EFFECT OF BANCASSURANCE ON LIFE INSURANCE PENETRATION IN KENYA

BY

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DECLARATION

I declare that this research proposal is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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ABSTRACT

Kenya's insurance industry leads within East Africa Community and is a key player in the Common Market for East and South Africa (COMESA) region. However, despite this achievement life insurance sector has not contributed significantly to Gross Domestic Product (GDP) with very low penetration levels. Due to deregulation, advancement in technology and globalization, new innovations have been realized that include bancassurance which is described as the way to go. Few studies have been done relating life insurance penetration to bancassurance.

This study focused on the effect of bancassurance on life insurance penetration in Kenya. The study was guided by four specific objectives: Establish the effect of bancassurance branch networks on life insurance penetration in Kenya; effect of bancassurance clientele on life insurance penetration in Kenya, determine the effect of bancassurance technological platform on life insurance penetration in Kenya: and determine the effect of bancassurance product innovations on life insurance penetration in Kenya. The study involved a survey of commercial banks operating in Kenya that have adopted the bancassurance model. Primary data was collected using questionnaires for the purpose of answering the research questions. A census of 26 commercial banks offering bancassurance was used. Regression analysis was used to establish the effect of bancassurance on life insurance penetration in Kenya. The research established that based on the data collected there is a positive relationship between bancassurance branch networks, bancassurance clientele, technology and insurance penetration in Kenya. The study recommended that management of banks ought to formulate strategies to foster adoption of bancassurance to their customers through intense advertising to the customers most of whom are not insured.

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I wish you all God's blessings and prosperity.

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DEDICATION

I dedicate this research project to my dear parents and siblings for their prayers, encouragement and moral support that inspired and motivated me throughout the entire study period.

ACRONYMS AND ABBREVIATIONS

AKI: Association of Kenya Insurers

CBK: Central Bank of Kenya

CLM: Classical Linear Model

COMESA: Common Market for East and South Africa

EAC: East Africa Community

IRA: Insurance Regulatory Authority

KNBS: Kenya National Bureau of Statistics

RTGS: Real Time Gross Settlement

TERMS AND DEFINITIONS

Insurance – A contractual relationship between two parties in which one party, the insurer, is paid a premium by the other party, the insured. In return for the premium, the insurer promises to indemnify the insured in the event of a covered loss.

Insurance density- This is calculated as the ratio of premium to population.

Insurance penetration- This represents the average insurance spending per capita in a given economy. It is measured as the percentage of insurance premium to GDP.

Insurer – person(s) registered under the insurance act to carry out insurance business and include re-insurers.

Insured – a person(s) or entity covered by insurance.

Premium – amount of money paid by an insured to an insurer for insurance cover or policy taken.

Endowment- refers to life insurance contracts that are designed to pay a lump sum upon maturity or on death of insured.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

In the last few decades, the financial sector has experienced tremendous changes ranging from advances in technology, globalization, deregulation and convergence of markets which have had an impact on the services provided by the financial players. These changes have had considerable effect on efficiency, market structure and performance thereby resulting in a competitive environment that has necessitated creation of strategies by the various stakeholders in the financial industry so as to remain relevant and gain competitive advantage. Over time, new innovations which include mobile banking, agency banking and bancassurance have emerged and have gained remarkable infiltration in the financial industry. A key transformation undergone by the financial industry has been the emergence and expansion of combined service offering by banks and insurance companies otherwise termed as bancassurance (Berger & De young, 2006).

The term bancassurance otherwise known as allfinanz is a combination of the words banque (bank) and assurance (insurance) which generally refers to the partnership between a bank and insurance company whereby the insurance company uses the bank's network to sell their products. Bancassurance is a representation of a symbiotic relationship between banks and insurance companies where opportunities to enhance profitability and achieve maximum efficiency are created. Yuan (2011) defined bancassurance as the process of a bank selling insurance products manufactured by insurance companies either through their own distribution channels or subsidiaries that operate under them. Bancassurance offers a one stop shop package

that has potential of fulfilling both consumers banking and insurance needs. Allen (2007) describes bancassurance as the involvement of banks in manufacture, marketing and distribution of insurance products.

The concept of bancassurance was initialized in Britain in 1965 to counter the low insurance penetration by providing alternative channels to cater for the unexploited market but little was reported on its success and was dropped only to be revived later in France and Spain in 1980's where it aimed at eliminating middlemen in loan protection insurance. Successful stories about bancassurance have been reported in countries such as Spain, France, Belgium and Italy where it contributes over 30% of premium income in their life insurance business. Traditionally bancassurance was viewed as a European phenomenon with its significant adoption being attributed to deregulation of the financial sector under the 1989 second banking coordination directive. This directive allowed banks in the European Union to operate in member countries without obtaining a license from the regulatory authorities in the guest country. As a result bancassurance grew more rapidly yielding cross selling of multiple services. In the US, banks were not allowed to transact insurance business due to restrictions imposed by Glass-stegall Act of 1933, however this was later relaxed through approval of the Gramm-Leach Bliley Act (1999) which legalized bancassurance and banks in the US started selling insurance as those in European countries. Developing countries took much more time to adopt this strategy due to lack of well-established regulatory framework and guidelines in the financial industry (Chen, 2009). However, over time bancassurance has become a key distribution channel of many insurance markets especially in the European countries with its adoption spreading over to emerging markets in the Asian and African countries.

