinct with other studies is that it examines roles played by bancassurance and how they perform and impact commercial banks. Kimemia 2015 examined how banking and insurance corporate through bancassurance while Fan, Lai, & Lu 2013 evaluated key factors governing success of bancassurance. This study explained in detail the concept of the bancassurance and its historical development in Kenya.

The study was interested in examination of the firms that have deployed bancassurance products and the factors that make the bancassurance to succeed in the respective commercial banks. Mwangi 2010 assessed determinants of bancassurance growth in Kenya.

This study explained in detail the concept of the bancassurance and its historical development in Kenya. There is an existing gap in the literature review in the context that these studies since they do not assess impact bancassurance have in context of financial performance.

# 3.0 CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Descriptive Research Design

According to Kothari, 2004, descriptive research design is defined as a plan, outline or scheme used to answer research problem for condition of collecting and analyzing data to achieve research objective. Mugenda, 2003a, described it as structure and plan of investigation obtained in answering research question.

The study adopts the descriptive research design and as noted to Sekaran, 2003, it is described as the state of affairs as they appear on the ground without manipulation of any variable. This was considered appropriate for study since researcher was only interested in describing the variables in their natural setting without manipulation.

## 3.2 Population of Target

Population is total collection of element a researcher wants to make an inference about. Unit of observation and that of analysis are two aspects entailed by target population to be examined. Cooper & Schindler, 2003 noted that observation unit is one whose statistic is compiled after receiving information while Mugenda, 2003a defined it as an entity which is physical and identifiable and capable in issueing data about their activities. In this study, this observation unit are commercial banks in Nakuru.

Unit of analysis on the other hand is what or who is being studied created through splitting observation unit to compile most homogeneous and detailed statistics(A. Orodho, 2008). In this study, the analysis unit is the commercial bank employees in Nakuru County, Kenya. Kimasar (2014) noted that there existed 25 commercial banks in Nakuru with around 800 employees who, according to study are the target population.

## 3.3 Sampling Design

The formula below was adopted to estimate the sample size. According to Orodho, 2008, defined sampling as a process employed in choosing a subset in a certain population to represent views and opinion for whole population.

$$n = \frac{NC^2}{C^2 + (N-1)e^2}$$ Where

n = sample size, N =size of target population

C = coefficient of variation (0.5), *e* = error margin (0.05)

Using the banks' market share information, the study employed stratified random sampling technique which according to Kothari 2004, defined it as way of identifying sub group in population and proportion while selecting a sample from each sub group.

## 3.4 Data Collection Procedures

### 3.4.1 Data sources

Two main sources of data collection employed include primary and also secondary data. Primary data sources were collected which involved dropping questionnaires and picking them at a later pre-agreed time. The telephone numbers of the respondents were also picked with the view of making follow ups and reminder on the questionnaire collection. On the other hand, secondary data sources used included various publication records of financial institutions from commercial banks as well as from CBK websites were utilized to obtain necessary data utilized for analysis.

### 3.4.2 Pilot Study

It was carried out in Eldoret town with 10% of the sampling size resulting to 9 respondents. This help to ensure that questions administered during actual research study were appropriate, relevant, good clarity and not ambiguous.

### 3.4.3 Validity

Validity is the capability of the measuring instrument to provide accurate information and valid solution. Mugenda, 2003a defined it as a degree resulting from data analysis representing study phenomenon.

In this context, content validity was used which according to Sekaran & Bougie, (2011), is concerned with sampling the adequacy of content for measuring instrument like questionor item is contained.

The content validity is also defined as the degree in which samples of items taken together constitute an adequate definition of a construct. Mugenda, 2003a also noted that content validity is the "capacity of the instrument to provide adequate coverage of the topic. The content validity

uses expert judgment of the subject matter" and in the context of this study lecturers and industry practitioners knowledgeable on the bancassurance aspects were utilized.

Content validity was computed using content validity index (CVI) formula below.

Questionnaires were examined by five experts. Each question was ranked based on four ordinal scale as follow:

1= "Not Relevant"

2= "Somewhat Relevant"

3= "Quite Relevant"

4= "Highly Relevant"

Item-level content validity index (I-CVI), scale-level content validity index (S-CVI) and modified kappa statistic were used for the study. 0.5 I-CVI threshold was employed in this study while S-CVI was calculated through the addition of individual I-CVIs and dividing by the number of items.

I-CVI = $\frac{\boldsymbol{Number\ of\ Responses\ as\ "3\ or\ 4"}}{\boldsymbol{Total\ number\ of\ responses}}$

### 3.4.4 Reliability

Kothari, 2004 defined" reliability as ability of results to replicate when repeated on similar circumstances". Responses received from questionnaires were evaluated to assess on their reliability. Cronbach's reliability α, was determine using the following formula.

$$\alpha = \frac{N\ddot{C}}{\ddot{V} + (N-1)\ddot{C}}$$

Where:

α= Cronbach's reliability value, N = the number of items.

C̈=average covariance between item-pairs, V̈= average variance.

The values obtained were then compared with cronbach reliability constant table below in order to determine their internal consistency. Those value greater than 0.7 were accepted for the analysis.

*Table 3.2; Cronbach's Reliability Constants*

| **Cronbach's Alpha** | **Internal consistency** |
|---|---|
| $\alpha \geq 0.9$ | Excellent |
| $0.9 > \alpha \geq 0.8$ | Good |
| $0.8 > \alpha \geq 0.7$ | Acceptable |
| $0.7 > \alpha \geq 0.6$ | Questionable |
| $0.6 > \alpha \geq 0.5$ | Poor |
| $0.5 > \alpha$ | Unacceptable |

Source: Mohajan& Haradhan (2017)

### 3.5 Data Analysis

After data collection, it was entered in computer software, sorted, analyzed, presented and interpreted in order to deduce the necessary information. The responses from questionnaire were edited to ascertain areas that were not addressed by the respondents. Qualitative analysis was used to analyze responses view about the impacts of bancassurance on the financial performance in the banking sector of Nakuru County, Kenya. Content analysis was used to analyze qualitative data. Descriptive statistics (standard deviations and mean) were determined and resultant values used for data analysis to give basis of determining weight of variable in study. Later data was entered and coded using SPSS version 21.

Linear correlation was adopted in context of inference statistics to determine relationship between independent and dependent variable. Multiple linear regression models were employed to analyze bancassurance impacts on financial performance of banking sector in Nakuru County. To test the hypothesis, beta (β) coefficients for each independent variable generated from model were employed in this study. The following is the regression model used;

$$y = -0.270 + 0.352x_1 + 0.502x_2 + 0.250\ x_3 + \varepsilon$$

Where;

y= Financial Performance, $x_1$ = Non-funded Income

$x_2$ = Deposit Mobilization, $x_3$ = Market Share

And ε is the estimated error of the model

The study findings were presented using tables for easier interpretation of the results.

### 3.6 Ethical Considerations

The ethical consideration relates to acceptable behavior when undertaking research. The researcher sought authority from National Commission for Science, Technology and Innovation and Kenyatta postgraduate board. Respondents were issued with consent statement that informed the respondents of their right to take part in the research and that they could exit at any stage without any financial penalties. It also assured them that academic research was sole purpose of the study and that their responses would be anonymous.

## CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF RESULTS

### 4.1 Sample size and response rate

The researcher obtained that Nakuru County has 25 commercial banks with approximate 800 employees which is the target population, N. The use of 0.5 and 0.05 as the coefficient of variation (C) and error margin (e) respectively resulted to 89 respondents.

The information obtained from Central Bank of Kenya (2015) about the bank market share, the results of distribution of this sample size according to the bank was as tabulated below.

**Table 4.1: Banks Market share**

| Bank | Market Share | Sample Size |
|---|---|---|
| Kenya Commercial Bank (KCB) | 12.69% | 11 |
| Cooperative Bank | 8.91% | 8 |
| Equity Bank | 8.71% | 7 |
| Barclays Bank of Kenya | 7.27% | 6 |
| Standard Chartered | 7.19% | 6 |
| Commercial Bank of Africa | 5.12% | 4 |
| CFC Stanbic | 4.92% | 4 |
| Diamond Trust Bank | 4.63% | 4 |
| NIC Bank | 4.24% | 3 |
| National Bank of Kenya | 3.60% | 3 |
| Chase Bank | 2.98% | 2 |
| Others | 29.74% | 31 |
| Total | 100% | 89 |

Source: Central Bank of Kenya (2015)

Response rate of self-administered questionnaires is the number of fully filled in questionnaires received by the researchers out of all the potential responses from the study subjects. For this research, the target was a sample of 89 respondents out of which 74 were sufficiently answered by filling in questionnaires and returned to the researcher. It results to 83.1% response rate sufficient enough to carry out coding and data analysis since according to Kothan (2011), any response rate greater than 70% is sufficient.

