EFFECT OF BANCASSURANCE ON THE PERFORMANCE OF INSURANCE COMPANIES IN KENYA

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STUDENT'S DECLARATION

I hereby declare that this dissertation is my own original work done towards the honour of being awarded a degree of Masters of Science in Commerce (Finance and Investment) of KCA University.

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DEDICATION

I would like to dedicate this dissertation to the Almighty God for the gift of life and blessings throughout the period. I dedicate it to my dear mum Jane Njeri, my daughter Abigael Njeri, my relatives, my friends, my lecturers and all my fellow colleague students. Without you all, I would not have come this far.

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ABSTRACT

The utilization of bancassurance services has facilitated operations in insurance companies around the globe. Due to the cross-border listing of companies in Africa, bancassurance has eased the transactions of policies between the main insurance companies as well as the affiliated companies despite the distance and national restrictions. With the liberalization of the insurance sector and competition tougher than ever before, companies are increasingly trying to come out with better innovations to stay ahead of their competitors. Low insurance penetration is one of the most notable challenges facing the performance of insurance companies in terms of market share, product diversification among other measures. Therefore, the current study sought to analyze the effect of bancassurance on the performance of insurance companies in Kenya. The specific objectives of the study were to determine the effect of bancassurance in life insurance, motor vehicle and home and property products on the performance of insurance companies in Kenya. The study was hinged on theory of push and pull and market mix theory. Simple random sampling was used to draw 106 respondents from 55 insurance companies in Kenya, from whom primary data was collected with a structured questionnaire. Descriptive, correlation and regression analysis were used to analyse the data which was presented in table and figures. Results of the study revealed a positive and significant relationship between bancassurance life insurance products, motor vehicle insurance products and insurance performance while home and property insurance had positive and not significant relationship. A close focus should also be made on the specific life insurance products which is family life assurance that is favourable to many individuals otherwise the companies may put their effort in other products which are not highly purchased. Motor vehicle bancassurance more customized products need to be developed to cater for the particular market niche that may want special treatment

Key words: Bancassurance, Life insurance, Motor vehicle insurance, Home and property insurance, Insurance performance

ACRONYMS & ABBREVIATIONS

AKI	Association of Kenyan Insurance
ANOVA	Analysis of Variance
BHPP	Bancassurance Home and Property Products
BLP	Bancassurance Life Insurance Products
BMP	Bancassurance Motor Vehicle Products
DF	Degrees of Freedom
IP	Insurance Performance
IRA	Insurance Regulatory Authority
SPSS	Statistical Package for Social Scientists
VIFs	Variance Inflation Factors

DEFINITION OF TERMS

Bancassurance	Distribution of insurance through banking networks (Clipici, 2012)
Home and property products	Insurance cover taken to mitigate against home and property loss due to threats such as fire and terrorism (McKeown, 2008).
Insurance performance	Increase or decrease in profitability, market share, number of customers (Nyawiri & Muoni, 2015).
Life products	Insurance covers taken to mitigate against life related threats (Paramasivan & Naidu, 2014).
Motor vehicle products	Insurance covers taken to compensate against motor vehicle related risks (Nyawiri & Muoni, 2015).

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

In around 1980's, bank insurance terms and its concept started to emerge in Europe and more so France. Later, the concept spread across to various continents and subcontinents including US, East and West Europe, Asia and India. According to Yuan (2011) Bancassurance involves a defined arrangement between an established insurance company and a financial institution which is the bank or microfinance bank with the aim of selling specific insurance products via the bank. Bruton (2014) describe bancassurance as a coalition between the bank and registered insurance firm in which the latter sells their products via bank. Simply, bancassurance is defined as an arrangement between the bank and insurance company to sell insurance products to banks clients' base. Several insurance companies rely heavily on the aspects of bancassurance to promote their products in this competitive market (Clipici, 2012). Bancassurance as a strategy is beneficial to most insurance firms in global settings hence helping in increasing the efficiency of services between the bank and the insurance companies. Bancassurance has facilitated efficacy of services and transactions between the banks and insurance companies and has promoted the satisfaction of the clients (Siegelman, 2004).

For a long time, the issue of Bancassurance has been very critical between the banks and the insurance companies (Bruton, 2014). What majorly have been downplayed are the benefits derived from the combination of insurance and banking services. This partnership arrangement can be profitable for both companies in that the banks can earn additional revenue by selling the insurance products to the involved customers or clients at the agreed rate of transactions, the banks are also able to create close relations with the customers and by selling a whole range of financial services to customers they are able to increase customer retention. On the other hand, insurance companies are able to expand the customer base without having to expand their intermediary sales forces or pay out commissions to insurance agents and brokers, they are able to develop new financial products more efficiently with the help of their bank partners and they are able to obtain capital from banks to improve and grow business alliances by incorporating strategic ties (Capital, 2014).

The United States of America presents a good model for bancassurance being used by both the dominant and small insurance firms to ease the transactional process that would otherwise prove to be inefficient; this is because bancassurance outperforms the traditional model of handling insurance practices (Binet, 2012). The bancassurance spread to other continents around the globe due to its perceived benefits. In Africa, bancassurance services have rapidly been growing because it improves the distribution channels and the value of the insurance markets (Ladina, 2014). The importance of bancassurance has spread across Africa due to its efficiency in the management of insurance services. Kenya has embraced bancassurance because it improves the number of deposit accounts and guarantees future revenue generation as one of its core reasons (Jongeneel, 2011). Insurance companies have also got into such an arrangement so as to safeguard their market share in the region among many other factors.

Insurance companies have in the past used different channels such as sales agents, insurance brokerage firms and marketing of insurance companies which need immense distribution strength and manpower so as to reach a huge customer base (Clipici, 2012). Nowadays, the insurance companies in Kenya have engaged the Bancassurance aspects in their development plan due to its benefits in the business. Bancassurance has been the key ingredient of success of the relevant insurance companies in Kenya and it eases the operations of the bank and the insurance companies (Siegelman, 2004). Due to the worldwide development of technology and globalization, bancassurance is gaining presence in both the developed and developing countries around the world. The insurance entities in Kenya embrace the issue of bancassurance to cope with dynamic and competitive business environment. Insurance companies in Kenya such as Jubilee Insurance, UAP Insurance, Britam Insurance among others have factored in the bancassurance demands so as to match other global heavyweights in the same industry (Capital, 2014). In Kenya, banks are spread geographically and across various socio-economic groups that are vivid in the country, this provides a great potential for bancassurance to thrive especially where traditional insurance practice could not perform effectively.

1.1.1 Insurance Companies in Kenya

Insurance in Kenya is known to have been in existence for over sixty years now with the first insurance companies believed to have been owned by British insurers during the colonial time (Karanja, 2011). Kenya's insurance industry is described as resilient in that despite environmental changes, the industry has shown it can survive and thrive (AKI, 2012). The operations of the insurance firms is under a centralized body called the Association of Kenya Insurers (AKI) which was formed in 1987 whose main role is to enhance prudent business practices, create awareness among the public and accelerate the growth of insurance business in Kenya.

In Kenya, there are a total of 55 insurance companies. Despite the large number of insurance companies in Kenya, the market penetration remains lower as compared to other countries in Sub-Saharan region, leaving many insurance companies competing for market share (Association of Kenya Insurance [AKI], 2015). Kenya has remained under tapped in insurance even though the recent growth rate is promising as it has improved and as of June 2015 the sector recorded a growth rate of 16.1% and is expected to hit 19% by 2018 (Cytonn, 2015). Insurance

Regulatory Authority (IRA) is charged with the responsibility to regulate, supervise and develop the insurance industry. Despite the licensing of many insurance companies and increased scrutiny, recent trends have seen many companies collapsed, suspended, delisted while others are opting for mergers and acquisition owing to declining performance and failure to even meet the minimum capital required by Finance Bill 2015 (Wanyama & Olweny, 2013). Those that survived this turbulent moment were cited by Cytonn (2015) to be innovative, adaptive to changes and engaging in expansion regionally. This forms the backdrop under which this study is conducted to establish what these companies can use to boost their performance and avoid risk of failure.

In Kenya, the vast network of branches would clearly be more effective than complete reliance on insurance agents in terms of business expansion of the bancassurance at a minimal cost. The financial institutions and banks have been able to make the rural areas more accessible to insurance products. This has proved to be very efficient especially to areas with limited accessibility to most insurance facilities. With increased integration of financial services and banks seeking to expand the range of services offered to clients, a perfect opportunity exists for the two sectors to enter into a bancassurance partnership (Swiss, 2007).

In Kenya, insurance companies and banks have some form of a working relationship. Moreover, insurance companies do secure consumer credit thereby creating some complementary products for the available insurance services. The consolidated financial services industry merges the banking and insurance industries. This merger has therefore improved on the growth potential of the bancassurance models (Mwaniki, 2008). The adoption has vastly spread across the rural areas, where the branch networks are limited to a greater extent. With increased integration of financial services and banks seeking to expand the range of services offered to clients, a perfect opportunity exists for the two sectors to enter into a bancassurance partnership. In Kenya, most banks have adopted the insurance models through merging with most insurance companies.

In 2005, the CFC group acquired ALICO Kenya (American Life Insurance Company) and consequentially rebranded to CFC Life. A recent move saw the acquisition of AIG insurance company by the Commercial Bank of Africa, this amounted to a third of AIG insurance company's total interest. The centralized financial services industry will see the merger of insurance and banking business. There is also an agreement between British American Insurance of Kenya (BRITAK) with Equity bank and commercial bank of Africa. There is great potential for development and growth of bancassurance in Kenya. However, the market is yet to experience bancassurance in its truest form (Mwaniki, 2008).