1.1.1 Bancassurance Models

Banks and insurance companies have developed various models depending on the level of integration and the benefit required by the two players (Johnson, 2001). The models vary from country to country and there is no standard model for bancassurance. However, the best fit model is described as that which optimally leverages the strengths of the partners across the operations chain. There are three broad categories (Bancassurance Guidelines, 2014) namely: integrated bancassurance models, non- integrated models and open architecture models.

1.1.1.1 Integrated Models

This model involves distribution of products through existing bank branch networks and allows banks to have their own subsidiaries. Under this model, a bank may partner with an insurance company to form a new insurance company otherwise known as creation of a joint venture or a bank may buy or build an insurance company or an insurance company may buy or build a bank and venture into bancassurance otherwise termed as creation of joint venture financial service group.

The insurance products are distributed by the bank staff and premium is collected by the bank usually through direct debit from customer's account held in the bank. As a result of the business transacted, banks earn commission which may be paid to the staff as commissions or bonuses on achievement of sales target.

1.1.1.2 Non-integrated Models

This model was developed to offer sales platform for regulated insurance products such as life insurance products and other investment based products which can only be sold by authorized financial advisers. Therefore, banks set up networks of financial advisers who sell the regulated

products. They operate as tied agents and exclusively sell in house manufactured products or products manufactured by the bank's third party providers.

1.1.1.3 Open architecture Models

Banks especially small banks, savings banks and building societies usually have non-exclusive distribution arrangements with insurance providers. They may one or several insurance companies for different types of insurance products which are then sold by the bank staff. Potential clients are identified from the bank's customer base who then form part of the targeted insured persons.

1.1.2 Insurance in Kenya

The insurance industry is regulated by Insurance Regulatory Authority (IRA), a self-regulating body established in 1987 under the insurance act, laws of Kenya, chapter 487 and is mandated to regulate, supervise and develop the insurance industry in Kenya. The industry has Association of Kenya Insurers (AKI) established in 1987 as its consultative and advisory body which aims at creating an enabling environment for its members, promoting growth and excellence in the industry. Key players in the industry include insurance companies, reinsurance companies, brokers and agents as shown in table 1.1.

Regulated entity	Number of licensed		
	2014	**2015**	**Quarter one-2016**
Insurance companies	50	51	51
Reinsurance companies	3	3	3
Brokers	198	144	180
Agents	5156	6428	6417

Table 1.1 Insurance players in Kenya

The insurance companies are divided into three: 25 general insurers (underwrite general insurance only, 16 long term or life insurers (underwrite life insurance only) and 10 composite insurers (underwrite both life and general business). Out of these only 19 insurance companies were carrying out bancassurance as at December 2015(AKI report, 2016)

Over the last decade, the Kenyan insurance industry has enjoyed stable business growth with the recent reports showing an increase in underwritten premium by 11.6% from a previous figure of 155.8billion in 2014 to 173.79 billion in 2015 (AKI report,2015). The gross written premium from general insurance was Kshs119.76 billion contributing to about two third (64%) of total premiums while that from long term business was Kshs54.03 billion. This is a ratio of about 69:31 in favor of general insurance.

The Kenyan insurance industry is the leading in the East African community with gross underwritten premium 173.79 billion as at 2015 which translate to 2.8% insurance penetration and insurance density of 37.1. Demand for insurance in East Africa region has been on the rise owing to more households entering the middle income class thereby necessitating the need of innovations and collaboration by players in the financial industry to satisfy the increasingly growing demand with key product being life insurance. In Kenya, Life insurance has grown by

1.7% compared to a global average growth of 4% with an insignificant contribution to the GDP. Despite of Kenya being in the lead in insurance in East Africa and a key player in the COMESA region, its life insurance uptake has been low averaging 0.9% penetration. This is despite the fact proven in developing economies which depicts life insurance as a long term saving instrument and efficient vehicle for mobilizing saving (Mwaniki, 2008) The low intake is attributed to limited knowledge of available products by potential clients, limited reach to informal sector, negative perception about insurance and low disposable income that would enable clients to service the policies taken.

A great impediment facing insurance companies is to devise a cost effective insurance channel that will minimize their expenses but that will also allow significant growth in the sector.

1.1.3 Bancassurance in Kenya

Bancassurance is yet to gain as much popularity in Africa as it has in the rest of the world with some of the countries already utilizing the channel in Africa being South Africa, Zimbabwe, Botswana and Kenya. Recent studies have compared South Africa and Kenya due to the two countries having similar business environment, similar income distributions, and share similar insurance acts originating from the British colony (Boal, 2003). South Africa has adopted different distribution channels and the benefits are significant. Despite the existence of a few companies offering life insurance in South Africa, the insurance industry contributes 16% to the country's GDP.

Deliberations by various authorities in Kenya yielded the adoption of bancassurance as a strategy to take advantage of the untapped business opportunity more so on distribution of life insurance. In Kenya, there are 43 banks and 51 insurance companies some of which have formed

combined working relationships to provide both bank and insurance services under one platform with an aim of maximizing their profits from this new opportunity. Bancassurance adoption is fostered by the insurance companies' zeal to utilize the banks networks to sell their products and for the banks to expand their service and product varieties to their clients by incorporating insurance products. Both banks and insurance companies benefit from this relationship with key advantages being efficiency and effectiveness in service delivery, reduction in costs incurred, wider network of customer base and customer retention. The first company to offer bancassurance in Kenya was CBA insurance agency licensed in 2004 and was followed suit by Equity insurance agency, KCB insurance agency and the most recent being consolidated bank insurance agency that obtained its license in April 2016. Over time more banks have continues to embrace the model and as a result a total of 26 banks are offering bancassurance services (CBK, 2016).