### 4.2 Respondents' Characteristics

To strengthen external validity in any research study is imperative that researcher include all possible members of the research population who carry the characteristic under study. The more diverse the sample, the truer the results become. This paper incorporated gender, employee

positions and age of the respondents in an effort to diversify. The respondents' characteristics were examined using the gender distribution, distribution by length of time employed, and distribution by job role.

**Table 4.2.1: Gender Distribution**

| Gender | Frequency | Percent |
|---|---|---|
| Male | 34 | 45.9% |
| Female | 40 | 54.1% |
| Total | 74 | 100.0% |

Source; Field Data (2017)

**Table 4.2.2: Distribution by Years of service at Bank**

| Age | Frequency | Percent |
|---|---|---|
| 0-5 Years | 33 | 44.6% |
| 6-10 Years | 24 | 32.4% |
| 11-15 Years | 10 | 13.5% |
| Over 15 Years | 7 | 9.5% |
| Total | 74 | 100.0% |

Source; Field Data (2017)

Most of the respondents (44.6%) were employed in their current work stations for 5 years or less while 32.4% were employed between 6 and 10 years. However, the table also indicates that 9.5% had over 15 years work experience.

**Table 4.2.3: Staff Roles at the Bank**

| Staff | Frequency | Percentage |
|---|---|---|
| Sales Staff | 27 | 36.5% |
| Operations Staff | 21 | 28.4% |
| Management | 12 | 16.2% |
| Customer Service | 14 | 18.9% |
| Total | 74 | 100.0% |

Source; Field Data (2017)

### 4.3 Descriptive statistics

The results of mean and standard deviations for the Non-funded income, market share and deposit mobilization data collected are presented and discussed below. In addition, the two descriptive statistics were also used to display the impacts of adopting the bancassurance on indicators of financial performance on commercial banks.

### 4.3.1 Impacts of Non-funded income on financial performance

Table 4.4 below shows the result obtained after examination of the impact of non-funded income on performance of commercial banks in Nakuru.

**Table 4.3.1: Average Likert Scale Scores, descriptive statistics and Frequency distribution table for the Impact of Non-Funded Income.**

| | *Average Likert Scale Scores* | | | | | *Descriptive statistics* | | *% Frequency distribution* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Criterion of analysis | SD | D | U | A | SA | Mean | Std. Dev. | SD Freq. (%) | D Freq. (%) | U Freq. (%) | A Freq. (%) | SA Freq. (%) |
| The bank has developed in house insurance products to improve on its non-funded income | 0 | 0 | 17 | 35 | 22 | 3.48 | 0.844 | 0 | 0 | 23 | 47.3 | 29.7 |
| The bank sells insurance products to strategic partners earning substantial commission | 0 | 7 | 13 | 33 | 21 | 3.60 | 0.958 | 0 | 9.5 | 17.6 | 44.6 | 28.4 |
| The bank earns higher income on its loan products through using its bancassurance products to security perfection process | 0 | 0 | 44 | 16 | 14 | 3.51 | 1.00 | 0 | 0 | 59.5 | 21.6 | 18.9 |
| The bancassurance non-funded income contributes a significant portion of the bank's overall non-funded income | 0 | 0 | 12 | 13 | 16 | 3.56 | 0.918 | 0 | 0 | 16.2 | 17.6 | 21.6 |
| The bank has been able to earn non-funded income through bancassurance model without significant infrastructure development | 0 | 2 | 11 | 23 | 38 | 2.44 | 0.961 | 0 | 2.7 | 14.9 | 31.1 | 51.4 |

*Source; Field Data (2017)*

From table 4.3.1 above, 47.3% “agreed” that their banks had developed in house insurance products to improve on its non-funded income, which is a higher number than 29.7% for them that “strongly agreed”. However, 23% of them were “uncertain” while those that “disagreed” and “strongly disagreed” recorded 0% each.

A higher percentage of 44.6% ”agreed” that their bank sells insurance products to strategic partners earning substantial commission while percentage of those who “disagree” was 9.5%.

A higher percentage of 59.5% respondents were “undecided” while a smaller percentage of 18.9% “strongly agreed” whether their banks earned higher income through bancassurance products.

There is a small disparity of the percentage of respondents among those who “strongly agreed” (21.6%), those who “agreed” (17.6%) and the “undecided” (16.2%) on whether bank earns higher income on its loan products through using its bancassurance products to security perfection process.

It can also indicates that 51.4% of respondents “Strongly Agreed” while 2.7% of them “Disagreed” that their banks have been able to earn non-funded income through bancassurance model without significant infrastructure development. This implies that banks within Nakuru County have embraced bancassurance as alternative source of non-funded income.

For all scenarios, none of the respondents “Strongly Disagreed” that their bank sells insurance products to improve on its non-funded income which implies that many respondents agreed to certain extent that their banks earn substantial commission by selling insurance products.

The table also shows average scores for each of the questions prompted to the respondents with their corresponding standard deviations for each question. The average scores (mean scores denoted as $\mu$) were grouped into four categories, that is, mean of 1-1.49 interpreted as very low, mean of 1.5-2.49 interpreted as low, mean of 2.5-3.49 was rated as moderate while 3.5-4.49 was interpreted as significant, and 4.5-5 rated as very significant average. The standard deviations (denoted as $\sigma_x$) of the responses ranged from 0 to 1 grouped in three categories, that is, 0-0.49 implying low variation (high consensus), 0.5-0.09 implying moderate variation (moderate consensus), and $\leq 1$ implying high variation (low consensus).

On average, the banks have to some extent developed in house insurance products to improve on their non-funded income (mean of 3.48). This was consistent with the Financial Intermediary Theory which is concerned with the ability of a financial institution to create specialized

financial commodities (Mitiku, 2014). Abondo 2013 observed that banks create intermediary specialized financial items which can be sold at prices expected to cover all production costs which includes opportunity and direct costs. Banks benefit from economies of scope when insurance products are distributed through commercial bank channels due to the similarity of some of the insurance products and the bank products (Beyanga, 2011). The economies of scope arise from similarities between the commercial banks and insurers in terms of financial risk management and need for liquidity creation (Theory of Economies of Scale).

There was moderate variation that banks had developed in house insurance products to improve on their non-funded income with deviation from this mean of 0.844. Respondents on average felt the banks heave successfully earned substantial commission through sale of insurance products from strategic partners (mean score of 3.60). Kimaku (2015), noted that bancassurance platform offers a competitive strategy in improving financial performance for banks via commission of insurance sales. According to Waweru, 2012, commercial bank staffs sell insurance products since they have non-exclusive distribution agreement with insurance companies. The insurance companies then pay commission to the bank.

The variation in banks selling insurance products from strategic partners earning substantial commission was moderate (standard deviation of 0.958). On average, bancassurance products to security perfection process have significantly earned banks a higher income on their loan products (mean of 3.51). However, the deviation in respect to this metric was high implying low consensus (std. dev.=1.00).

On average, the bancassurance non-funded income contributes a significant portion of the bank's overall non-funded income (mean of 3.56). The deviation in respect to this metric was moderate implying moderate consensus (standard deviation of 0.918). In average, the study found out that earning non-funded income through the bancassurance model without significant infrastructure development has been low (mean score=2.44). This was contrary to the Financial Intermediary Theory which notes that commercial banks are able to use their huge distribution infrastructure to cheaply provide insurance services in a cost effective manner (Ndung'u, 2013).

The commercial banks due to their knowledge of dealing with saving products are able to develop financial products that their customers would be interested in and distribute them through the existing distribution infrastructure (Kamau, 2013). This was also noted by Kabira et al. (2013), that the existing distribution infrastructure with little or minimal expenditure in

infrastructure development or human resource development. The Theory of the Economies of Scale is concerned with the advantage of the costs which an organization obtain because of its output, operation scale or size (Ongore & Kusa, 2013).