1.1.2 Performance of Insurance Companies

Performance of insurance companies is an indication of success of a company as it involves the composition of the actual productivity or results of a company as measured against the intended objectives of the company (Armstrong, 2006). Company performance clearly helps the company to gauge their progress towards achievement of the pre-determined objectives. Banks and Insurance companies, just as other companies around the globe rely heavily on positive performance so as to ensure intended productivity level. Company performances are measured yardsticks that determine the fate of the company regardless of the volatility of the environment (Orlitzky, 2004). These measurements include the profitability, the liquidity, the solvency and the efficiency of the company.

Many companies around the world have relied on measurement of company performance so as to gauge the actual output and its deviation from the standard output. Company performance is one of the most important constructs in the management of companies and aids the company in assessment of its full strengths (Ladina, 2014). Insurance companies around the world aim at improving their company performance so as to be able to attract clients, stakeholders as well as the different investors. Company performance is the key indicator of the progress of the company in terms of financials and other key social aspects that matter to a company (Armstrong, 2006). Different companies use different yardsticks or measurement tools that define the extent of performance in the company. Insurance companies measure their performance by the number of customers they have, the number of products they sell, profitability and liquidity (Benoist, 2006).

1.2 Problem Statement

The utilization of bancassurance services has facilitated operations in insurance companies around the globe (Binet, 2012). Due to the cross-border listing of companies in Africa, bancassurance has eased the transactions of policies between the main insurance companies as well as the affiliated companies despite the distance and national restrictions (Jongeneel, 2011). With the liberalization of the insurance sector and competition tougher than ever before, companies are increasingly trying to come out with better innovations to stay ahead of their competitors (Vijay, 2006).

Low insurance penetration is one of the most notable challenges facing the performance of insurance companies in terms of market share, product diversification among other measures (Arunga, 2012). This is because insurance market in Kenya has remained obscure for the longest time since most customers believe a majority of insurance companies are fraudsters. Most customers have little or no information concerning insurance products available and suitable to them. There exists a significant market that is in excess of Sh200 billion that would significantly aid the performance of insurance companies if they were to take advantage of the benefits accorded through the implementation of bancassurance (Karanja, 2011).

IRA has lauded bancassurance as the way forward in raising insurance penetration in Kenya (Binet, 2012). Although several studies have been carried out in the banking sector, for example Mwangi (2010) investigated the success of bancassurance and found that there was increase uptake and ease of access of all products under one roof. AKI (2010) recommended the need to use alternative distribution methods like bancassurance, website, worksite marketing, telephone marketing and partnering with non-governmental organizations to enhance insurance penetration. Mwiti (2013) found significant influence of bancassurance in performance of commercial banks in Kenya.

In summary both empirical and theoretical recommendations have yielded mixed results on the effect of bancassurance in insurance performance. In Kenya most of the studies have drawn most of the respondents from the banking sector which limits the applicability of findings in insurance sector. Further, most of these studies have shortcomings on the methodological approaches for data analysis and the choice of small sample sizes which may not be true representatives of the study population. Moreover, none of the studies segregated bancassurance into life, motor vehicle and property insurance. It is against this backdrop the current study sought to examine effect of bancassurance in insurance performance.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study was to analyze the effect of bancassurance on the performance of insurance companies in Kenya.

1.3.2 Specific Objectives

i. To determine the effect of bancassurance life insurance products on the performance of insurance companies in Kenya.
ii. To assess the effect of bancassurance motor vehicle products on the performance of insurance companies in Kenya.

iii. To find out the effect of bancassurance home and property insurance products on the performance of insurance companies in Kenya.

1.4 Research Questions

i. Do bancassurance life insurance products affect the performance of insurance companies in Kenya?

ii. What is the effect of bancassurance motor vehicle products on the performance of insurance companies in Kenya?

iii. What is the effect of bancassurance home and property insurance on the performance of insurance companies in Kenya?

1.5 Significance of the Study

1.5.1 Scholars and Academicians

To scholars and academicians, this study will increase the body of knowledge in understanding bancassurance and how it impacts on the performance of insurance companies in Kenya. The study will also suggest areas for further research for the scholars.

1.5.2 Government Institutions

The study is important to the government institutions especially to Central Bank of Kenya, Insurance Regulatory Authority and Kenya Bankers Association as it provides material information about the effect of bancassurance on the performance of insurance companies in Kenya. This will enable IRA to reach out to supportive regulation that will increase the penetration of insurance products in the country from 3% currently to a significant figure.

1.5.3 Insurance Companies

The need to have a vibrant Kenyan economy cannot be left out without the insurance services, though the nationwide coverage of insurance services is less than 3% of the total population. This study will highlight key areas for insurance companies to consider that will promote their performance and increase in penetration more so in the rural Kenya.

1.6 Justification of the Study

Bancassurance is very critical to the growth and development of insurance companies around the world, Kenya being part of it. This is because bancassurance services affect the company performance of such companies amid the greater influence of competition in the industry. The insurance companies in Kenya are for the idea of the bancassurance services due to its importance and convenience. Bancassurance brings an effective notion that can give a company a competitive edge in both the insurance and banking industries in terms of service completion and closing of financial deals (Peng, 2010). Companies need to improve their performance as per the demands and dynamisms of technological advancements. Bancassurance has helped the insurance firms in improving the clients' base and sales of its products and in the creation of convenience. So the correlation between bancassurance and company performance should be observed keenly by companies that are operating in the insurance companies.

1.7 Scope of the Study

The study aimed at analysing the effect of Bancassurance on the performance of insurance companies in Kenya. Data was collected from employees of the 55 licensed insurance companies in Kenya. This study examined to what extent insurance performance is affected by bancassurance life insurance, bancassurance motor vehicle insurance and bancassurance home and property insurance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the analysis of relevant research literature to analyze the effects of bank insurance and performance of insurance firms. The theoretical review, the empirical review and conceptual framework of the relevant variables under the study have been analyzed.

2.2 Theoretical Review

Theoretical review consists of concepts plus their definitions on the theories and paradigms used in the research. According to Mugenda (2003), a theory is a set of statements that explain a group of facts or phenomena in which there exist a repeatedly tested or is widely accepted predictions about natural phenomena. This study on the effect of bancassurance and performance of insurance corporations will involve analyzing significance bank and insurance theories and key concepts.

2.2.1 Theory of Push and Pull in Bank Insurance

The theory of push and pull was first developed by Fredrick Winslow in 1911. This was during the days when the Principles of Scientific Management were being developed. Due to globalization, technology transfer, growing demand in property insurance, motor vehicle insurance and life insurance in today's market, insurance companies are pushing solutions via bank insurance services. Currently, majority of the insurance companies are driving their market share by embracing push model rather than pull model. The push concept is a process whereby the insurance entities and banks provide information and solutions in a generally accessible format. It involves taking the products directly to the customer which ensures that they are aware of your brand at the point of purchase.

The push model allows the policy holders and potential clients to determine what best suits their needs from the insurance companies. One of the base assumptions about pushing solutions to motor insurance, property insurance and life insurance to clients is that the insurance companies or banks can be in a vital position to anticipate the needs of different policy holders and potential customers in advance of the need and prepare the solution ahead of time (Hagen, 2008).

This theory is relevant to the insurance entities and banks in that it emphasizes on the push factor with the aim of minimizing the amount of time between a customer discovering an insurance product and buying that product which tend to increase their business efficiency in the market. They believe that if, for instance, they create the penultimate user manual that they will cover all of the questions the insurance customer might have, they will limit the amount of contact the customer needs to make to the insurance companies and bank separately. Applying push model in the insurance organization can limit some of the areas for which service is provided which again might provide efficiency in the training of support personnel (Arunga, 2012).

This model has become more difficult to implement as most insurance organizations are finding that they may be sacrificing effectiveness for the efficiency. Pulling solutions has always been a part of most insurance firms where customers come to purchase insurance products being advertised. A customer would visit the banks or insurance providers and ask questions and someone would answer them. In the case of "pull," the customer decisiveness into making choices on their wants reduces the cost involved in accessing such services or products. This is being used more often as consumers have begun to distrust the solutions provided directly by organizations and wish to do the research themselves. This elaborates on the adoption of bancassurance services by different clients in motor, property and life. This model requires the business or organization to provide as much materials as possible in as many formats as possible and hope that the customer discovers the solution (Everis, 2009). The push approach is efficient from the customer's or the organizations point of view.

2.2.2 Marketing Mix Theory

Marketing mix theory was set forward by Borden (1940) and defines the ingredients of marketing mix to include personal selling, planning, promotions, packaging, distribution, branding and the distribution channels. This led to grouping of these ingredients into the four categories that today are known as the four P's of marketing which consists of product, price, place and promotion. These four P's are the parameters that the marketing manager in insurance sector can control in any firm, subject to the internal and external constraints of the marketing environment of bancassurance. The goal is to make decisions that centre the four P's on the customers in the target market in order to create perceived value and generate a positive response.

The marketing mix framework is particularly useful in the early days of the marketing concept when physical products or services are represented in a larger portion of the economy, these include property market, motor vehicles and life assurance. Today, the insurance marketing scope is more integrated into organizations and with a wider variety of products and markets that can increase from 3% to a double-digit percent (Jongeneel, 2011).