World over, life insurance has been termed as the driving force of a successful bancassurance model due to the matching of banking products with personal financial needs of families and individuals. However, recent studies show that most Kenyans do not buy life insurance policies yet life insurance besides being unique as a long term savings instrument, is the most efficient vehicle for mobilizing savings which has been confirmed in developed countries (Mwaniki, 2008). Previously, the low life insurance uptake has been attributed to lack of savings culture among Kenyans, limited knowledge on the life insurance products, perception that insurance is expensive and low disposable income especially to the low income earners.

1.1.4 Insurance density and insurance penetration in Kenya

The measure of insurance density and penetration reflects the contribution of insurance industry in an economy. Insurance density is calculated as the ratio of premium to population while insurance penetration is measured as the percentage of insurance premium to GDP. Insurance penetration represents the average insurance spending per capita in a given economy. Insurance penetration has been improving steadily in recent years with the increase being attributed to growth of middle class society, more Kenyans having access to disposable income and potential insurance opportunities created by rapid urbanization and infrastructural projects being carried out in the country. Some of the key infrastructural projects that have presented investment opportunities for insurance in Kenya include: Lamu transport corridor project, Standard gauge railway (SGR) project and construction of second runway and new terminal at Jomo Kenyatta International Airport.

Worldwide, insurance penetration is estimated to be 6.5% of GDP and according to AKI (2016), insurance penetration in Kenya stands at 3.4% with life insurance being 1.2% of GDP. The Global Competitive Index (GCI) ranks Kenya's insurance penetration at number 31 globally with the African leader in insurance penetration being South Africa at number 3 globally with penetration of 16% of GDP. Potential growth opportunities in insurance penetration are presented by expansion of bank branch networks for bancassurance provisions and the introduction of new products to the market. Research conducted by IRA predicts 4% penetration figure with an increase of the population having access to insurance rising from 9% to an estimated 30% by 2020.Table 1.2 below shows the penetration figures for the past 11 years.

YEAR	GROSS PREMIUM	GDP	PENETRATION		
			LIFE	NON-LIFE	TOTAL
2005	36.42	1642.2	0.78	1.79	2.57
2006	41.68	1414.6	0.76	1.78	2.54
2007	48.09	1642.3	0.83	1.82	2.65
2008	55.19	1814.1	0.87	1.76	2.63
2009	64.47	2100.4	0.94	1.90	2.84
2010	79.06	2274.3	1.05	2.05	3.10
2011	90.2	3047.4	1.02	2.00	3.02
2012	111.9	3403.5	1.08	2.08	3.16
2013	129.2	3798.1	1.16	2.28	3.44
2014	155.8	5521.0	1.06	1.87	2.93
2015	173.79	6224.2	0.99	1.80	2.79

Table1.2 Insurance Penetration in Kenya Source: Economic Survey 2016

1.2 Statement of the problem

The need for enhanced access to insurance at affordable rates and the combative strategy pulled by banks to counter the ever rising competition in the financial industry has necessitated the innovation of bancassurance model (Anja,2010).Bancassurance provides banks with the opportunity to acquire additional revenue while promoting customer retention. Insurance companies take advantage of the wide customer base of banks to sell their products thus increasing their revenue streams (Fields *et al.,* 2005).

The current insurance market penetration rate is approximately 2.8% of the GDP with the majority of insurance used being third party motor insurance. This is despite the Kenyan

insurance industry accommodating over 50 insurance companies whose distribution strategies have not been effective in enhancing the penetration rate. This has been dismal in comparison to other countries in Africa such as Zimbabwe and South Africa whose insurance penetration rates are 8% and 16% respectively. The presence of a significant number of financially sound commercial banks in Kenya with a broad network of branches, a large client base, product innovation capabilities and an enabling technological platform provides an ideal niche and focused market for the insurance products (AKI report, 2013).

Few studies have been done relating bancassurance to life insurance penetration in Kenya. Omondi (2013) did a study on the determinants of adoption of bancassurance by commercial banks in Kenya. This study focused on the revenue opportunity and diversification brought about by bancassurance. Mwangi (2010) did a study on the determinants of growth of bancassurance in Kenya. Kiragu (2014) did a study on challenges facing insurance companies in building competitive advantage in Kenya. So far there has been no research done on life insurance penetration as a result of bancassurance this is despite of life insurance being termed by the National Financial Access Survey as the biggest untapped bancassurance opportunity. This research study was therefore motivated by the need to determine the impact of bancassurance model on life insurance penetration in Kenya.

1.3 Research Objectives

1.3.1 General objective

To determine the effect of bancassurance on life insurance penetration in Kenya

1.3.2 Specific objectives

The study sought to achieve the following objectives:

i. Establish the effect of bancassurance branch networks on life insurance penetration in Kenya

ii. Determine the effect of bancassurance clientele on life insurance penetration in Kenya

iii. Find out the effect of bancassurance technological platform on life insurance penetration in Kenya

iv. Verify the effect of bancassurance product innovations on life insurance penetration in Kenya

1.4 Research questions

The study sought to answer the following questions:

i. What is the effect of bancassurance branch networks on life insurance penetration in Kenya?

ii. What is the effect of bancassurance clientele life insurance penetration in Kenya?

iii. What is effect of bancassurance technological platform on life insurance penetration in Kenya?

iv. What is the effect of bancassurance product innovations on life insurance penetration in Kenya?