The variation was moderate in the banks' ability to able to earn non-funded income through bancassurance model without significant infrastructure development (standard deviation of 0.961). Generally, respondents perceived that bancassurance has a greater contribution to the overall non-funded income as it scored the highest mean score among the metrics on non-funded income.

### 4.3.2 Impact of Market Share on Financial Performance

Five main criteria of analysis were used to examine how bancassurance services can impact the market share on bank performance in Nakuru County, Kenya. Table 4.3.2 below outline these criteria and displays the summary of the data obtained. The Mean, the standard deviation and the percentage of frequency distribution values are also shown.

**Table 4.3.2: Average Likert Scale Scores, Descriptive statistics and Frequency Distribution on the Impact of Market Share**

| | *Average Likert Scale Scores* | | | | | *Descriptive statistics* | | *% Frequency Distribution* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Criterion of analysis | SD | D | U | A | SA | Mean | Std. Dev. | SD Freq. (%) | D Freq. (%) | U Freq. (%) | A Freq. (%) | SA Freq. (%) |
| The bank uses the bancassurance products for market penetration purposes outside its core markets | 0 | 9 | 14 | 26 | 25 | 2.87 | 1.004 | 0.0 | 12.2 | 18.9 | 35.1 | 33.8 |
| The bank uses the bancassurance products for customer retention purposes | 0 | 17 | 25 | 21 | 11 | 3.43 | 0.961 | 0.0 | 23.0 | 33.8 | 28.4 | 14.9 |
| The bank uses the bancassurance products to increase the number of products per customer | 0 | 1 | 15 | 26 | 32 | 3.53 | 0.949 | 0.0 | 1.4 | 20.3 | 35.1 | 43.2 |
| The bank uses the bancassurance products to improve the uptake of its bank products | 0 | 15 | 17 | 28 | 14 | 2.75 | 0.790 | 0.0 | 20.3 | 23 | 37.8 | 18.9 |
| The bancassurance products has assisted the commercial banks to improve on its overall market share | 0 | 5 | 18 | 22 | 29 | 3.68 | 1.067 | 0.0 | 6.8 | 24.3 | 29.7 | 39.2 |

Source; Field Data (2017)

A higher percentage of employees, 33.8% feel that bank uses the bancassurance products for market penetration purposes outside its core markets to increase its market share while the same number feels that bank uses the bancassurance products for customer retention purposes to increase its market share thereby raising its financial performance. 43.2% feels that bank uses the bancassurance products to increase the number of products per customer while 39.2% feels bancassurance products has assisted the commercial banks to improve on its overall market share. A cumulative majority of 78.3% and 73.0% affirmed that their bank uses the bancassurance products to increase the number of products per customer (Strongly Agree=43.2%, Agree=35.1%) and to improve the uptake of its bank products (Strongly Agree=47.3%, Agree=25.7%) respectively. 37.8% of the respondents agreed that the bancassurance products has assisted the commercial banks to improve on its overall market share, further supported by 16.2% who “strongly agreed” with the metric.

Those who "disagreed" on whether their banks use bancassurance products to increase the number of products per customer were 1.4%. The respondents who "disagreed" to the bancassurance products assisting commercial banks to improve on its overall market share were 20.3% and 25.7% of the respondents were "Undecided". There was no "strongly disagreed" response to any of the metrics on impact of market share on performance of banks in Nakuru. All the 74 respondents perceived that great success has been attained in use of bancassurance products for market penetration purposes outside the bank's core markets (mean scores of 2.87) and for customer retention purposes (mean scores of 3.43). This was inconsistent with Magu (2013), who noted that higher customer retention levels was among the advantages of the bancassurance model to the commercial banks. The variation in bank using the bancassurance products for market penetration purposes outside its core markets (standard deviation of 1.004) was high same as in bancassurance products assisting the commercial banks to improve on their overall market share (standard deviation of 1.067).

The standard deviation of 0.961 for banks' use of the bancassurance products for customer service retention indicated moderate variation in responses. On average, the bancassurance products have greatly assisted the banks in increasing the number of products per customer (mean score of 3.53) and improving on their overall market share bank (mean score of 3.68). On average there is successful use of the bancassurance products to improve the uptake of the bank products with a mean score of 2.75.

There was moderate variation in the bank's use of the bancassurance products to increase the number of products per customer (standard deviation of 0.949) and to improve the uptake of its bank products (standard deviation of 0.790). The improvement on the bank's overall market share from bancassurance products scored the highest mean among the metrics on effects of deposit mobilization which implied that on average, respondents perceived it to have more effect on performance of banks.

### 4.3.3 Impacts of Deposit Mobilization on Financial Performance

The interest income from lending activities is the largest component of the commercial bank's income generating activities. The interest income which forms the largest component of the commercial bank's interest is based on the lending activity which is dependent on the deposit

levels (Abondo, 2013). The deposit funds avail the funds for lending purposes in commercial banks.

Effect of adopting bancassurance products on deposit mobilization of banks in Nakuru County was examined by exploring five criteria as shown in the table. In addition, the calculated results of likert scale scores, descriptive statistics and the frequency distribution values of each criterion are also shown by table 4.3.3 below.

**Table 4.3.3: Average Likert Scale Scores, Descriptive statistics and frequency Distribution Table of Effect of Deposit Mobilization**

| | *Average Likert Scale Scores* | | | | | *Descriptive statistics* | | *% frequency Distribution* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | SD | D | U | A | SA | Mean | Std. Dev. | SD Freq. (%) | D Freq. (%) | U Freq. (%) | A Freq. (%) | SA Freq. (%) |
| The bancassurance premiums in our bank constitutes a cheap way of deposit mobilization | 0 | 12 | 13 | 33 | `16 | 3.37 | 0.927 | 0.0 | 16.2 | 17.6 | 44.6 | `21.6 |
| The bancassurance premiums in our bank constitutes significantly to the overall deposit mobilization of the bank | 0 | 2 | 11 | 23 | 38 | 2.68 | 0.903 | 0.0 | 2.7 | 14.9 | 31.1 | 51.4 |
| The bancassurance premiums improves the overall liquidity level of the bank | 0 | 8 | 13 | 34 | 19 | 3.55 | 0.977 | 0.0 | 10.8 | 17.6 | 45.9 | 25.7 |
| The bank is able to lend more due to the bancassurance premiums | 0 | 15 | 17 | 28 | 14 | 3.72 | 0.938 | 0.0 | 20.3 | 23 | 37.8 | 18.9 |
| The bank has not had to undertake major deposit mobilization campaigns since adoption of bancassurance products | 0 | 5 | 18 | 22 | 29 | 3.49 | 0.935 | 0.0 | 6.8 | 24.3 | 29.7 | 39.2 |

*Source; Field Data (2017)*

The table above shows that many respondents (44.6%) were in agreed that the bancassurance premiums in their bank constitute to a cheap way of deposit mobilization and 21.6% strongly believed that the same is true. However, 16.2% of the respondents “Disagreed” that bancassurance premiums in their banks constituted a cheap way of depositing mobilization while 17.6% were “undecided”.

Most respondents (51.4%) “Strongly agreed” while 31.1% agreed that bancassurance premiums constitute significantly to the overall deposit mobilization of the bank. However, 2.7% disagreed while 14.9% of respondents were “undecided”.

Most respondents (45.9%) agreed that bancassurance premiums improves the overall liquidity level of the bank while 39.2% of “strongly agreed” that their bank has not had to undertake major deposit mobilization campaigns since adoption of bancassurance products.

Most of the respondent agreed that banks are capable of lending more due to the bancassurance premiums without taking major deposit mobilization campaigns since adoption of bancassurance products. This is affirmed by majority of the respondents. However, none of the respondents “Strongly Disagreed” with any of the five questions posed to them in the context of deposit mobilization.

In addition, table 4.3.3 above also shows the value of descriptive statistics which are mean score and standard deviations of various criteria applied in analysis after adopting bancassurance products on deposit mobilization of commercial banks in Nakuru County, Kenya.