The theory of market mix shades merit to bancassurance in that there is unprecedented support through extending market combination by involving insurance companies and bank services. This market mix integrates banking and non-banking financial institutions to carry out financing activities that gives customers more confidence. The partnership between Jubilee Insurance and Rafiki Bank to provide bancassurance services yielded a mix of products under one roof to bank members. Mostly, non-banking institutions mobilize the public savings for rendering other financial services including investment (Pandey, 2005). All such Institutions are financial intermediaries and when they lend, they are known as Non-Banking Financial Intermediaries (NBFIs) or Investment Institutions such as UAP, ICEA Lion Group, Invesco among others.

Financial institutions that largely comprise of commercial Banks have devised varies product and services to suit the changing needs and demands from their clients. They provide corporate services intended to meet specific user preferences. This customization may include deposits and credit services given that the core role of banks is the provision of financial and non-financial services. Financial services includes accepting cash, cheque deposits and provide credit services while non-financial services mainly involve training, custodian of legal certificates and precious properties. The insurance sector is another major component of the non-banking financial sector. It provides security by reducing risk and promotes the welfare of the people (Pandey, 2005). The funds collected by it in the form of premium are invested productivity; they provide long term capital to the industrial sector thereby helping in industrialization of the economy. Despite its limitations and perhaps because of its simplicity, the use of this framework remains strong among banks and insurance providers.

2.2.3 Concept of Insurance Bank Distribution Channels

The insurance and banking industry has changed rapidly in the changing and challenging economic environment throughout the world. Time has come to choose and adopt appropriate market penetration channels through which insurance companies can get the maximum benefit and serve customers in manifold ways (Manocha, 2009). The intermediaries in the insurance business and the distribution channels used will perhaps be the strongest drivers of growth in this sector.

Many firms prefer to distribute their services and policies directly to the final customer in the market as a way of encircling a complete control over market penetration and growth, this enables them to serve target customers at a lower cost and work more effectively than the middlemen. Further, working with independent middlemen with different objectives can be troublesome (Dionne, 2009). If a firm is in direct contact with its customers it is more aware of changes in customer and their attitudes hence it is in a better position to adjust its marketing mix and product push quickly because there is no need to convince other channel members to help. Strategic alliances offer an opportunity for companies to collaborate in doing business thereby overcoming individual disadvantages (Swiss, 2007).

The strategic joint effort of banks and insurers to provide insurance services to bank's customers is an emerging concept that is growing globally and more so in the developing nations. The number of Kenyans with insurance is dismal and the industry has barely scratched the surface in terms of potential earnings. Majority of the insurance companies have and are utilizing bancassurance effectively as a distribution strategy by partnering with banks like Faulu Bank and UAP, Equity, Co-operative, NIC and KCB among others.

2.3 Empirical Review

Empirical review consists of already published documents and reports by other scholars. It includes direct citations from content source like books, journals, insurance reports and publications (Zikmund, 2010).

2.3.1 Bancassurance Life Insurance Products and Performance of Insurance Companies

Life insurance is a way of creating an immediate estate for one's dependents. Insurance companies are financial institutions that function in the economy as part of the financial service industry. The industry is made up of banks, building societies, insurance brokers, pension funds, fund management companies, stock brokers, real estate companies, savings and credit societies etc. It has an important effect on the performance of Kenya's economy contributing approximately 11% of the Gross Domestic Product (GDP) with insurance contributing 3% to the GDP (IRA, 2012).

Insurance promotes financial stability of individuals, families, and organizations by indemnifying those who suffer loss or harm.

An investigation on the role of bancassurance in Indian life insurance business was carried out by Paramasivan and Naidu (2014). The study adopted descriptive research design to understand the role of bancassurance, customer awareness, satisfaction, awareness and perception towards life insurance. Through SWOT analysis the study revealed despite huge uninsured population, innovative products development and cheaper channels of distribution there were low levels of consumers' awareness, inflexible products development, heavy premiums and negative perception towards insurance products. Since there was a new target population of 70%, trusted banking channel distribution approach and positive response towards new products showed that there was need to develop innovative methods of selling insurance products, motivate employees to distribute insurance products and create investment options to draw more customers.

An investigation on the effect of bancassurance on the performance of insurance firms in Kenya was carried out by Chepkoech and Omwenga (2016). The study hypothesized that bancassurance had significant influence on liquidity, profitability and customer base. In this study descriptive research design was adopted, primary data collected through use of questionnaires and simple random sampling was used to select 87 respondents who hailed from 10 insurance companies. Descriptive and regression analysis were used to analyse the data. Results of the study revealed positive and significant relationship between bancassurance and customer base, liquidity and profitability. It would have been appropriate to adopt exploratory factor analysis prior to regression analysis. The use of a sample of 87 may not have been a true representative of insurance beneficiaries of bancassurance products. Since insurance companies have differentiated products it would have been appropriate to have its influence on specific insurance products.

An analytical investigation was carried out on the influence of life insurance in relation to bancassurance by Verma and Balla (2012), the study specifically explored factors such as low insurance penetration, huge untapped market, increasing population growth and financial liberalization. By adopting panel research design the study drew secondary data from annual financial records, the study findings revealed significant influence of Indian economy and financial regulators. The study concluded on the need to have a consensus on policies geared towards increasing insurance penetration as such to yield a win-win situation to both service providers and regulators. It would have been appropriate to carry out both short run and long run relationships examination. Moreover, diagnostics tests ought to have been carried out prior to fitting the hypothesized model.

2.3.2 Bancassurance Motor Vehicle Products and Performance of Insurance Companies

The motor vehicle insurance products are the most form of embraced policy in the insurance market, due to liability and government policy in which every motor vehicle owner must be insured. Through the years, it has been noted that there exists cut-throat competition in the insurance industry. In specific, motor vehicle comprehensive insurance rates have been changing over the years. In 2007, the rate employed on motor vehicle comprehensive insurance was 7.5% of the motor vehicle value, whereas in 2014, this rate had gone as low as 3.5% of the motor vehicle value. In contrast, the motor vehicle third party insurance rates have been constant at a rate of Ksh 2,500 per month for a small vehicle and Ksh 7,500 per year for the same motor vehicle. Premium pricing especially for the motor vehicle class of insurance is not risk based and hence not in tandem with insurable risk for example expected claims.

An empirical examination on the effects of bancassurance in performance of insurance companies in Kenya was carried out by Nyawiri and Muoni (2015). Specifically, the study sought to examine the effect on employee skills, revenue growth, customer base and competition. The study hypothesized that through exploitation of an already existing customer database insurance companies are able to gain competitive edge on their product lines, retain and attract more customers and increase their revenue base. By adopting descriptive research design, purposive sampling and use of questionnaires the study collected primary data from employees hailing from Jubilee, CIC and UAP insurance from their respective marketing department. Descriptive and inferential statistics revealed that bancassurance had significant effect on revenue growth, customer base and competitive advantage. It would have been paramount to adopt both exploratory factor analysis and regression analysis instead of chi square test to examine the effect. Through regression analysis it would have been possible to show the nature of the effect. It would have been appropriate to adopt both simple and cluster sampling instead of purposive sampling to draw the respondents as such to give all respondents equal chances of being selected and scientifically select them depending on insurance size as per employee numbers.

Dionne (2009) isolates the major risk management problems in motor vehicle as lack of incentive contracts in the presence of informational asymmetry, poor valuation of structured products by rating agencies, poor pricing of complex financial products and poor regulation of structured finance. Kuzrima (2007) concluded by saying that motor vehicle risk management includes minimizing the risk as well as maximizing the firm’s value. Companies and motor vehicle owners can use internal activities to protect themselves from risk that will also be beneficial to insurance companies; however, the risk positions of motor vehicle to insurance company exposes their customers to a great risk despite the institutions intending to increase their return.

Kiptis and Wanyoike (2016) investigated the relationship between bancassurance and financial performance of insurance companies in Nakuru town. By adopting descriptive research design, simple and purposive sampling to select 180 employees hailing from 8 commercial banks, further, structured questionnaires was used to collect primary data. Both descriptive and regression analysis were used to analyse the data. Results of the study revealed that bancassurance had significant influence in performance of commercial banks in Kenya. It would have been appropriate to segregate bancassurance products into different insurance products services and evaluate independent influence of each product. Since this is a strategic move to distribute insurance it would have been paramount to evaluate its influence on level of information asymmetry in motor vehicle related products.

Kamau, Karimi and Kinyanjui (2016) examined the nexus between bancassurance awareness and performance of commercial banks in Kenya. The study used descriptive research design, simple random sampling to select 288 respondents hailing from 12 commercial banks which had adopted bancassurance. Primary data was collected through use of structured questionnaire. Both descriptive and regression analysis were used to analyse the data. Results of the study revealed a positive and significant relationship between bancassurance awareness and performance of commercial banks. This study was in support of financial intermediation theory and it lowered transaction cost and minimized risk exposure since information asymmetry was evaluated through use of existing database. Although, the study investigated the nexus of bancassurance it would have been paramount to evaluate the effect of bancassurance on specific type of insurance policy offered.

2.3.4 Bancassurance Home and Property Insurance products and Performance of Insurance Companies

Property is an alternative investment which does not possess the risk and returns characteristics of traditional investments such as quoted shares and fixed income and are therefore used to diversify investment portfolios (McKeown, 2008). Property investments include both land and permanent fixtures such as buildings that categorically falls within home property. The gains from property investments contribute to the overall investment income of an insurance company.