1.5 Significance of the study

The findings of this study would be useful to various players in the financial industry who include commercial banks and insurance companies. This study will provide information on the drivers and effects of bancassurance to commercial banks that intend to adopt bancassurance model and those that have already adopted the model. The study will provide analysis on

information that may be used by banks in formulating their future strategies and prospects in a bid to match the ever rising competitive financial industry and acquire more opportunities for growth and additional revenue sources.

Insurance companies will also find the findings and recommendations of this study as vital information in their quest to gain competitive advantage more so those companies that have not yet incorporated the bancassurance model.

The policy makers in the financial industry and government will also benefit from this as they could use the information to formulate policies for better growth of bancassurance in Kenya in a bid to provide positive impact on the overall growth of the economy.

This study would provide information and knowledge about bancassurance and act as basis to researchers and scholars who intend to build and research more on bancassurance in Kenya.

1.6 Scope of the study

The study sought to establish the effect of bancassurance on life insurance penetration in Kenya. It focused on specific attributes deemed to have contributed to adoption and growth of bancassurance such as: bancassurance network of branches, bancassurance clientele, bancassurance technological platforms and product innovations. The study involved a survey of 26 commercial banks offering bancassurance in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides relevant review on literature and past studies related to bancassurance and life insurance in Kenya It covers theories put across relating to emergence of bancassurance, the drivers of bancassurance and develops a conceptual framework to test the independent variable (insurance penetration) and dependent variables (drivers of bancassurance)

2.2 Theoretical Review

Bancassurance is based on theories and concepts that justify the rationale behind its adoption and existence. These theories bring forth explanations behind the merging of banks and insurance companies to provide their related products. This study will be based on three main theories: financial intermediation theory, theory on economies of scale and modern portfolio theory.

2.2.1 Financial intermediation theory

The theory was developed by Gurley and shaw in 1960 and describes financial intermediation as the transfer of funds from agencies that have surplus to those with deficit through intermediaries. Scholten and Van Wensveen (2003) describe the role of financial intermediaries as that of creating specialized financial commodities and link their existence to market imperfections. In essence, financial intermediaries may not exist in perfect markets with no transaction or information costs. Financial intermediation theory highlights the role of financial intermediaries in achieving sustainable economic growth. Financial intermediaries come to existence due to various constraints that include high transactional costs, regulation practices and lack of

complete information. The theory therefore bases its arguments on approaches that focus on transactional cost theory, agency theory and informational asymmetry theory. (Bert and Dick, 2003)

The theory of transactional cost depicts intermediaries as a coalition of individual creditors and debtors who exploit the economies of scale at the level of transactional technologies and through their operation of processing huge volumes of data at high efficiencies, they are bestowed with expert status of making best financial decisions. The theory assumes that intermediaries emerge to eliminate some forms of transactions costs. (Diamond and Dybvig, 1983)

The theory of informational asymmetry emphasizes on the imbalance in information available thereby resulting into high transactional costs. According to Alexandru *et al* (2009) the need to reduce the effect of the imperfect markets necessitated the emergence of intermediaries who are seen to eliminate some form of transactional costs through pooling of resources of individual clients leading to economies of scale.

Financial intermediation is based on regulation of production of money and saving for financing purposes. The regulation influences liquidity and solvability of intermediaries involved. The laws of large numbers, economies of scale, liquidity creation, and risk management are common to both banks and insurance companies as they both offer similar products to compete for public savings funds. (Arthur and Aris, 2003)

Due to the increased competition, globalization and deregulation of the markets, banks have faced challenges of maintain their profitability and liquidity thereby pressuring the development and innovation of alternative income sources through specialized partnerships. Similarly, insurance companies have found it difficult to gain and maintain competitive

advantage as they strive to attract wider customer base to increase their premiums. Through the concept of financial intermediation, bancassurance seems to be the ideal solution for banks and insurance companies. The collaboration between banks and insurance companies enables them to take advantage of the efficiencies created by the partnership such as reduction of transactional costs and provide a one stop shop for financial needs. This partnership yields wider customer base to insurance companies and boosts loyalty of existing clients to the banks.

2.2.2 Theory of Economies of Scale

The theory of Economies of Scale was proposed by Marshall (1890) and attempts to reconcile increasing returns and competitive equilibrium. It argues that the key purpose for creating external economies was to explain the cost advantage acquired by firms as a result of reduction in production costs associated with increased output. Small firms too may take advantage of economies of scale as a result of the general progress of the industry and as such it may be deduced that though internal and external economies are distinct factors, the two are seen to co-exist. (Roy and Wilfred, 2011)

Economies of scale refer to the cost advantage arising from increased production output. It is the cost advantage that a frim obtains due to size, output or operation scale. Economies of scale can be internal, external, national, international, aggregative or dis-aggregative (Hart, 1996)**.** Internal economies refers to cost savings that accrue to a firm regardless of the industry, market or environment in which they operate while external economies refer to the benefits enjoyed by a firm due to the way in which its industry is organized. Sloan (1990) tried to link economies of scale to economies of scope and describes economies of scope as factors that make it cheaper to produce a range of products together than to produce each one separately. Example

of such economies can arise from businesses sharing centralized functions, interrelationships in business processes and cross-selling of products.

Economies of scale in bancassurance are evidenced by the fact that banks and insurance companies operate in a similar style in administration and money management. They operate with reserves, create liquidity and assume risk spreading function by relying on law of large numbers (Gumbel, 1990). Banks take advantage of economies of scale arising from the law of large numbers and in similar manner insurance companies can tap on the large clientele (Hart, 1996). For an insurance company the reliance on law of large numbers depicts that the expected loss distribution approaches the true loss as the sample grows. Banks and insurance companies offer complimentary products such as mortgage insurance a fete that is presumed to have a cost saving impact on their operation if the two are to merge and form bancassurance.