At average, the use of bancassurance premiums have been a cheap way of deposit mobilization for banks (mean score=3.37) and constitutes to the overall deposit mobilization of the bank (mean score=2.68). This was inconsistent with what Niaga (2012), who noted that in the context of where the commercial bank has developed the insurance products the insurance policies create an avenue for deposit mobilization in terms of policy premiums (Ilovi, 2011). Additionally, the respondents were undecided on whether the bank has not had to undertake major deposit mobilization campaigns since adoption of bancassurance products (mean score=3.49).

On average, the bancassurance premiums significantly improve the overall liquidity level of the bank (mean score=3.55). Kanu & Okorafor (2013), noted that a key aspect in banking is the management of liquidity risk. Additionally, the bancassurance premiums enable the bank to lend more (mean score=3.72). The bank’s ability to lend more due to the bancassurance premiums scored the highest mean among the deposit mobilization metrics which implied that they have greater impact on financial bank performance than other metrics.

According to Abondo (2013), the deposit funds avail the funds for lending purposes in commercial banks. Bank managers usually face the tough balancing act of ensuring that funds are available to cater for withdrawals from deposits, meet short- term obligations when they fall

due and provide funds for short-term lending (Ishengoma, 2011). On the other hand, the interest income from lending activities is the largest component of the commercial bank's income generating activities.

The variation for the bancassurance premiums constituting a cheap way of deposit mobilization (standard deviation of 0.927), the bancassurance premiums constituting significantly to the overall deposit mobilization of the bank (standard deviation of 0.903) and that of the bancassurance premiums improving the overall liquidity level of the bank (standard deviation of 0.977) was moderate. The variation in the bank's ability to lend more due to the bancassurance premiums (standard deviation of 0.938) and the bank not having to undertake major deposit mobilization campaigns since adoption of bancassurance products (standard deviation of 0.935) was also moderate.

### 4.3.4 Impact of Adoption of Bancassurance on indicators of Financial Performance

The effects of adopting bancassurance on financial performance indicators were evaluated by obtaining respondents perception on results of adopting bank assurance products. These results included whether the adoption of the bancassurance products has led to the overall increase in income levels of commercial banks, reduction of the overall cost of deposit mobilization, higher returns per branch, overall increase in profitability of the bank, and higher margins per customer. Mean scores, standard deviations and the minimum and maximum values of the responses on results of the adoption of bank assurance products are presented by the following table.

**Table 4.3.4: Average Likert Scale Scores, Descriptive statistics and frequency Distribution Table for the Impact of Adoption of Bancassurance on Indicators of Financial Performance**

| Criteria | SD | D | U | A | SA | Mean | Std. Dev. | SD Freq. (%) | D Freq. (%) | U Freq. (%) | A Freq. (%) | SA Freq. (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| The adoption of the bancassurance products has led to the overall increase in the income levels of commercial banks | 0 | 0 | 9 | 21 | 4 | 3.92 | 0.969 | 0.0 | 0.0 | 12.2 | 28.4 | 59.5 |
| The adoption of the bancassurance products has led to the reduction of the overall cost of deposit mobilization | 0 | 11 | 13 | 33 | 17 | 3.73 | 0.905 | 0.0 | 14.9 | 17.6 | 44.6 | 23.0 |
| The adoption of the bancassurance has led higher returns per branch | 0 | 3 | 12 | 19 | 40 | 2.29 | 0.969 | 0.0 | 4.1 | 16.2 | 25.7 | 54.1 |
| The adoption of the bancassurance led to the overall increase in profitability of the bank | 0 | 4 | 16 | 24 | 30 | 3.15 | 0.896 | 0.0 | 5.4 | 21.6 | 32.4 | 40.5 |
| The adoption of the bancassurance has led to higher margins per customer | 0 | 12 | 13 | 33 | 16 | 3.55 | 0.949 | 0.0 | 16.2 | 17.6 | 4.6 | 21.6 |

*Source; Field Data (2017)*

Out of the respondents who were contacted were 12.2% were undecided while 28.4% "Agreed" to the question that adoption of the bancassurance products has led to the overall increase in the income levels of commercial banks. Out of available respondents, 59.5% "Strongly Agreed" that the adoption of bancassurance products led to overall increase in the income levels of the commercial banks while none "Disagreed" or "Strongly Disagreed" on the same metric.

According to Fan et al., (2013), the bancassurance services provide the commercial banks with a critical source of the non-funded income through commissions resulting from the sales of the insurance services. The commercial banks are able to earn this commission through the development, marketing and sales of the insurance products using the existing bank distribution infrastructure with little or minimal investment in the distribution infrastructure. On whether adoption of the bank assurance products has led to the reduction of the overall cost of deposit mobilization, 44.6% of the respondents "Agreed" while only 14.9% "Disagreed". The respondents who strongly "Disagreed" were 23.0% while those who were undecided on the matter were 17.6%.

The bigger percentage of respondents strongly believed that adoption of the bancassurance has led to higher returns per branch at 54.1% and 25.7% of the respondents "Agreed" there were higher returns per branch. This was consistent with Niaga (2012) in his study involving risk mitigated via insurance scheme for geothermal energy development project who noted that the bancassurance products offer the commercial banks with an easy access to funds at low cost and long term purposes. This is because in the context of where the commercial bank has developed the insurance products the insurance policies create an avenue for deposit mobilization in terms of policy premiums (Ilovi, 2011). The respondents who were undecided and who disagreed on whether the adoption of the bancassurance has led higher returns per branch were 16.2% were 4.1% respectively.

Most respondents (40.5%) strongly believed that the adoption of the bancassurance led to the overall increase in profitability of the bank further supported by those who agreed (32.4%) that adoption of the bancassurance has led to the overall increase in profitability of the bank. On the other hand, the respondents who were compared to undecided were 21.4% while 5.4% disagreed that adoption of the bancassurance has led to the overall increase in profitability of the bank. This was consistent with the results of the total income for the banking sector in 2014 financial year which was Ksh 418.7 billion composed of 314.672 billion in interest income and 104.208 billion non-funded income (Central Bank of Kenya, 2015b). Therefore, the non-funded income for the commercial banks consisted of 33% of the total income revenue for the commercial banks. Therefore, there was an increase in the amount of the non-funded income from 24.48% of the total income in 2013 to 33% of the total income in 2014 financial years.

Table 4.7 above on the impacts of adoption of bancassurance on indicators of financial performance also shows the mean and standard deviations which were obtained by examining the average perception of the respondents on the effects of adopting bank assurance products.

Most respondents (44.6%) tended to agree that adoption of the bancassurance has led to higher margins per customer and an additional 21.6% strongly believe that bancassurance adoption has led to increased margins per customer. There were no responses that strongly opposed that adoption of the bancassurance has led to higher margins per customer (strongly disagreed=0.0%) on all the metrics on impact of adoption of bancassurance on indicators of financial performance. Karimi (2011) in a study "on the external environmental challenges affecting the performance of health insurance sub sector in Kenya" also noted that the banks' could leverage on their customer contacts "with small incremental costs to sell additional services such as" insurance products. On average, the adoption of the bancassurance products has successfully led to the overall increase in the income levels of commercial banks (mean of 3.92), reduction of the overall cost of deposit mobilization (mean of 3.73), and higher margins per customer (mean of 3.92). The bancassurance services provide the commercial banks with a critical source of the non-funded income through commissions resulting from the sales of the insurance services. The commercial banks are able to earn this commission through the development, marketing and sales of the insurance products using the existing bank distribution infrastructure with little or minimal investment in the distribution infrastructure.

The interest income which forms the largest component of the commercial bank's interest is based on the lending activity which is dependent on the deposit levels (Abondo, 2013). The deposit funds avail the funds for lending purposes in commercial banks. Deposits levels in commercial banks in Kenya, has kept of increasing over the years. In addition, the customer deposits had grown from 1.71 trillion in December 2012 to 1.9 trillion by December 2013 which represented a 13.5% growth in customer deposits (Central Bank of Kenya, 2013).