Investment income is one of the two major components which contribute to the overall profit before tax on the income statement of an insurance company with underwriting profit from insurance operations being the other. During periods of low housing investments margin performances, it is essential that the investment income generated through property and other asset classes are sufficient to make up for the underwriting losses for insurance companies. Everis (2009) notes that insurance companies with large asset bases report more investment income, gains through property investments and as a result a higher amount of profits before tax compared to smaller firms. Investment income for these larger firms takes up a larger portion of the overall profits compared to underwriting profits which are generated purely though insurance business.

An examination of the factors influencing demand of corporate insurance in Iran was carried out by Sehhat and Kalyani (2011). By adopting panel research design, secondary data was retrieved from annual financial statements on hypothesized factors which were “transaction costs, expected bankruptcy costs, tax optimization, firm size and share ownership, debt to asset ratio (leverage), under-investment and type of industry”. Results of the study revealed that there was a significant relationship between firm size, transaction costs and insurance uptake. To minimize operational costs the study recommended adoption of alternative distribution methods which are geared towards minimization of operational costs.

Kiyak and Pranckevičiūtė (2014) carried out causal survey on purchase of non-life insurance in Lithuanian. By adopting descriptive research design, primary data was collected through use of structured questionnaires. Simple random sampling was used to select a sample of 420 respondents. Descriptive analysis, Pearson Chi-square test and Crammers V were used to analyse the data. Results on the study revealed that the purchase of insurance products is inhibited by high costs and unclear set conditions. Further, the results of the study revealed there was no significant relationship between decisions to be insured and knowledge to understand pricing of insurance products. The study recommended the purchase of insurance products can be intensified through improvement on distribution networks.

An investigation of the determinants of flood insurance purchase amongst home owners in Malaysia was done by Aliaga et al. (2014). Through, discriminant analysis the study revealed that the choice of insurance product was mainly influenced by flood risk exposure, subjective risk perception and socio-economic factors. The main determinants of purchase of insurance was mainly influenced by flood exposure, it was recommend that to intensify the uptake of insurance products there was need to improve on the channels of distribution. Through alternative channels of distribution such as bancassurance it would be easier to evaluate the risk exposure by use of past history in financial services access.

2.4 Knowledge gap

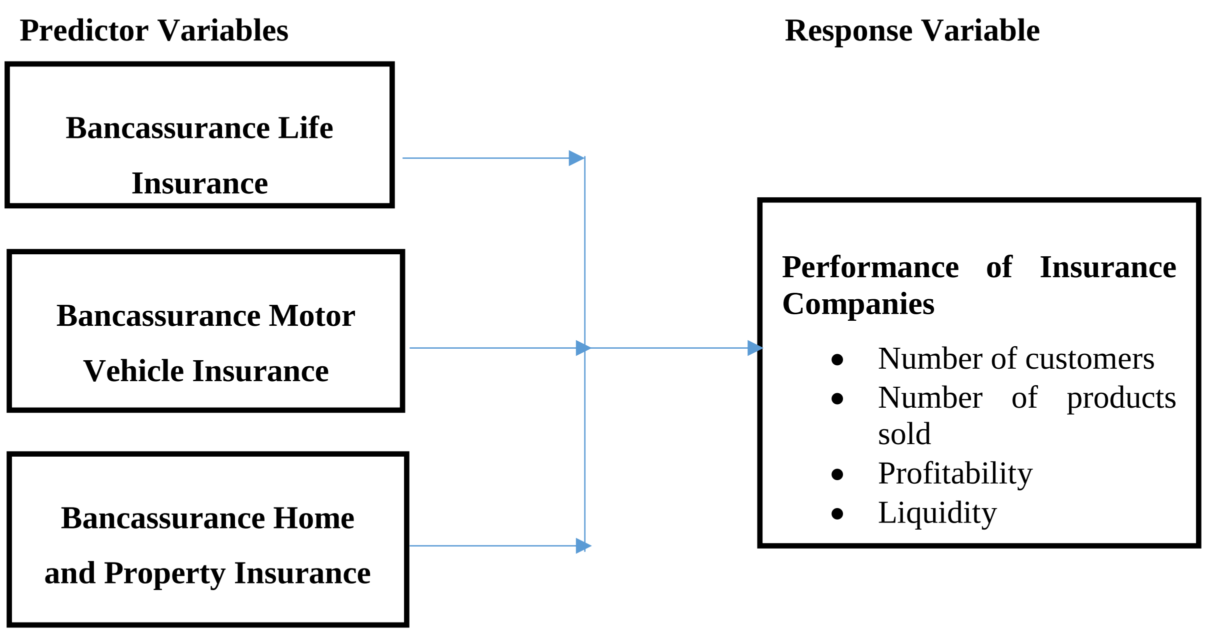
From the foregoing review of relevant literature, it is evident that research in the area of bancassurance on performance of insurance companies has been done but not in a comprehensive approach. All the literature reviewed indicates that previous researchers concentrated on a few variables of bank insurance while this study covers additional important variables that were not extensively reviewed by some of the previous studies like bancassurance life insurance, bancassurance motor vehicle insurance and bancassurance home and property insurance. From the analysis of relevant literature, it has been found that there are few studies specific to bank insurance and how they impact on the performance of insurance companies in Kenya. The study therefore intends to fill the knowledge gap in literature by studying the effect of bancassurance on the performance of insurance companies in Kenya.

2.5 Conceptual Framework

This is schematic diagram that shows the relationship between the independent variables and dependent variable. According to Kothari (2004), it constitutes an important milestone in the understanding of the conceptualization process. Thus the conceptual framework shown below provides basis of parameters to determine the variable relationship.

Figure 1

Conceptual Framework



2.6 Chapter Summary

Bancassurance involves a prearranged form of model integration between an insurance company and bank institution where by a bank selling insurance products manufactured by insurance subsidiaries that are owned by the bank, either through its own distribution channels or through outside agents (Yuan, 2011). Over the years, the insurance and banking industry have changed. Some theories and insurance concepts have been presented to support bank insurance based on the operating circumstances in the market to support on the penetration of insurance cover. Different models have been embraced which include; theory of push and pull in bank Insurance, marketing mix and insurance distribution through bank channels. The time has come for the industry to gradually move from the traditional individual agents towards new distribution channels with a paradigm shift in creating awareness and not just selling products as evidenced by the given empirical review on life insurance, motor vehicle insurance, home and property insurance. This chapter has presented literature review that was skewed on bancassurance and its impact on performance of insurance companies.

2.7 Operationalization

Table 1

Operationalization

Independent variables	Indicators	Measuring Scale
Bancassurance life insurance	Child Education Policy Individual Life Assurance Family Life Assurance Group Life Assurance Salary Protection	Ordinal Scale – by use of questionnaires that reflects on to the views of respondents in a likert scale
Bancassurance motor vehicle insurance	Personal Vehicles Insurance Public Service Vehicles Insurance Heavy Transport Vehicles Insurance	Ordinal Scale – by use of questionnaires that reflects on to the views of respondents in a likert scale
Bancassurance Home and property insurance	Fire Insurance Theft Insurance Terrorism Insurance	Ordinal Scale – by use of questionnaires that reflects on to the views of respondents in a likert scale

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that was adopted in carrying out a research study to establish the effects of bancassurance on the performance of insurance companies in Kenya. The chapter entails research design, population of study, data collection instrument and finally the data analysis.

3.2 Research Design

Research design is a guide to the process of data collection, data analysis, interpretation of the findings via dialect and inference on the data relations (Mugenda, 2008). The study adopted a descriptive research design to describe the relationship between independent variables and dependent variables (Gay & Airasian, 2003). Descriptive research design defines the phenomenon in their natural context in descriptional terms like when, how why, where and who (Mugenda, 2008). Descriptive design showed the correlation between bancassurance life insurance products, bancassurance motor vehicle products and bancassurance home and property products with the performance of the insurance companies.

3.3 Target Population

Mugenda and Mugenda (2003), defines population as people, elements, group of things, or an event under investigation. According to Cooper and Schindler (2003), a target population is a population having the desired information. In addition, target population is defined as the population to which the researcher wants to generalize the results of the study. The target population was 550 employees who were to be drawn from the 55 listed insurance companies in Kenya.

3.4 Sample Size and Sampling Procedure

A sample size is the exact number of elements that will be subjected to research questions (Kothari, 2011). For this study, the sample size was 106 respondents that included employees working in insurance companies. Simple random sampling technique was used to determine the number of respondents to be considered in the study. The following formula as given by Kothari (2011) was used to calculate the sample size.

$$n = \frac{(Z^2 pq)}{d^2}$$

Where:

n = the desired sample size when the target population is < 10,000.

z = standardized normal deviations at a confidence level of 95% which was 1.96.

p= the proportion in the target population that assumes the characteristics being sought. In this study, a 50: 50 basis was assumed which is a probability of 50% (0.5).

q = The balance from p to add up to 100%. That is 1-P, which in our case was 1- 50% (0.5).

d = Significance level of the measure, was 0.095.

As such the sample for this study was derived as follows:

$$n = \frac{(1.96^2 * 0.5 * 0.5)}{0.095^2} = 106.$$

3.5 Data Instrumentation

In order to establish the effects of bancassurance on the performance of insurance companies, self-administered drop and pick questionnaires was distributed to the management staff working in the insurance companies headquarters in Nairobi. Primary data was be collected by use of questionnaires that was designed to establish the effect of bancassurance on the performance of insurance companies. The questionnaires were be semi-structured to contain both open-ended and closed-ended questions.

3.6 Data Collection

The questionnaires were distributed to the respondents through direct hand delivery to designated management staffs to each insurance company headquarter in Nairobi. They were requested to fill the questionnaires within five days.