Economies of scale focus its attention on costs reduction through increased productivity. Bancassurance uses banks' branch networks to sell insurance products and earn extra income other than interest income at a reduced cost. The insurance products are marketed in already established bank networks hence do not incur additional costs. On the other hand, insurance companies take advantage of the large bank clientele to tap into economies of scale opportunities. Jongeneel (2011) asserts that economies of scale are pivotal to adoption of bancassurance and that the integration can positively influence performance of both banks and insurance companies. Through bancassurance, banks can create cross selling synergies by incorporating insurance products offering and as a result benefit from economies of scale by saving on costs.

2.2.3 Modern Portfolio Theory

Modern Portfolio theory was developed by Harry Markowitz in 1952 and mainly focused on diversification of a portfolio to minimize risk for a given level of expected return or to maximize expected return for a given level amount of portfolio risk. Investors ought to diversify their investments or funds among all securities which yield maximum expected return. A commendable portfolio is one that gives both maximum expected returns and minimum variance (Markowitz, 1952). An efficient portfolio consists of securities or assets that either yields a high return for a given level of risk or low risk for a given level of return. An investor can reduce portfolio risk by holding combination of assets or instruments that are not perfectly positively correlated. This means that an investor can reduce their risk exposure by holding a diversified portfolio of assets. Through diversification, portfolio risk is less than average risk of separate stocks or securities (Brealey and Myers, 2003).

Modern portfolio theory is based on the concept that assets held by investors in a given portfolio should not be selected individually; each on their own merit but rather the most important factor to consider is how each asset changes in price relative to how every other asset in the portfolio changes in price.

Over the years, commercial banks in Kenya have seen the need to diversify their product and service portfolio so as to remain relevant and increase their earnings in the ever competitive financial industry. However, due to deregulation, liberalization of markets and globalization, banks have found it difficult to maintain their profitability with decline in interest margin being experienced due to evolution of e-commerce channel and changes in consumer attitude and preferences. As a counter measure banks have embarked on new innovations and ventures such as internet banking, mobile banking and bancassurance (Jongeneel, 2011).

Adoption of bancassurance can be linked to the risk mitigation strategy by banks and insurance companies to diversify their services and venture into other areas of business. The provision of a variety of financial services to same customer base enhances customer loyalty. Brealey and Myers (2003) noted that diversification brings scale which makes it easier to attract professional management and access to international financial markets.

2.3 Empirical review

The banking sector in Kenya has for the last few years experienced tremendous growth in their assets, deposits, profitability and product offering with the aggregate banking sector balance sheet growing by 6.8% from 3.4 trillion to 3.6 trillion in 2015 (CBK report,2015). The growth has been attributed to development of alternative banking channels such as internet, mobile and agency banking, expansion of branch networks, provision of favorable rates as a result of the introduction of KBRR and product innovations that suite the customers' needs and preferences.

2.3.1 Bancassurance Branch networks and life insurance penetration

Bancassurance exhibits high growth potential in markets with high banking penetration. Higher banking penetration allows banks to distribute insurance products to larger customer segments which are otherwise not covered by the traditional distribution channels such as brokers and agents. A large number of point of sale offers customers geographical and human proximity which facilitates the contact between banks and the customers thereby increasing sales opportunities (Romain, 2013).

Banking penetration is represented by the branch networks which refers to the total number of branches that a bank has in the country. According to CBK Bank supervision annual report (2015), commercial banks have stepped up efforts to open more branches in a bid to tap

into huge deposits and facilitate efficient service delivery to its customers. This move has seen the number of branches increase from 1443 in 2014 to 1523 in 2015(CBK report, 2015). However, this has been termed as a slow increase in physical branches that has been attributed to the increase in agency banking that was implemented by the Finance Act of 2009. The Finance Act of 2009 allowed banks to use third party agents in running their operations, a move that was aimed at lowering costs and reaching out to the unbanked population. Banks prefer to use agency banking rather than create new physical branches as the agency strategy is less costly and helps reach the unbanked even in rural areas. Agency banking serves as a means of bringing services closer to the people and enhancing service delivery. The agency banking model does not destabilize the branch system but rather enhances financial access and inclusion as the agents still require the brick and mortar branches to manage their liquidity needs. This explains why banks with largest physical branch presence have also led in agency banking expansion.

An aggregation of the total number of branches offering bancassurance in Kenya would act as an indication of the banking penetration. The proximity created by physical branches is a fundamental factor in establishing sense of trust and loyalty in customers. The increase in integration of financial services and zeal by banks to expand the range of services offered to clients, presents a perfect opportunity for banks and insurance companies to enter into a bancassurance partnership.

2.3.2 Bancassurance Clientele and Life insurance penetration

Bancassurance client base refers to the current customers and potential customers who have a high likelihood of becoming customers. The client base is defined using demographics such as age, location or gender and can change over time. Banks rely on their client base for most of their business sales, development of new products and advertising.