Finally, the customer deposits had grown from 1.49 trillion in December, 2011, to 1.71 trillion by December of 2012 representing a 14.8% growth in customer deposits (Central Bank of Kenya, 2013). This indicates that the commercial banks deposits have continued to increase by double digits across the years. The bancassurance products offer the commercial banks with an easy access to funds at low cost and long term purposes (Niaga, 2012). This is because in the

context of where the commercial bank has developed the insurance products the insurance policies create an avenue for deposit mobilization in terms of policy premiums (Ilovi, 2011). However, the adoption of the bancassurance has had low success in generating higher returns per branch (mean of 2.29). This was contrary to findings by Lui (2014), in a study titled The Revolution in Insurance Distribution Channels in Hong Kong who noted that the commercial banks can sell insurance with higher bonuses in comparison to other networks with low costs with the use of accessible groundwork employed in banking.

On average, the adoption of the bancassurance has to some extent led to the overall increase in profitability of the bank (mean score of 3.15). This was consistent with results of the total income in 2014 financial year for the banking sector which noted an increase in the amount of the non-funded income from 24.48% of the total income in 2013 to 33% of the total income in 2014 financial year (Central Bank of Kenya, 2015b). The variation in the adoption of the bancassurance products leading to the overall increase in the income levels of commercial banks (standard deviation of 0.969), leading to the reduction of the overall cost of deposit mobilization (standard deviation of 0.905), higher returns per branch (standard deviation of 0.969), overall increase in profitability of the bank (standard deviation of 0.896), and higher margins per customer (standard deviation of 0.949) was moderate.

### 4.4 Inferential Statistics

Linear regression analysis was employed in examining influence each independent variable has on the dependent variable. In addition, multiple linear regressions examined cumulative impacts of independent variables on dependent variables. Each independent variable had a beta coefficient generated by the model which gave variation level of dependent variable attributed to its respective independent variable.

Reliability of the model was also examined with p value <0.05 indicating a reliable model. In order to test hypothesis at 0.05 level of significant, one way ANOVA tool was utilized to test the hypothesis at 0.05 level of significance. When independent and dependent variable were regressed the P-value was generated.

According to Upagade & Shende, 2012, null hypothesis should be rejected only when the P-value is less than 0.05 level of significance.

### 4.4.1 Simple Linear Regression Non-funded Income

Non-funded income was modeled as predictor variable explaining the response variable which was financial performance. Positive correlation existed between financial performance and non-funded income since correlation coefficient (R) was 0.829. The table 4.4.1.1 below highlights this.

**Table 4.4.1.1: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error the Estimate |
|---|---|---|---|---|
| 1 | .829a | .688 | .683 | .35485 |

a. Predictors: (Constant), Non-funded Income

The measure of variation between independent and dependent variables were examined. Determination coefficient (R Square, denoted as $R^2$) is 0.688, in this context and implies that non-funded income variation can be explained by 68.8% variation of financial performance. The remaining 31.2% could not be explained by linear regression model and is attributed by other factors not considered by this model. ANOVA was undertaken as shown by the following table in testing viability of regression model.

**Table 4.4.1.2: ANOVA for Non-funded income**

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 20.223 | 1 | 20.223 | 160.602 | .000b |
| Residual | 9.192 | 73 | .126 | | |
| Total | 29.415 | 74 | | | |

a. Dependent Variable: Financial Performance

Predictors: (Constant), Non-funded Income

The p-value of 0.000 indicates non likelihood of giving a wrong prediction by the regression model. P-value less than the 0.05 threshold implied that the model is reliable.

The independent variable (non-funded income) was regressed against the dependent variable (financial performance). Comparison was then made between the P-value and significant level table to determine rejection or acceptance of null hypothesis. If the P-value was less than 0.05 level of significance, null hypothesis was rejected. Results of the p-value for the AOVA table are shown by the following table.

**Table 4.4.1.3: Coefficients for Non-Funded Income**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| (Constant) | | .564 | .225 | | 2.509 | .014 |
| Non-Funded | Income | .844 | .067 | .829 | 12.673 | .000 |

Dependent Variable: Financial Performance

From the table above, the P-value is less than 0.05. The null hypothesis was therefore rejected as there was no significant statistical relationship between financial performance of commercial banks in Nakuru County (H01) and non-funded income.

The coefficient for non-funded income was examined. This gave the following regression model; Financial Performance =0.564 + 0.844 (Non-Funded Income). Regression model above shows that any unit increase on non-funded income results to 0.844 increases on financial performance.

### 4.4.2 Simple Linear Regression Deposit Mobilization

Deposit mobilization was modeled as predictor variable explaining the response variable which was the financial performance. A positive correlation existed between deposit mobilization and financial performance as correlation coefficient (R) is 0.807 as shown below.

**Table 4.4.2.1: Model Summary for simple linear regression deposit mobilization**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| | .807a | .651 | .646 | .37513 |

Predictors: (Constant), Deposit Mobilization

The measure of variation between independent and dependent variable was also examined. Coefficient of determination (R Square, denoted as R2) was 0.651 implying that 65.1% variation in financial performance was accounted for by deposit mobilization. The remaining 34.9% variation in financial performance could not be attributed to deposit mobilization. ANOVA tool was used to test viability of regression model and results obtained as shown in table below. Table 4.4.2.2: ANOVA for Deposit Mobilization

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 19.143 | 1 | 19.143 | 136.028 | .000 |
| Residual | 10.273 | 73 | .141 | | |
| Total | 29.415 | 74 | | | |

a. Dependent Variable: Financial Performance

P-value is 0.000 less than 0.05 thresholds hence model could hardly predict wrong variable. The independent variable (deposit mobilization) was regressed against the dependent variable (financial performance) and results are shown by following table.

**Table 4.4.2.3: Coefficients for Deposit Mobilization**

| Model | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | .516 | .248 | | 2.083 | .041 |
| Deposit Mobilization | .876 | .075 | .807 | 11.663 | .000 |

a. Dependent Variable: Financial Performance
Predictors: (Constant), Deposit Mobilization

The null hypothesis between deposit mobilization and financial performance was rejected as P-value was less than 0.05. The coefficient for deposit mobilization was examined which gave the following regression model;

Financial Performance =0.516 + 0.876 (Deposit Mobilization)

The regression model indicates that any unit increase on deposit mobilization increased financial performance by 0.878.

Simple Linear Regression Model for Market Share

Market share was used as an independent variable then modeled against the dependent variable which was financial performance.

**Table 4.4.2.4: The R Square Values for Market Share**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .723a | .523 | .516 | .43855 |

a. Predictors: (Constant), Market Share

Correlation coefficient (R) was 0.723 implying a positive correlation between financial performance and market share income. Coefficient for determination (R Square, denoted as $R^2$) is 0.523 signifying that 52.3% variation in financial performance can associated with market share. The remaining 47.7% variation in financial performance could not be attributed to market share. The viability of the regression model results are shown below.

**Table 4.4.2.5: ANOVA for Market Share**

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 15.376 | 1 | 15.376 | 79.944 | .000 |
| Residual | 14.040 | 73 | .192 | | |
| Total | 29.415 | 74 | | | |

a. Dependent Variable: Financial Performance
Predictors: (Constant), Market Share

The p value which was less than the 0.05 (P=0.000) threshold therefore implied that the model was reliable and could hardly produce wrong prediction. The independent variable (market share) was regressed against the financial performance (dependent variable), results are in table 4.4.2.5.

The p-value for this test was 0.000, less than 5% level of significance ($p<0.05$). Null hypothesis was therefore rejected as there was no significant statistical relationship between market share and financial performance of commercial banks in Nakuru County ($H_{03}$).

The effect of market share on the financial performance was determined by examining the coefficient for market share, shown by table 4.4.2.6.

**Table 4.4.2.6: Coefficients for Market Share**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | .448 | .330 | | 1.359 | .178 |
| Market Share | .876 | .098 | .723 | 8.941 | .000 |

a. Dependent Variable: Financial Performance

The coefficient for market share was 0.876. This gave the following regression model;

Financial Performance =0.516 + 0.876 (Market Share).

The regression model indicates that any unit increase on market share results to a 0.876 increase on financial performance.

### 4.4.3 Correlation

It measures degree of linear association between two continuous variables. Pearson's value of above 0.8 was interpreted as there being a strong correlation between the variables. A Pearson's value of between 0.7 and 0.8 was interpreted as a fairly strong correlation of the variables and a Pearson's value of between 0.6 as the variables having a fair correlation. The Pearson values are

presented in table 4.4.3. From these results, non-funded income and market share (Pearson's value=0.803), financial performance and non-funded income (Pearson's value=0.828), and deposit mobilization and financial performance have a strong correlation (Pearson's value=0.807).