3.7 Validity and Reliability of Research Instruments

Validity is defined as the ability of the research instrument to provide accurate information and valid solutions (Kothari, 2004). The essence of validity is to help the writer or the researcher not to be out of the context and to utilize data collection instruments appropriately to get valid information needed in the study. To establish the validity of the research instrument, the researcher sought the opinions of the respondents who are in insurance companies and those in banking sector too. This helped to modify research instruments in line to the guidelines given by those in the insurance companies.

Reliability refers to the extent to which assessments are consistent under similar circumstances of research study in the same business environment (Kothari, 2004). In the research, developed questionnaires were sent to selected sample respondents and then the information provided was evaluated to assess on the reliability.

3.8 Data Analysis

Data analysis involved data entry, data sorting and interpretations of the results, after the questionnaires had been obtained from the respondents. Completed questionnaires were edited by scrutinizing to ascertain some areas that may not have been addressed by respondents. The qualitative analysis was used to analyze the respondents' views about the effect of bancassurance on the performance of insurance companies. The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Mugenda & Mugenda, 2003). It involves observation and detailed description of objects, items or things that comprise the object of study.

The data collected under the questionnaire was analyzed using descriptive statistics. The data was entered and coded into the Statistical Package for Social Sciences (SPSS version 20). The basis of using descriptive measure was to give a basis for determining the weights of the variables under the study. The study findings were presented using tables, pie charts, and bar graphs for easier interpretation of the results. The study also used a multi-linear regression model in analyzing the effect of bancassurance on performance of insurance companies. The regression model was specified as follows.

The regression equation; $y = \beta_0 + \beta_1 BLP + \beta_2 BMP + \beta_3 BHPP + \epsilon$: Whereby

y = Performance of insurance companies

$\beta 0$ = Constant term

β_1, β_2 and β_3= Beta coefficients,

BLP = Bancassurance Life Insurance products

BMP = Bancassurance Motor Vehicle products

BHPP = Bancassurance Home and Property products

ϵ= Error term

3.9 Diagnostic Test

Normality test was carried out to test whether data was normally distributed or not. A standard normal distribution of data is obtained when mean is 0 and standard deviation is 1.

Multicollinearity test was carried out to find out whether the independent variables are correlated with each other. Variance Inflation Factor (VIF) was used to assess how much the variance of an estimated regression coefficient increases if the independent variables are correlated. When VIF is greater than 10, it shows there exists multicollinearity.

CHAPTER FOUR

ANALYSIS AND FINDINGS

4.1 Introduction

In the current chapter primary data which was collected through use of closed ended questionnaire will be presented. The analysis is arranged as per the study objectives and both descriptive and inferential statistics were used to analyse the data and presented inform of figures and tables.

4.1.1 Response Rate

Although, 106 questionnaires were issued only 95 were collected filled and returned and they formed 90% response rate. The response rate was appropriate since according to Kothari (2011), if a response rate exceeds 70% then it is appropriate for the study.

Table 2

Response Rate

Questionnaire	Frequency	Percentage
Returned	95	90
Non returned	11	10
Total	**106**	**100**

The reliability of an instrument refers to its ability to produce consistent and stable measurements. The most common reliability coefficient is the Cronbach's alpha which estimates internal consistency by determining how all items on a test relate to all other items and to the total test - internal coherence of data. The reliability is expressed as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test. In order to ensure the reliability of the research instrument, the Cronbach's Alpha was used in this study. The findings indicate that life insurance products had a coefficient of 0.775, motor vehicle insurance products had a coefficient of 0.768, home and property products of 0.709 and insurance performance of 0.875. All constructs depicted that the value of Cronbach's Alpha are above the suggested value of 0.7 thus the study was reliable.

Table 3

Validity of the Research Instrument

Variables	**Number of items**	**Reliability Cronbach's Alpha**	**Comments**
Life Insurance Products	5	0.775	Accepted
Motor Vehicle Insurance Products	3	0.768	Accepted
Home and Property Products	3	0.709	Accepted
Insurance Performance	4	0.875	Accepted

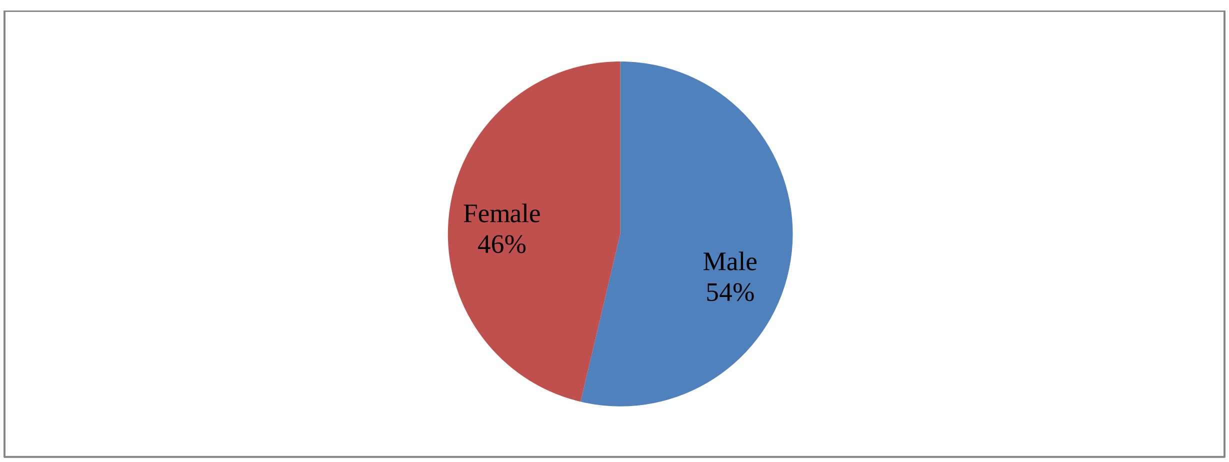
4.2 Background Information

4.2.1 Gender of the Respondents

Out of the 95 respondents who fully filled and returned their questionnaires, Majority (54%) were male while the remainder (46%) were female as shown in Figure 2. Gender balance was fairly observed giving the study a fair perspective based on gender.

Figure 2

Gender



4.2.2 Level of Education

The researcher sought the level of education. As per the Table 4, majority (41%) of the respondents had studied up to university degree, 27% had masters and beyond while 32% had education up to college diploma & professional. This shows that responded were well informed to answer the questions under study.

Table 4

Level of Education

	Frequency	Percent
College Diploma & Professional	30	32
University Degree	39	41
Masters and Others	26	27
Total	**95**	**100**

4.2.3 Experience in the Insurance Industry

As realized from Table 5, many respondents (33%) had worked in the insurance industry for a period between 3 to 5 years, 24% had a 1 to 2 years' experience in the industry while 22% of the respondents had experience of between 6 and 9 years and only 21% had over ten years. This implies that many had experience that could be instrumental in the industry.

Table 5

Experience in the Insurance Industry

	Frequency	Percent
1 – 2 years	23	24
3 - 5 years	31	33
6- 9 years	21	22
Over 10 years	20	21
Total	**95**	**100**

4.2.4 Age of the Respondents

The age of the respondents was again sought. From Table 6, 45% (n=43) aged between 36 to 45 years, followed by 26% who were above 46 years. This shows the insurance company is dominated by people who have continuously underwent insurance product development since they may have worked in the insurance sector for long.

Table 6

Age

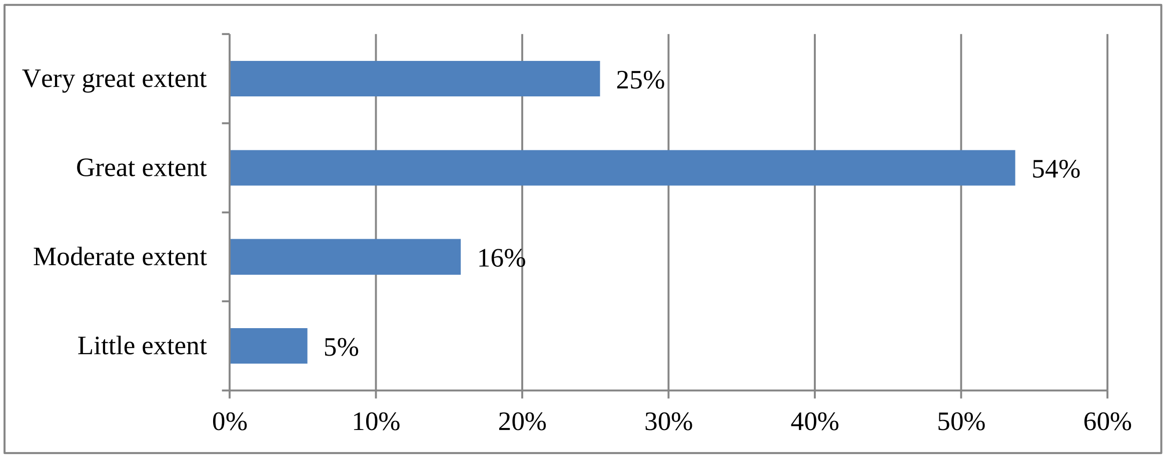
	Frequency	Percent
Less than 25 years	16	17
26 - 35 years	11	12
36 - 45 years	43	45
Over 46 years	25	26
Total	**95**	**100**

4.2.5 Effect of Bancassurance on Performance of Insurance

Respondents rating of the extent into which bancassurance affect performance of insurance companies was also asked. Most of the respondents (54%) said it is to a great extent, 25% responded that it affects insurance performance to a very great extent, 16% thought it had a moderate effect while only 5% saw it to have a little effect as summarized in Figure 4.2. By owning to the recent banking development platforms such as mobile banking, bancassurance should develop products which won't require traditional banking platform and this will increase insurance companies' performance.