Banks have employed different strategies in a bid to develop, maintain and expand their client base. The strategies cut across through innovations, customer service and efficiency in service delivery that aim at achieving customer satisfaction and luring potential customers. Bancassurance have has been one of the key strategies used in offering more services to their customers who now can shop for their banking and insurance needs under one roof. A Large client base presents a viable opportunity for bancassurers to market their products to the existing bank clients thereby increasing the insurance penetration levels. (wamwati, 2008)

Customers are a key factor in success of any business. Their interests, desires and wants may change with time and service providers ought to diversify their operations if they are to survive in the ever competitive market (Romain, 2013). Bank customers range from youth to adults with adults constituting about 70% of the bankable population in Kenya. (CBK report, 2016) previously, majority of the young people who have bank accounts did not fancy taking insurance and only preferred to take the mandatory covers such as motor insurance. However with the onset of innovations, bancassurance has been able to come up with products that suit the young generation especially life covers that act as saving plans for the future.(Mwangi, 2010)

Mwangi(2010) notes that lack of disposable income has been one of the factors contributing to low insurance penetration in Kenya. Majority of Kenyans especially low income earners do not take insurance owing to lack of capital to pay for premiums and view insurance as an expensive deal. However, bancassurance has been a key driver to reaching out to this population by inventing products that they can relate with such as crop agriculture insurance, education covers and providing convenient methods of premium payment.

2.3.3 Bancassurance Technology and Life insurance penetration

Over the years, banking sector in Kenya has undergone financial innovations to meet the ever growing changes in market structures, customer tastes and preferences, changes in regulation and the need to remain viable and survive in an ever competitive and dynamic business environment. Developments and advancements have been experienced in information collection, storage, processing and transmission technologies. As a result new innovation with regards to products, processes and the institutions have emerged. Product and institutional innovations include mobile banking, advancements in internet banking, establishment of credit reference bureaus and bancassurance while process innovations include operation efficiencies such as use of smartcards, ATMs and Real Time Gross Settlement (RTGS) a faster means of transferring money.

Bancassurers too have realize that the key to customer appeal and retention is through customer satisfaction that can be achieved by improving technological infrastructure to exploit information available on the banks database regarding sales opportunities and transactional efficiencies. Bancassurers may use technology to simplify purchase of insurance products, payment of premiums, claim lodging and general customer services. Some of the key technological advancements put in place include:

Ecommerce: online sales of insurance policies that are easy to understand and do not require expert advice especially for white collar employees for whom time and convenience are top most factors in any purchase decisions.

Internet banking: the penetration of internet banking serves as an important driver of bancassurance. Internet banking enables marketing and cross selling of insurance products to a

wider customer base. Banks have also been able to design interactive websites that have more than just standard bank data and current rates with additions such as quote calculations, what-if calculations and other online insurance application.

Customer Relationship Management (CRM) IT system: the CRM model helps banks manage their interactions with their customers and customers' data can be leveraged to cross sell insurance products. A CRM database enables both banks and insurance companies to design bancassurance products in accordance with the need of its different customer segments.

Effective coordination of the technological platform allows customers to enjoy flexibility and efficiency in the market.

2.3.4 Bancassurance Products Innovation and Life insurance penetration

Product innovation refers to the development or redesigning of already established products. Innovation may refer to quality improvement, incorporation of new components into existing products and technical improvements. Product innovations are efficient in brand switching, diversification, growth and expansion of businesses and creating competitive advantage (Drucker, 2012).

In Kenya one of the biggest limitations of insurance penetration has been lack of product diversification. However, in recent years the product range in the insurance sector has grown tremendously as a result of a more demanding customer base and technological improvements that have yielded new innovations. Customer empowerment has led to an increase in tailor made insurance products hereby increasing the complexity of insurance products.

An assumption is made that the increase in the number of products purchased by a customer from a given organization decreases the chance of losing that customer to a competitor (Munich, 2001).Bank usually achieves a number of financial benefits by selling insurance

products. Some of these financial benefits include improved income results, (either as commissions and/or profits from selling insurance products); declining effect of the bank fixed costs, since the cost are spread over the life insurance relationship. In addition, banks have an opportunity to boost the efficiency of staff, as they now have the chance to provide a wider range of services to customers. The new insurance products could enhance employees' efficiency and substantially boost the banks' profitability (Linyiru, 2006).

Bancassurance provides the opportunity to leverage on the diverse occupational sectors of the banks' clients and provide insurance products suitable for them. The innovations cut across provision of both life and non-life insurance products. Life insurance products are tailor made to suit different customers in the different sectors ranging from the low income earners to high income earners with innovations such as education policies, retirement plans among other endowment plans. Other innovations include tagging products to bank services or products such as insurance tagged on mortgage products**.**