**Table 4.4.3: Pearson's Values for Linear Correlation**

| | Non-funded Income | Deposit Mobilization | Market Share | Financial Performance |
|---|---|---|---|---|
| Non-funded Income | 1 | .686** | .803** | .829** |
| Deposit Mobilization | | 1 | .516** | .807** |
| Market Share | | | 1 | .723** |
| Financial Performance | | | | 1 |

Deposit mobilization, market share (Pearson's value=0.516), and non-funded income and deposit mobilization have a fair positive correlation (Pearson's value=0.686). Finally, market share and financial performance have a fairly strong correlation with a Pearson's value of 0.723.

### 4.4.4. Multiple Linear Regression Model

The independent variables, that is, market share, deposit mobilization and non-funded income were regressed against financial performance (dependent variable). The table below presents the results.

**Table 4.4.4.1: Model Summary for multiple linear regression model**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .900a | .809 | .801 | .28102 |

a. Predictors: Predictors: (Constant), Market Share, Deposit Mobilization , Non-funded Income

A combination of the independent variables derived a stronger coefficient of determination (R2=0.809). The variability in the combination of the independent variables explains 80.9% of the total variation on financial performance suggests that combination of predictor variable gives a higher variation than in the individual variables explaining financial performance while others 19.1% could not be explained including the market share, deposit mobilization and non-funded income in this model.

The multiple regression model with the three independent variables (market share, deposit mobilization and non-funded income) are statistically significant since P-value of test of significance of the model is 0.000 lower than the 0.05 threshold ($p<0.05$), shown in table 4.4.4.2. This therefore implies that the multiple regression models were reliable.

**Table 4.4.4.2: ANOVA for multiple linear regression models**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 23.808 | 3 | 7.936 | 100.489 | .000[b] |
| | Residual | 5.607 | 71 | .079 | | |
| | Total | 29.415 | 74 | | | |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Market Share, Deposit Mobilization , Non-funded Income

The coefficient for market share, deposit mobilization and non-funded income was examined. Results are presented in table 4.4.4.3 below.

**Table 4.4: Table Coefficient values for the Predictor Variables**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | -.270 | .232 | | -1.161 | .250 |
| Non-funded Income | .352 | .104 | .346 | 3.375 | .001 |
| Deposit Mobilization | .502 | .078 | .463 | 6.475 | .000 |
| Market Share | .250 | .106 | .206 | 2.368 | .021 |

a. Dependent Variable: Financial Performance

The regression model for the coefficients is as shown;

Financial Performance = -0.270 + 0.352 (Non-Funded Income) + 0.502 (Deposit Mobilization) + 0.250 (Market Share)

The regression model indicates that if no variables are considered, the financial performance decreases by 0.270. Keeping all other factors constant, any unit increase on the non-funded income, deposit mobilization and market share increases the financial performance by 0.352, 0.502 and 0.250 respectively.  Therefore, all independent variables have positive influence on financial performance.

# CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION

## 5.1 Summary

### 5.1.1 Non-funded Income

On average, the in house insurance products have to some extent improved the non-funded income of commercial banks. Fairly, banks have been successful in selling insurance products from strategic partners who earns them substantial commission with bancassurance non-funded income contributing a significant portion of the bank's overall non-funded income (means of 3.5-4.49). Additionally, the respondents to some extent agreed that banks earned a higher income on its loan products through bancassurance products to security perfection process. Very insignificantly, banks have been able to earn non-funded income through bancassurance model without significant infrastructure development a phenomenon indicated by low mean value of 1.5-2.49.

The variation in the bank's development of in house insurance products to improve on non-funded income, selling insurance products from strategic partners earning substantial commission, and being able to earn non-funded income through bancassurance model without significant infrastructure development was moderate (standard deviations of 0.5-0.99). There was however high variation (standard deviations > 1) in banks earning a higher income on loan products through bancassurance products to security perfection process. Generally, some respondents perceived that bancassurance has a greater contribution to the overall non-funded income as it scored the highest mean score among the metrics on non-funded income.

### 5.1.2 Impact of Market Share

To some extent, the bank uses the bancassurance products for market penetration purposes outside its core markets and for customer retention purposes (mean of 2.5-3.49). In addition, bancassurance products have significantly increased the number of products per customer and assisted the commercial banks to improve on their overall market share (mean of 3.5-4.49). The improvement on the bank's overall market share from bancassurance products scored the highest

mean among the metrics on effects of deposit mobilization which implied that respondents perceived it to have more effect on performance of banks.

Moderate variation existed in responses that banks uses the bancassurance products for customer service retention, in increasing products' number per customer, and also in improving uptake of bank products.

Fairly, the respondents were undecided (mean of 2.5-3.49) on the successful use of the bancassurance products to improve the uptake of the bank products. However, the variation in bancassurance products assisting the commercial banks to improve on their overall market share and the bank uses the bancassurance products for market penetration purposes outside its core markets was high.

### 5.1.3 Effect on Deposit Mobilization

The average effect of adopting bancassurance products on deposit mobilization of banks in Nakuru County, Kenya was examined through the mean scores and the consensus levels using the standard deviations. On average, the bancassurance premiums constitute a cheap way of deposit mobilization and constitutes significantly to the overall deposit mobilization of the bank (mean of 2.5-3.49). Additionally, the banks have to some extent need not to undertake major deposit mobilization campaigns since adoption of bancassurance products.

On average, the bancassurance premiums have significantly improved the overall liquidity level of the banks and enabled them to lend more (means of 3.5-4.49). The bank's ability to lend more due to the bancassurance premiums scored the highest mean among the deposit mobilization metrics which implied that it was perceived to have greater influential impact on performance of the commercial banks than all the other metrics. The variation in bancassurance premiums constituting a cheap way of deposit mobilization, constituting significantly to the overall deposit mobilization of the bank, improving the overall liquidity level of the bank, and enabling the bank to lend more was moderate (standard deviations of 0.5-0.99). The variation was the same in no major undertaking of deposit mobilization campaigns done by the bank since adoption of bancassurance products.

### 5.1.4 Impact of Adoption of Bancassurance on indicators of Financial Performance

The influence of adopting bancassurance on financial performance indicators was examined. This involved averaging perception of respondents on results of adopting bank assurance products. On average, the adoption of the bancassurance products has been successful in overall increase in income levels of commercial banks, reduction of the overall cost of deposit mobilization and higher margins per customer (means of 3.5-4.49). However, there have been insignificant returns per branch and very low overall increase in profitability of the bank as a result of adoption of the bancassurance (means of 1.5 to 2.49).

The variation in the adoption of the bancassurance products leading to the overall increase in income levels of commercial banks, reduction of the overall cost of deposit mobilization, higher returns per branch, overall increase in profitability of the bank, and higher margins per customer was moderate.

## 5.2 Conclusions

This study reviles that bancassurance is well perceived in the market; however, it has some challenges. All independent variable, including non-funded income, deposit mobilization and market share are statistically significant predictors on their own, for financial performance of banks.

The order of influence of dependent on independent variables reviled that deposit mobilization was highly ranked, followed by non-funded income while market share was lowly ranked. Therefore deposit mobilization had greater effects on financial performance of commercial banks than either non-funded income or market share.

## 5.3 Recommendations

This study recommends that commercial banks adopt bancassurance products as a competitive strategy for better financial performance. This is because financial performance decreases in the absence of these strategies. The study further recommends that deposit mobilization be undertaken as a priority in the adoption of bancassurance products in commercial banks so as to

increase financial performance. Additionally, the study recommends that non-funded income followed by market share be considered in the adoption of bancassurance products in commercial banks in order to increase financial performance.

Banks have wider customer trusted base in comparison to insurance companies. Marketing should therefore be taken aggressively. This can be achieved by making sure insurance products are integrated in bank sale management framework for the sole purpose of selling more. The two sectors should sell and market their products jointly and simultaneously.

Practical sessions should also be done through training and refresher courses should be undertaken by those selling products. The information pertaining to insurance should be accessible by sellers and banks should have control verification.

Researcher recommends further studies in this topic through examining other strategies that can improve the financial performance for commercial banks.