Figure 3

Effect of Bancassurance on Performance of Insurance

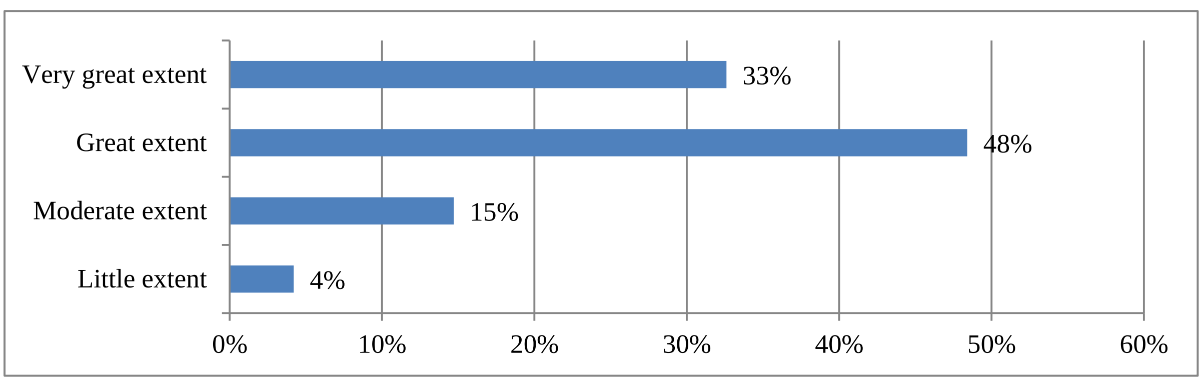


4.2.6 Extent to Which Bancassurance is Promoted

Further, respondents were asked to rate the extent into which organisation promotes bancassurance. Most of the respondents (48%) stated it is to a great extent, 33% to a very great extent while 15% and 4% were for moderate extent and little extent respectively as shown by Figure 4.3. Insurance companies promote bancassurance to a great extent in order to attract customers. This would increase the penetration rate of insurance products and revenue generation and consequently maximize profit.

Figure 4

Extent to Which Bancassurance is Promoted



4.3 Descriptive Analysis on Bancassurance Life Insurance Products

In line with the first objectives which sought to determine the effect of bancassurance life insurance products on the performance of insurance companies in Kenya, respondents were probed for the level of extent into which different bancassurance life insurance products affect performance. Their extent was probed on five-point Likert scale and summarized in Table 4.5. To begin with, child education policy was found to influence performance to a great extent (48.4%), to very great extent (24.2%) while 11.6% and 12.6% were of the view that it influenced performance to a moderate and little extent respectively. Secondly, individual life assurance influenced performance to great extent was seconded by 42.1% of the respondents while 29.5% said it was to a very great extent with a mean of 3.8 and a standard deviation of 1.2. Thirdly, slightly more than a half of the respondent (50.5%) saw family life assurance to affect performance to a great extent, 29.5% to very great extent and 13.7% to a moderate extent. Fourth, a third of the respondents (32.6%) choose to a great extent the level in which group life assurance impact performance of insurance firms, 26.3% to very great extent, 25.3% to a moderate extent while 11.6% and 4.2% said it was of little extent and no extent respectively.

Finally, with regard to extent in which salary protection influence performance, a third said it was to great extent, 23.2% to a moderate extent, 21.1% little extent while 15.8% to a very great extent and 5.3% to a no extent. Overall respondents perceived bancassurance life insurance to have a great extent on performance of insurance firms (mean=3.7 and standard deviation 1.1).

From the findings, it can be deducted that the most common life insurance product is family life assurance with a mean of 4.0 and standard deviation of 0.9. This was attributed to the virtue that it is a comprehensive package with child education policy and individual life assurance.

Table 7

Descriptive Analysis on Bancassurance Life Insurance Products

	Percentage (n=95)						
	No extent	**Little extent**	**Moderate extent**	**Great extent**	**Very great extent**	**Mean**	**Std. Deviation**
Child Education Policy	3.2	12.6	11.6	48.4	24.2	3.8	1.1
Individual Life Assurance	8.4	9.5	10.5	42.1	29.5	3.8	1.2
Family Life Assurance	2.1	4.2	13.7	50.5	29.5	4.0	.9
Group Life Assurance	4.2	11.6	25.3	32.6	26.3	3.7	1.1
Salary Protection	5.3	21.1	23.2	34.7	15.8	3.4	1.1
Overall Average						**3.7**	**1.1**

4.3.1 Descriptive Analysis on Bancassurance Motor Vehicle Products

Secondly, the study sought to assess the effect of bancassurance motor vehicle products, in the performance of insurance companies in Kenya. To achieve it, the respondent's opinions were probed in a five-point Likert scale in the extent to which it affected. Majority 34.5% perceived personal vehicle insurance to be having very great extent, followed by 15.8% who perceived it to have either moderate or little extent. Secondly, majority 36.8% perceived public service vehicles insurance to have great extent in insurance company performance while 29.5% perceived it to have great extent. Moreover, 33.7% perceived heavy transport vehicles insurance to have very great extent in insurance performance. In overall the respondents perceived bancassurance motor vehicle products to have great extent in insurance performance (mean = 3.7, standard deviation = 1.2).

From the findings, public service vehicles insurance and heavy transport vehicles insurance are highly purchased with a mean of 3.8. The premium paid is higher than that of personal vehicle insurance which may be caused by the need for loan financing from the specific bank.

Table 8

Descriptive Analysis on Bancassurance Motor Vehicle Products

	Percentage (n=95)						
	No extent	**Little extent**	**Moderate extent**	**Great extent**	**Very great extent**	**Mean**	**Std. Deviation**
Personal Vehicles Insurance	8.4	15.8	15.8	25.3	34.7	3.6	1.3
Public Service Vehicles Insurance	5.3	3.2	25.3	36.8	29.5	3.8	1.1
Heavy Transport Vehicles Insurance	7.4	5.3	25.3	28.4	33.7	3.8	1.2
Overall Average						**3.7**	**1.2**

4.3.2 Descriptive Analysis on Bancassurance Home and Property Products

Thirdly, the study sought the assessment of bancassurance home property products effect in insurance company performance. Descriptive analysis revealed that majority perceived it to have great extent in insurance performance in Kenya (mean = 3.9, standard deviation = 1.2). Regarding fire insurance majority 37.9% perceived it to have great extent in insurance performance in Kenya. Further, majority 40% reported that theft insurance have great extent in insurance performance in Kenya and 10.5% perceived it to have little extent. Finally, majority 53.7% reported that terrorism insurance has great influence in insurance performance in Kenya and 30.5% perceived it to have great extent.

From the analysis, terrorism insurance affects insurance performance greatly with a mean of 4.3. There has been an increase in numbers of local and international companies in Kenya who are buying insurance against political risks and terrorism with insurance sales increasing.

Table 9

Descriptive Analysis on Bancassurance Home Property Products

	Percentage (n=95)						
	No extent	**Little extent**	**Moderate extent**	**Great extent**	**Very great extent**	**Mean**	**Std. Deviation**
Fire Insurance	8.4	13.7	7.4	37.9	32.6	3.7	1.3
Theft Insurance	9.5	10.5	10.5	40	29.5	3.7	1.3
Terrorism Insurance	7.4	8.4	0	30.5	53.7	4.3	0.9
Overall Average						**3.9**	**1.2**

4.3.3 Descriptive Analysis on Insurance Performance

To evaluate insurance performance a five point Likert scale was adopted to evaluate the level of agreement. Descriptive analysis as shown in Table 10 revealed that majority 53.7% strongly agreed and 36.8% agreed that the number of insurance products has increased since the introduction of bancassurance. Secondly, majority 51.6% agreed and 38.9% strongly agreed that the number of customers has increased since the introduction of bancassurance. Thirdly, majority 42.1% agreed and 25.3% strongly agreed that profitability of their insurance company has improved since the adoption of bancassurance. Finally, majority 50.5% agreed and 24.2% strongly agreed that liquidity of their insurance company has increased since the introduction of bancassurance. From the analysis, the number of insurance products has shown to increase since the adoption of bancassurance with a mean of 4.4 which has led to increase in insurance penetration.

Table 10

Descriptive Analysis on Insurance Performance

	Percentage (n=95)						
	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Mean**	**Std. Deviation**
The number of insurance products has increased since the introduction of Bancassurance	1.1	2.1	6.3	36.8	53.7	4.4	0.8
The number of customers has increased since the introduction of Bancassurance	0	3.2	6.3	51.6	38.9	4.3	0.7
Profitability of our insurance company has improved since adoption of Bancassurance	5.3	12.6	14.7	42.1	25.3	3.7	1.1
Liquidity of our insurance company has improved since adoption of Bancassurance	5.3	10.5	9.5	50.5	24.2	3.8	1.1
Overall Average						**4.1**	**0.9**

4.4 Inferential Statistics

Moreover, the inferential statistics which included correlation to examine the degree of association and regression to assess the nature of the relationship were carried out. Prior to regression analysis diagnostic tests were carried out. The level of significance was 5% and in cases where the p value was less than 0.05, the null hypothesis was rejected.