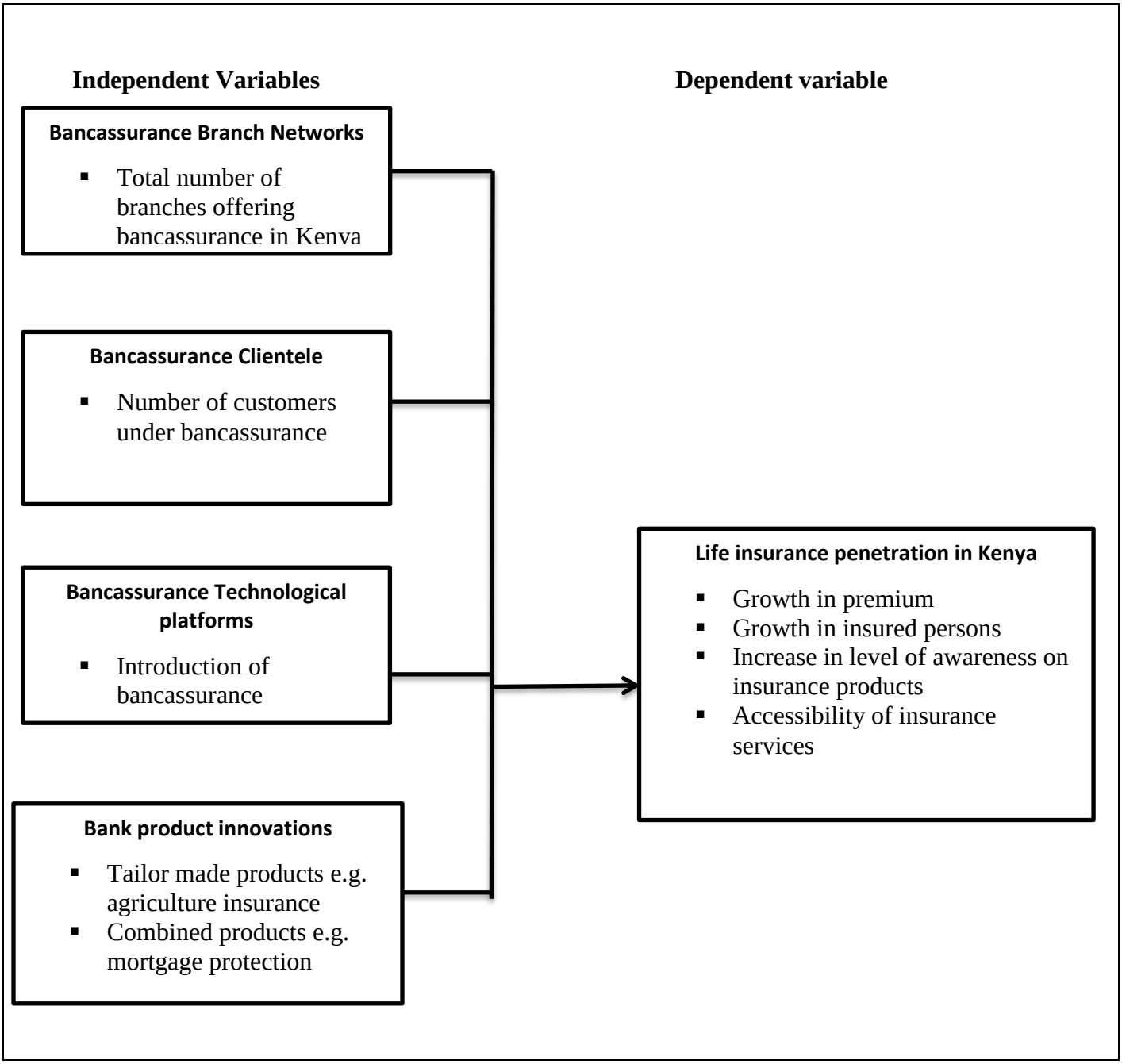
Life insurance products are the most sold insurance products through bancassurance as compared to non-life insurance products. Reasons behind this include: the complementary nature of life and insurance products, life insurance products are usually long term which require customers to have confidence and trust in the institution they are investing in and banks can use their knowledge of their clients finances to target their advice towards specific needs(Focus,2005).

2.6 Conceptual Framework

Jabareen (2009) defines a conceptual framework as a network of concepts that are related and interlinked in one way or another to provide an elaborate understanding of some existing phenomena or phenomenon. Conceptual framework aims at theorizing the relationship between

independent and dependent variables. Figure 2.1 below is a conceptual framework that seeks to explain the relationship on the effect of drivers of bancassurance on life insurance penetration in Kenya.

Figure 2.1: Conceptual Framework



Source: Author (2017)

2.7 Operationalization of Variables

Dependent Variable	Measurement
Life insurance penetration	$\frac{\mathbf{q21a + q21b + q21c + q21d}}{4}$
Independent Variable	
Bancassurance network of branches	**q7**
Bancassurance clientele	**q12**
Bancassurance technology	**q14**
Bancassurance product innovations	$\frac{\mathbf{q20a + q20b}}{2}$

Source: Author (2017)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains information on the methodology employed in the course of the research. The chapter is structured into: the research design that was adopted, the target population, sample design and sampling technique, research instruments, data collection, data analysis and presentation methods. It entails research ethical considerations, reliability and validity tests that were conducted in the course of the study.

3.2 Research Design

Research design refers to the methodology used for collection, measurement and analysis of data. It is the blue print that specifies all stages of action in the course of research. The research design adopted by this study was cross sectional descriptive research design. The method is best suited for this study as it sets out to describe opinions and views of bancassurers and interpret the impact felt as a result of adoption of bancassurance as a channel to sell life insurance.

3.3 Study Population

According to Simons and Helen (2009), population refers to the entire group, individuals or things of interest that the researcher wishes to investigate. It is the collection of all elements upon which a researcher wishes to makes inference. Target population is the portion of study population whose findings are used to generalize on the entire population (Mugenda and Mugenda, 2003). The population for this study was the twenty six commercial banks that carry out bancassurance business in Kenya as at December 2015.

3.4 Sample Size and Sampling Technique

The study adopted census sampling method due to the manageable study population number. Olive and Abel (2010) noted that census sampling takes to account the entire target population and thus enhances reliability of the data and its representativeness to the entire population. The sample respondents for the research were 26 respondents from the banks offering bancassurance in Kenya as at December 2015.

3.5 Instrumentation

Primary data collected using semi-structured questionnaires that had both closed and open ended questions were used in this study. The questionnaires were designed to collect both qualitative and quantitative data respectively covering the various variables of the study. The questionnaires were divided into two parts: First part sought for background information of the bancassurance entity while the second part was designed to gather information that facilitated achievement of the research objectives.