## REFERENCES


Abondo, C. (2013). The Effect of Size on the Financial Performance of Deposit Taking Microfinance Institutions and Commercial Banks in Kenya. *Interdisciplinary Journal of Contemporary Research in Business, 1*(1), 25–32.

Achieng, N. D. (2014). Business Process Reengineering Practices and Performance of Kenya Commercial Bank. *Banking and Finance Journal*, *2*(2), 14–21.

Alavudeen, R., & Rosa K.D, D. S. (2015). Growing Role of Bancassurance in Banking Sector. *Bonfring International Journal of Industrial Engineering and Management Science*, *5*(2), 10–16.

Amakoye, J. (2015). Strategic Management Practices at Maseno Mission Hospital, Kenya. *Journal of Economics and Business*, *2*(3), 16–19.

Beyanga, T. A. (2011). Internal Audit Function , Emoployee Attitudes and Financial Performance of Public Universities: A Case Study of Kyambogo and Makerere Universities. *Journal of Modern Accounting and Auditing*, *3*(3).

Bhunia, A., Mukhuti, S. S., Roy, S. G., Harbour, D., Bengal, W., & Delhi, N. (2011). Financial Performance Analysis-A Case Study. *Social Sciences*, *3*(3), 269–275.

Central Bank of Kenya, . (2012). *Central Bank of Kenya Bank supervision annual report 2011*. Retrieved from https://www.centralbank.go.ke/images/docs/CBKAnnualReports/2011annualreport.pdf

Central Bank of Kenya, . (2013). *Central Bank of Kenya Bank supervision annual report 2012*. Retrieved from https://www.centralbank.go.ke/images/docs/CBKAnnualReports/2012annualreport.pdf

Central Bank of Kenya, . (2014). *Central Bank of Kenya Bank Supervision Annual Report-2013*.

Retrieved from https://www.centralbank.go.ke/images/docs/CBKAnnualReports/2013annualreport.pdf

Central Bank of Kenya, . (2015a). *Bank Supervision Annual Report 2014*. Retrieved from http://www.centralbank.go.ke/downloads/bsd/annualreports/bsd2010.pdf

Central Bank of Kenya, . (2015b). *Bank Supervision Annual Report 2014*. Retrieved from https://www.centralbank.go.ke/index.php/cbk-annual-reports

Chege, K. (2015). Implementation of Effective Strategic Audit Planning in Selected Public Institutions. *International Journal of Management and Strategy*, *3*(4), 37–40.

Clipici, E. (2011). Bancassurance – Main Insurance Distribution and Sale Channel in Europe. *Scientific Bulletin- Economic Sciences*, *11*(2), 36–40.

Constantinescu, D. (2012). The Influence of Bancassurance System on the Quality of the Insurance Services. *International Journal of Academic Research in Business and Social Sciences*, *2*(10), 464–479.

Cooper, R., & Schindler, P. (2003). *Business Research Methods*. New Delhi: Tata Mc Graw Hill Publishing Company.

Dinga, A. O. (2012). Assessment of Cost Leadership Strategy on Enhancing Competitive Advantage; A Survey of Kenya's Telecommunication Industry. *Journal of Business and Management*, *2*(4), 25–30.

Elakkiya, S., & Ramaabaanu, R. (2014). Bancassurance -An emerging Scenario in Indian Insurance Sector. *IRACST – International Journal of Commerce, Business and Management*, *3*(3), 2319–2828.

Fan, C. K., Lai, H., & Lu, W. (2013). An Evaluation of Key Factors for Bancassurance Success.

*International Journal of Application and Innovation in Engineering and Management*, *2*(12), 190–198.

Grover, N. (2013). Level of Awareness Regarding Bancassurance and Choice of Insurance Product among Bank Customers in India. *Eurasian Journal of Business and Economics*, *6*(12), 63–77.

Ilovi, C. (2011). Sustainable Competitive Advantage in the Insurance Industry in Kenya. *International Journal of Business and Public Management*, *2*(3), 25–30.

Ishengoma, A. R. (2011). Analysis of Mobile Banking for Financial Inclusion in Tanzania: Case of Kibaha District Council Prepared By Anitha Rodgers. *International Journal for Management Science and Terchnology*, *1*(4), 75–79.

Jongeneel, O. (2015). Bancassurance: Stale or Staunch? *Journal of Internet Banking and Commerce*, *2*(3), 65–70.

Kabira, D., Ndiema, M., & Kabira, D. (2013). The Effect of Agency Banking on Financial Performance of Commercial Banks in Kenya. *Journal of International Business Studies*, *2*(4), 36–40.

Kamau, R. (2013). The Influence of Accounting Records on the Financial Performance of Small and Medium Enterprises in Central Business District in Nairobi County. *International Journal for Management Science and Terchnology*, *2*(1), 1–5.

Kamunde, B. (2012). Strategic Management Practices at Kenya Airports Authority. *IOSR Journal of Business and Management*, *2*(1), 74–79.

Kanu, S. I., & Okorafor, E. O. (2013). The Nature, Extent and Economic Impact of Fraud on Bank Deposits in Nigeria. *Interdisplinary Journal of Contemporary Research in Business*, *4*(9), 253–265.

Karimi, K. B. (2011). External Environmental Challenges Affecting The Performance Of Health Insurance Sub Sector In Kenya. *IOSR Journal of Business and Management*, *1*(2), 44–50.

Kemboi, K. (2012). Integration of Corporate Governance in Strategic Management at the Ethics and Anti Corruption Commision. *International Journal for Management Science and Technology*, *1*(2), 78–82.

Kimaku, M. (2015). Change Management Practices Adopted by Barclays Bank of Kenya Limited. *International Journal of Research in Management, Economics and Commerce*, *1*(2), 25–30.

Kimasar, F. (2014). The Use of Credit Reference Bureau on Loan Recovery Among Commercial Banks in Nakuru Town, *3*(10), 2196–2201.

Kimemia, K. (2015). Bancassurance; Convergence of Banking and Insurance. *Journal of Economic Research*, *3*(2), 25–31.

Kiragu, S. M. (2014). Assessment of Challenges Facing Insurance Companies in Building Competitive Advantage in Kenya: a Survey of Insurance Firms. *International Journal of Sciences and Entrepreneurship*, *1*(11), 25–30.

Kombo, D. K., & Tromp, D. L. A. (2009). *Proposal and Thesis Writing: An Introduction.* Nairobi, Kenya: Paulines Publications Africa, Don Bosco Printing Press.

Kothari, C. (2004). *Research Methodology; Methods and Technologies*. New Delhi: New Age International Publishers.

Leparleen, C. (2014). Leadership Styles and Performance of Commercial Banks in Kenya. *International Journal of Research in Management, Economics and Commerce*, *2*(3), 17–25.

Lovelin, A. (2014). Preference of Bancassurance. *IOSR Journal of Business and ManagementVer. II*, *1*(1), 08–13.

Lui, L. (2014). The Revolution in Insurance Distribution Channels in Hong Kong. *International Multidisciplinary Journal*, *3*(2), 78–84.

Magu, A. (2013). Balanced Scorecard as a Performance Measurement Tool in Insurance Firms in Kenya. *Journal of Modern African Studies*.

Mitiku, B. (2014). Impacts of Corporate Governance Mechanism on Financial Performance of Selected Insurers in Ethiopia. *Journal of Business and Management*, *2*(1), 25–29.

Mugenda, O. (2003). *Research Methods: Quantitative and Qualitative Approaches*. Acts Press.

Mutai, T. (2012). Competitive Staregies Adopted by Microfiance Institutions in Kenya. *Journal of Internet Banking and Commerce*, *3*(4), 27–30.

Muthama, W. (2013). Mergers and Acquisitions as an Entry Strategy by Major Banks in Kenya to Expand in the East African Market. *International Journal of Business and Public Management*, *5*(2), 78–84.

Mwangi, J. (2010). An Assessment of the Determinants of Growth of Bancassurance in Kenya. *International Journal of Bank Marketing*, *2*(3), 120–136.

Nazeer, H. (2014). Critical Success Factors in the Sales and Distributiomnm of bancassurance in South Africa. *Journal of Business and Management*, *2*(1), 5–10.

Ndung'u, M. (2013). Relationship Between Risk Management Practices and Financial Performance of Sasra Regulated SACCOs in Nairobi. *Journal of Business and Management*, *3*(3), 100–110.