4.4.1 Correlation Analysis

Product moment correlation analysis was carried and results summarized as shown in Table 10. There was a positive and significant relationship between bancassurance life insurance products and insurance performance (rho = 0.585, p value <0.05). Secondly, there was a positive and significant relationship between bancassurance motor vehicle insurance products and insurance performance (rho = 0.813, p value <0.05). Thirdly there was a positive and significant relationship between bancassurance home and property insurance products and insurance performance (rho =

0.621, p value <0.05). Further, there was no multicollinearity amongst the independent variables since none of them had correlation coefficient greater than 0.8 with each other.

Table 11

Correlation Analysis

	IP	BLP	BMP	BHPP
IP	1			
BLP	.585**	1		
BMP	.813**	.274**	1	
BHPP	.621**	.305**	.632**	1

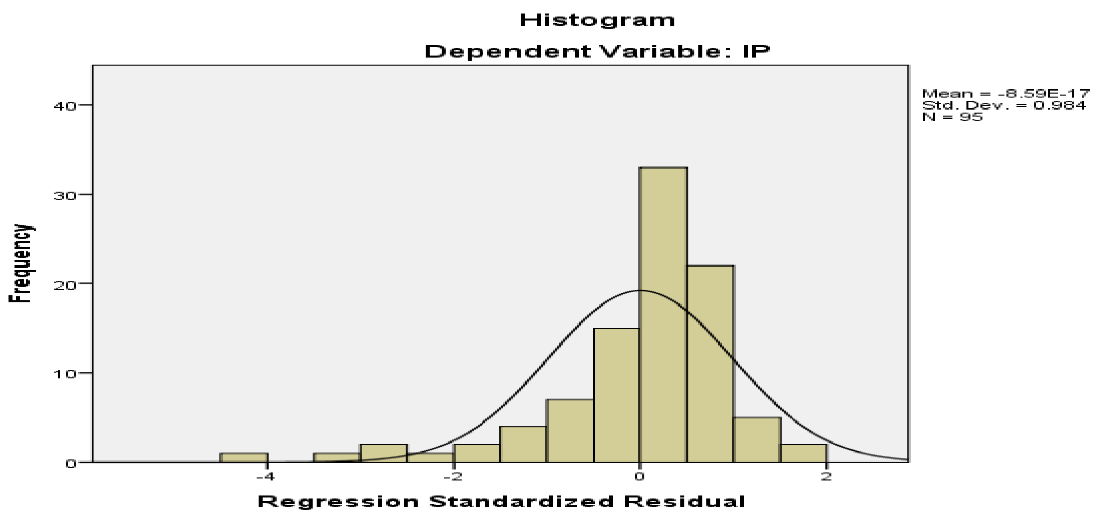
** Correlation is significant at the 0.01 level (2-tailed).

4.4.2 Regression Analysis

Regression analysis is based on normality, linearity, multicollinearity and autocorrelation assumptions. In the current study normality test was carried out using histogram, multicollinearity was tested using variance inflation factors and tolerance limits and autocorrelation was tested using Durbin Watson test statistics. The pictorial presentation in Figure 5 revealed that the data was normally distributed since the mean was zero and standard deviation was 1.

Figure 5

Normality Test



Results in Table 12 reveals that there was no collinearity between the independent variables since none of them had tolerance limits less than 0.1 and variance inflation factors greater than 10. Therefore, none of the three insurance products was dependent with each other.

Table 12

Multicollinearity Test

	Collinearity Statistics	
	Tolerance	**VIF**
BLP	0.90	1.12
BMP	0.59	1.69
BHPP	0.58	1.72

Regression model summary in Table 13 revealed that 81% of the changes in insurance company performance can be influenced by bancassurance related services in life insurance, motor vehicle insurance and home property products while the remaining can be accounted by other factors excluded in the model. Moreover, a close scrutiny of Durbin Watson coefficient revealed that there was no autocorrelation since it was 2.09 and within the range of 1.5 to 2.5 from which the data is said not to be autocorrelated (Baltangi, 2005).

Table 13

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.898a	0.81	0.80	0.45	2.09

a Predictors: (Constant), BHPP, BLP, BMP

b Dependent Variable: IP

Analysis of variance shown in Table 14 revealed that there was a joint significance between bancassurance life insurance products, motor vehicle insurance products and home and property products since the F statistics was 127.013 and p value <0.05.

Table 14

ANOVA

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	75.879	3	25.293	127.013	.000b
	Residual	18.121	91	0.199		
	Total	**94**	**94**			

a Dependent Variable: IP

b Predictors: (Constant), BHPP, BLP, BMP

Result in Table 15 shows the coefficients which depicts the nature of the relationship between study variables. From the table, there was a positive and significant relationship between bancassurance life insurance products and insurance performance (β= 0.39, p value <0.05). This implies that a unit change in bancassurance life products while holding bancassurance motor vehicle and bancassurance home and property products constant increases insurance performance by 0.39 units.

Secondly, there was a positive and significant relationship between bancassurance motor vehicle insurance products and insurance performance (β= 0.648, p value < 0.05). This implies that a unit change in bancassurance motor vehicle products holding other factors constant increases insurance performance by 0.648 units.

Thirdly, there was a positive and insignificant relationship between home and property insurance products and insurance performance in Kenya. This implies that a unit change in bancassurance home and property products holding other factors constant increases insurance performance by only 0.096 units.

Table 15

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.052	0.046		-1.133	0.26
	BLP	0.39	0.05	0.377	7.758	0.000
	BMP	0.648	0.06	0.648	10.847	0.000
	BHPP	0.096	0.06	0.096	1.594	0.114

a Dependent Variable: IP

The regression equation can therefore be written as;

y = -0.052 + 0.39BLP + 0.648BMP+ 0.096BHPP

Whereby:

y = performance of insurance companies

-0.052 = Constant term

BLP = Bancassurance Life Insurance

0.39 = Coefficient of BLP

BMP = Bancassurance Motor Vehicle

0.648 = Coefficient of BMP

BHPP = Bancassurance Home Property

0.096 = Coefficients of BHPP

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter briefs on the results as found in the previous chapter followed by the discussions of these results as compared with other past studies that have covered similar topic in other areas. A conclusion is then made based on the findings and research questions sought by the study. At the end of it all recommendations are made as per the findings as well as suggestion for areas that can be further studies can be conducted.

5.2 Discussions of the Findings

5.2.1 Bancassurance Life Insurance Products and Insurance Companies Performance

Based on the first objective which sought to determine the effect of bancassurance in life insurance products on the performance of insurance companies in Kenya, the researcher established that there is positive and significant effect. This means that insurance companies aiming to increase their performance should adopt bancassurance in life insurance products. More so, in case their target is to increase their customer base and revenue.

This confirms Paramasivan and Naidu (2014) who studied Indian life insurance and found that life insurance to contribute to the performance however insurance companies need more marketing for these products as well need to be more innovative on how to package this product. Although insurance products have not penetrated so much in India, the growth in population calls for awakening on the insurance company’s strategies on how to increase their performance. According to Verma and Balla (2012) there ought to be increase marketing of the life product to actually tell the influence it has on the companies’ performance. According to Hunja and Okafor (2015) in Nigeria they established a similar result even though they noted the need to have clear insurance life policy open to all employed and unemployed people to increase customer satisfaction. The study findings were in support of the marketing mix theory and insurance companies should customize their services so as to increase their market penetration through the banking sector.

5.2.2 Bancassurance Motor Vehicle Products and Insurance Companies' Performance

According to the second objective which probed whether bancassurance in motor vehicle products had impact on performance of insurance companies in Kenya, it was found that motor vehicle product has a positive and significant relationship with insurance firm performance. This implies that an increase in motor vehicle insurance up take would automatically translate in an increase in the customer base, satisfaction and revenue growth. The penetration of motor vehicle insurance is high in the country perhaps due to the mandatory nature of the rule set by government necessitating for any vehicle operating in the road should have at least a third part insurance. With the same spirit, the government should ensure other necessary insurance are undertaken.

Taking from Nyawiri and Muoni (2015) study of three insurance companies that asserted a significant impact of bancassurance on insurance firm performance, this study affirms their findings even with a bigger sample. Also, from Kiptis and Wanyoike (2016) a similar conclusion on bancassurance and banks performance was reached despite the study being covered in Nakuru town alone. A study of the nexus between bancassurance awareness and performance of commercial banks by Kamau et al. (2016) arrived at the same conclusions. These findings were in support of the theory of push and pull in bank insurance since insurance ought to sensitize the seekers of life insurance within the banking sector.

5.2.3 Bancassurance Home and Property Insurance Products and Insurance Companies' Performance

Further in line with the third research question which sought to find the effect of bancassurance in home property insurance products on the performance of insurance companies in Kenya, it was realized that home property insurance products had a positive but insignificant effect on companies' performance. Sehhat and Kalyani (2011) in Iran differed from this study conclusion whereby a significant relationship was established. Probably, this could be explained by the variations in perceptions of the home risks and home costs of the two countries-Iran and Kenya. Similar reason may be upheld for the study in Malaysia by Aliaga et al. (2014) who noted that choice of insurance product may be influenced by risk exposure, subjective risk perception and socio-economic factors. These results were in support of the market mix theory whereby the distributors of insurance services ought to merge banking services with insurance services so as to gain fully on potential customers.

5.3 Conclusions

An interrelationship has been demonstrated between performance of insurance companies and three aspects of bancassurance from theoretical framework and empirical review. The independent variables in the study were life insurance, motor vehicle and home property insurance products while performance of insurance firm was measured by customer base, customer satisfaction and revenue growth.

The study revealed a significant influence of bancassurance life insurance products on performance of insurance companies. Life insurance products were assessed by the number of policy holders in life insurance and number of banks partnered with insurance companies to provide life insurance service. Life insurance products (child education policy, individual life assurance, family life assurance, group life assurance and salary protection) have been found to have a great extent influence performance of insurance companies. This can be concluded that life insurance products are useful so as to promote customer base, customer satisfaction and revenue growth in the insurance industry in Kenya.

The findings have also illustrated that motor vehicle insurance products affect performance of insurance companies. The rise in the number of insured motor vehicle is therefore necessary to very great extent as this create revenue for insurance company. The increase on the part of motor vehicle risk cover helps increase customer satisfaction while widen the customer base. The continued calls by the Kenyan government through policy enforcement allows all motor insurance to be covered thus raising insurance companies' revenues from the premiums paid by the members.

From the findings of the study, home property insurance products have not been found to be that influential to performance for the insurance. This can be attributed to the low-income level of the Kenya market especially on the property development. However, with the rise in real estate investment income are going to be more risky and hence need for the insurance cover. Further a pool by the insurance companies to form a property base is essential for the increase in home and property base.

5.4 Recommendations of the study

Insurance companies should provide more life insurance and motor vehicle insurance products since they have been found to contribute highly to the reported customer satisfaction, growth in customer base and revenue. A close focus should also be made on the specific life insurance products which is family life assurance that is favourable to many individuals otherwise the companies may put their effort in other products which are not highly purchased. Given the significant role played by insurance companies in protecting life of its members, it should be clear to enhance customer satisfaction at the very early stages.

As regarding motor vehicle insurance products which has been found to influence firm performance for the insurance companies in Nairobi-Kenya, more customized product need to be developed to cater for the particular market niche that may want special treatment. Insurance companies should work hand in hand to see government enforcing motor vehicle insurance coverage. This will help increase number of insured motor vehicles. More enticement to the vehicle owner should be included in the insurance package to help boost the customer satisfaction.

The study established that home property insurance product has no significant effect on the performance of insurance companies. It should therefore for the insurance to conduct specific research over time to ascertain whether it should be engaging in the risk coverage for such products. A proper scrutiny should be done on the life cycle or the growth patterns of the home and property insurance in Kenya so that insurance firm will easily tell when it is right to insure such products.

5.5 Suggestions for Further Study

A study should be carried out that would make use of the available secondary data which can be used to cover a longer period to check for the changes in the insurance market coverage and penetration. As for this study predominantly focused on effect of bancassurance on performance of insurance firms, further study can be conducted on the home and property insurance penetration in the Kenyan market. In addition, research on the impact of individual product of life insurance ought to be studied against the proportion of revenue generated by life insurance.

5.6 Limitations of the study

The study relied on primary data which was drawn from employees; there were instances when some declined to respond to the questionnaire. This did not affect the final findings since the final response was reliable. The study was limited on its sample size due to budgetary allocations; further studies should consider a larger sample. The study was also limited on the methodological, it would be appropriate for the future studies to adopt path diagram instead of regression analysis.

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APPENDICES

Appendix A: Letter of Introduction

HANNAH NJERI

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TO THE RESPONDENTS

RE: RESEARCH ASSISTANCE.

I am a final year student at KCA University studying Masters of Science in Commerce (Finance and Investment) and am carrying out an academic research study on the **Effect of Bancassurance on the Performance of Insurance Companies in Kenya.**

I kindly request for your generous participation in filling the attached questionnaires. The information obtained will be strictly used for the purpose of academic research. The respondents are guaranteed that the information provided will be treated as private and confidential.

Yours Sincerely

Hannah Njeri

Sign…………….

Appendix B: Research Questionnaires

This research study is intended to find out the **Effects of Bancassurance on the Performance of Insurance Companies in Kenya.** The results are expected to assist the government, policy makers, industry stakeholders and academicians in understanding deeply about bancassurance and performance of insurance companies. This questionnaire consists of five sections (Sections A to E). Kindly respond to all questions by putting a tick (✓) in the box matching your answer or write your answer in the space provided if it is not included in the choices given. The information provided here will only be used for the purposes of academic study and will be treated with utmost confidentiality. You are not required to indicate your names on the questionnaire to ensure anonymity. Your cooperation will be highly appreciated.

Section A: Background Information

Date……………………………..

Name of your organization---------------

1. Please indicate your gender

Male [ ] Female [ ]

2. Level of education

University Degree [ ] College Diploma & Professional [ ]

Masters and Others [ ]

Any Other …………………….

3. How long have you been working in insurance sector?

1 – 2 years [ ] 3 - 5 years [ ]

6- 9 years [ ] Over 10 years [ ]

4. Which of the following age groups do you belong to?

Less than 25 years [ ] 26-35 years [ ]

36 – 45 years [ ] Over 46 years [ ]

5. In your own views, how would you rate the effect of bancassurance on performance of insurance companies?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Little extent [ ]

Not at all [ ]

6. To what extent does my organization promote Bancassurance?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] little extent [ ]

Not at all [ ]

Section B: Bancassurance Life Insurance Products and performance of Insurance Companies

7. To what extent do the following Bancassurance Life Insurance Products affect the performance of insurance companies in Kenya?

Where 1= No extent, 2= Little extent, 3= Moderate extent, 4=Great extent and 5=Very great extent.

Please tick (✓) the numeric value corresponding to your personal opinion for each statement.

Bancassurance Life Insurance Products	**1**	**2**	**3**	**4**	**5**
Child Education Policy					
Individual Life Assurance					
Family Life Assurance					
Group Life Assurance					
Salary Protection					

Section C: Bancassurance Motor Vehicle Products and performance of Insurance Companies

8. To what extent do the following Bancassurance Motor Vehicle Products affect the performance of insurance companies in Kenya?

Where 1= No extent, 2= Little extent, 3= Moderate extent, 4=Great extent and 5=Very great extent.

Bancassurance Motor Vehicle Products	**1**	**2**	**3**	**4**	**5**
Personal Vehicles Insurance					
Public Service Vehicles Insurance					
Heavy Transport Vehicles Insurance					

Section D: Bancassurance Home Property Products and performance of Insurance Companies

9. To what extent do the following Bancassurance Home Property Products affect the performance of insurance companies in Kenya?

Where 1= No extent, 2= Little extent, 3= Moderate extent, 4=Great extent and 5=Very great extent.

Bancassurance Home Property Products	**1**	**2**	**3**	**4**	**5**
Fire Insurance					
Theft Insurance					
Terrorism Insurance					

Section E: Performance of Insurance Companies in Kenya

10 State your degree of agreement or disagreement with the following statements relating to performance measures of your insurance companies.

Use a scale of 1 to 5 where; Strongly Disagree (1); Disagree (2); Neither Agree nor Disagree (3); Agree (4); strongly agree (5)

Measures of performance of insurance companies	**1**	**2**	**3**	**4**	**5**
The number of insurance products has increased since the introduction of Bancassurance					
The number of customers has increased since the introduction of Bancassurance					
Profitability of our insurance company has improved since adoption of Bancassurance					
Liquidity of our insurance company has improved since adoption of Bancassurance					

THANK YOU.

Appendix C: List of Insurance Companies

1. AAR Insurance Kenya Limited
2. AIG Kenya Insurance Co Ltd
3. Africa Merchant Assurance Co. Ltd
4. Allianz Insurance Co of Kenya Ltd
5. APA Insurance Limited
6. APA Life Assurance Limited
7. Barclays Life Assurance K Ltd
8. Britam General Ins. Co. (K) Ltd.
9. British-American Insurance Co. Ltd.
10. Cannon Assurance Ltd
11. Capex Life Assurance Limited
12. CIC General Insurance Limited
13. CIC Life Assurance Ltd
14. Continental Reinsurance Ltd
15. Corporate Insurance Co. Ltd
16. Directline Assurance Co Ltd
17. EA Reinsurance Company Ltd
18. Fidelity Shield Insurance Co Ltd
19. First Assurance Company Ltd
20. GA Insurance Limited
21. GA Life Assurance Ltd
22. Geminia Insurance Company Ltd
23. ICEA LION General Insurance Co Ltd
24. ICEA LION Life Assurance Co Ltd
25. Intra Africa Assurance Co Ltd
26. Invesco Assurance Company Ltd
27. Kenindia Assurance Co Ltd
28. Kenya Orient Insurance Ltd
29. Kenya Orient Life Assurance Ltd
30. Kenya Reinsurance Corp Ltd
31. Liberty Life Assurance Kenya Ltd
32. Madison Insurance Company Ltd
33. Mayfair Insurance Company Ltd
34. Metropolitan Cannon Life Ass Ltd
35. Occidental Insurance Co Ltd
36. Old Mutual Life Assurance Co Ltd
37. Pacis Insurance Company Ltd
38. Pioneer Life Assurance Company Ltd

39 Pioneer General Insurance Ltd
40. Phoenix of EA Assurance Co Ltd
41. Prudential Life Assurance K Ltd
42. Saham Assurance Company K Ltd
43. Sanlam General Insurance Ltd
44. Sanlam Life Assurance Ltd
45. Tausi Assurance Company Ltd
46. The Heritage Insurance Company Ltd
47. Trident Insurance Company Ltd
48 Resolution Insurance Company Ltd
49. UAP Life Assurance Limited
50. UAP Insurance Company Limited
51. Takaful Insurance of Africa Limited
52. The Jubilee Insurance Co. Ltd
53. The Monarch Insurance Co. Ltd.
54. The Kenyan Alliance Insurance Co Ltd
55. Xplico Insurance Limited

Source: Insurance Regulatory Authority (2016)

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