Ngumi, P. (2013). Effect of Bank Innovations on Financial Performance of Commercial Banks in Kenya. *Journal of Social Science and Enterprenuership*, *2*(3), 35–40.

Niaga, G. (2012). Risks Mitigation Through Insurance Scheme in the Geothermal Energy Development Project. In *Proceedings 1st ITB Geothermal Workshop* (Vol. 2, pp. 15–19).

Nyaga, J. (2014). The Effect of Corporate Governance on the Financial Performance of SACCOs regulated by SASRA. *International Journal of Financial Research*, *2*(3), 14–19.

Ogori, M. (2014). Strategies Employed by Commercial Banks in Kenya to Build Competitive Advantage. *Journal of Sustainable Development in Africa*, *3*(4), 25–29.

Ongore, V. O., & Kusa, G. B. (2013). Determinants of Financial Performance of Commercial Banks in Kenya. *International Journal of Economics and Financial Issues*, *3*(1), 237–252.

Onyango, I. (2014). Effect of Privatization on the Financial Performance of Listed Companies at the Nairobi Securities Exchange. *Interdisciplinary Journal of Contemporary Research in Business*, *2*(1), 15–21.

Orodho, A. (2008). *Techniques of Writing Research Proposal & Reports in Educational and Social Sciences*. Maseno, Kenya: Kanezja HP Publishers.

Orodho, A. J. (2003). *Essentials of Educational and Social Science Research Method*. Nairobi: Masola Publishers.

Saravanan, S. (2014). Bancassurance Channel- a SWOT Analysis. *Journal of International Development*, *3*(2), 1–5.

Scovier, J. (2013). Effect of Bancassurance on Financial Performance of Insurance Companies in Kenya; A Survey of Insurance Companies in Nairobi County. *Journal of Management Research*, *2*(1), 36–44.

Sekaran, U. (2003). Towards a guide for novice research on research methodology: Review and proposed methods. *Journal of Cases of Information Technology*, *8*(4), 24–35.

Sekaran, U., & Bougie, R. (2011). *Research Methods for Business: A Skill Building Approach* (5th ed.). Delhi: Aggarwal printing press.

Skokan, K., Pawliczek, A., & Piszczur, R. (2013). Strategic Planning and Business Performance of Micro, Small and Medium-Sized Enterprises. *Journal of Competitiveness*, *5*(4), 57–72.

Upagade, V., & Shende, A. (2012). *Research Methodology* (2nd ed.). Ram Nagar, New Delhi: S.Chad and Company Ltd.

Waweru, N. (2012). The Effect of Bancassurance on the Financial Performance of Commercial Banks in Kenya. *Journal of Management and Business Studies*, *2*(3), 45–50.

# APPENDICES

## Appendix A: Consent Statement

Jane Nduta,
Kenyatta University,
School of Business,
P.O BOX 43844-00100,
Nairobi, Kenya.

6th April, 2017.
Dear Participant,

My name is Jane Nduta Karanja, a Master of Business Administration (Strategic Management) student at Kenyatta University, Nakuru Campus. I am humbly requesting you to be part of the study in my research work entitled "The Adoption of the Bancassurance as a Competitive Strategy to Improve Financial Performance of Commercial Banks in Nakuru".
I am inviting you in filing in the attached questionnaire which has been estimated to take less than 20 minutes. The outcome of the information will be confidential between the researchers and respondent and that no other person will be able to access it. Participating in this research work is voluntary and one can withdraw any time at no cost. However, no financial compensation on this withdrawal since the study is meant for education purposes. Thanks as you prepare to participate

Yours Faithfully,
Jane Nduta

**Appendix B: Structured Questionnaires**

The following are sample of the questionnaire tools that were used to collect data to determine impacts of adopting bancassurance as a competitive strategy to improve financial performance for the commercial banks in Nakuru County, Kenya are given below.

Questionnaire

Instructions: Please complete the following questionnaire appropriately.
Confidentiality: Responses will be confidential and that there will be no reference made to any individual(s) in the report of the study.
Please tick or answer appropriately for each of the Question provided.

PART A: BACKGROUND INFORMATION

| | | | |
|---|---|---|---|
| 1) | What is your gender? | Male | ( ) |
| | | Female | ( ) |
| 2) | What is your main role in the bank? | Sales Staff | ( ) |
| | | Operations Staff | ( ) |
| | | Management | ( ) |
| | | Customer Service | ( ) |
| 3) | How long (in terms of years) have you worked in the bank? | 0-5 Years | ( ) |
| | | 6-10 Years | ( ) |
| | | 11-15 Years | ( ) |
| | | Over 15 Years | ( ) |

Part B: Non-Funded Income

For each of the following parts, please tick where applicable the extent to which you agree using the following likert scale.

SA= Strongly Agree A=agree U=Uncertain D=Disagree SD=Strongly

| | Non-funded Income | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| 1. | The bank has developed in house insurance products to improve on its non-funded income | | | | | |
| 2. | The bank has sells insurance products from strategic partners earning substantial commission | | | | | |
| 3. | The bank earns higher income on its loan products through using its bancassurance products to security perfection process | | | | | |
| 4. | The bancassurance non-funded income contributes a significant portion of the bank's overall non-funded income | | | | | |
| 5. | The bank has been able to earn non-funded income through bancassurance model without significant infrastructure development | | | | | |

Part C: Deposit Mobilization

For each of the following parts, please tick where applicable the extent to which you agree using the following likert scale.

SA= Strongly Agree A=agree U=Uncertain D=Disagree SD=Strongly

| | Deposit Mobilization | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| 1. | The bancassurance premiums in our bank constitutes a cheap way of deposit mobilization | | | | | |
| 2. | The bancassurance premiums in our bank constitutes significantly to the overall deposit mobilization of the bank | | | | | |
| 3. | The bancassurance premiums improves the overall liquidity level of the bank | | | | | |
| 4. | The bank is able to lend more due to the bancassurance premiums | | | | | |
| 5. | The bank has not had to undertake major deposit mobilization campaigns since adoption of bancassurance products | | | | | |

Part D: Market Share

For each of the following parts, please tick where applicable to the extent to which you agree using the following likert scale.

SA= Strongly Agree A=agree U=Uncertain D=Disagree SD=Strongly

| | Market Share | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| 1. | The bank uses the bancassurance products for market penetration purposes outside its core markets | | | | | |
| 2. | The bank uses the bancassurance products for customer retention purposes | | | | | |
| 3. | The bank uses the bancassurance products to increase the number of products per customer | | | | | |
| 4. | The bank has successfully used the bancassurance products to improve the uptake of its bank products | | | | | |
| 5. | The bancassurance products has assisted the commercial banks to improve on its overall market share | | | | | |

Part E: Financial Performance

For each of the following parts, please tick where applicable to the extent to which you agree using the following likert scale.

SA= Strongly Agree A=agree U=Uncertain D=Disagree SD=Strongly

| | Financial Performance of the banks | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| 1. | The adoption of the bancassurance products has led to the overall increase in the income levels of commercial banks | | | | | |
| 2. | The adoption of the bancassurance products has led to the reduction of the overall cost of deposit mobilization | | | | | |
| 3. | The adoption of the bancassurance has led higher returns per branch | | | | | |
| 4. | The adoption of the bancassurance has led to the overall increase in profitability of the bank | | | | | |
| 5. | The adoption of the bancassurance has led to higher margins per customer | | | | | |

**Appendix C: List of commercial banks in Nakuru County, Kenya.**

The following are the list of the banks in Nakuru County, where the collection of the data took place.

1) ABC Bank
2) Chase Bank
3) Dubai Bank
4) First Community Bank
5) NIC Bank
6) Bank of Africa
7) Commercial Bank of Africa
8) Ecobank
9) I&M Bank
10) Oriental Commercial Bank
11) Bank of Baroda
12) Co Operative Bank
13) Equity Bank
14) Kenya Commercial Bank
15) Post Bank
16) Barclays Bank
17) Credit Bank
18) Family Bank
19) K-Rep Bank
20) Standard Chartered Bank
21) CFC Stanbic Bank
22) Diamond Trust Bank
23) Fina Bank
24) National Bank of Kenya
25) Transnational Bank