3.6 Data Collection

The questionnaires were administered personally by the researcher thorough drop-and-pick method and respondents given a week to fill in the questionnaires which were then collected by the researcher.

3.7 Data Validity and Reliability

The accuracy of data to be collected is largely dependent on the data collection instruments in terms of validity and reliability (Mugenda and Mugenda, 2003). Validity refers to the degree to which the results obtained from the analysis actually represent the phenomenon under study.

Validity was ensured by having objective questions included in the questionnaire. A pre-test was conducted to identify and modify any ambiguities.

Reliability refers to a measure of the degree to which the research instruments yield consistent results. A pilot test with a selected sample of 5 respondents was done to ensure reliability of the data is achieved.

3.8 Data Analysis

The collected data was checked for completeness in order to ensure that relevant data for each variable is available. The data was then entered in STATA for analysis through descriptive and inferential statistics analysis. Multiple linear regression analysis was employed to determine the impact of the various variables under study. The regression equation used to carry out the data analysis is as given below:

$$Y_{it} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where: Y_{it} – represents Life insurance penetration

β_0 – Model intercept

X_1 – represents Bancassurance network of branches

X_2 - represents Bancassurance clientele

X_3 – represents Bancassurance technological platform

X_4 – represents Bancassurance product innovations

β_i - represents Coefficients of independent variables

ε – Error term

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

This chapter presents the research findings to establish the effect of bancassurance on life insurance penetration in Kenya. Data was collected using questionnaires and analyzed to produce reports of the findings as presented in this chapter in form of tables and figures. The analysis involved use of descriptive analysis where frequency, percentages, mean and standard deviation were considered. Diagnostic tests were conducted to measure the suitability of the variables for subsequent regression analysis. Multiple regression analysis was conducted to test the relationship between dependent and independent variables.

4.2 Response Rate

The study targeted 26 respondents in collecting data on bancassurance in Kenya. However out of the 26 questionnaires distributed only 24 questionnaires were filled and returned. This gave a response rate of 92.3% as shown on Table 4.1.Mugenda and Mugenda (2003) suggested that a response rate of 50% is adequate for analysis and reporting and a response rate of 70% and over is excellent. Our response rate of 92.3% is therefore excellent in analyzing and reporting on the findings of the study on effect of bancassurance on life insurance in Kenya.

Table 4.1: Response Rate

	Frequency	Percent
Successful cases	24	92.3
Non successful cases	2	7.7
Total	**26**	**100.0**

Source: Author (2017)

4.2 Background Information of the Banks

4.2.1 Type of insurance classes utilized by bancassurance

Table 4.2: Class of Insurance products

	Frequency	Percent
Life insurance	-	0.0
Non-Life insurance	4	16.7
Life and Non-Life insurance	20	83.3
Total	**24**	**100.0**

Source: Author (2017)

It was found that 83.3% of the banks offer life and non-life insurance products, 16.7% offer only non-life insurance while none offered only life insurance. According to the results of the study the most transacted life insurance products are education and endowment plans while non-life products included marine, motor and medical insurance products.

4.2.2 Income Bracket of bancassurance Customers

Table 4.3: Income Brackets of Clients

	Frequency	Percent
Low income earners	-	0.0
Middle income earners	20	83.3
High income earners	4	16.7
Total	**24**	**100.0**

Source: Author (2017)

The results show that 83.3% of bancassurance clients fall in the middle income earners category and only 16.7% fall in the high income earners category. The increase in middle income class segment provides ready market and opportunity for banks to provide a wider range of financial products under one roof. Majority of low income earners do not take insurance due to lack of disposable income to pay for premiums.

4.3 Diagnostic Tests

A number of diagnostics tests were carried out in order to ascertain whether the data collected was fit for linear regression. The tests conducted include normality tests to establish whether the observed values follow a normal distribution and correlation analysis to test for cross sectional dependence of the data. The results of the data are presented in Table 4.4 and 4.5 below.

Table 4.4: Test of Normality

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
branches	24	0.71966	7.562	4.125	0.00002
clientele	24	0.84814	4.096	2.875	0.00202
technology	24	0.72985	7.287	4.050	0.00003
products	24	0.61781	10.309	4.757	0.00000

Source: Author (2017)

The Shapiro wilk test of normality was used to establish whether the observed values of the variables follow a normal distribution. The following hypotheses were used to conduct this test.

H_0: *The observed values do not follow a normal distribution*

H_1: *The observed values follow a normal distribution*

The prob>z for all the variables is less than 0.05. The null hypothesis (the observed values do not follow a normal distribution) was rejected. This implies that the observed values follow a normal distribution and therefore allow for a linear regression analysis.

Table 4.5: Test for Cross Sectional Dependency

	penetr~n	branches	client~e	techno~y	products
penetration	1.0000				
branches	0.3091 0.1417	1.0000			
clientele	0.4002 0.0527	0.7869* 0.0000	1.0000		
technology	0.6472* 0.0006	-0.0854 0.6914	0.0000 1.0000	1.0000	
products	-0.2892 0.1705	0.1109 0.6059	0.0906 0.6737	-0.5373* 0.0068	1.0000

.

Source: Author (2017)

Correlation analysis is the statistical tool used to determine the level of association between two variables. Correlation value of 0 shows that there is no relationship between dependent variable and the independent variables while a correlation of ± 1 means there is a perfect positive or negative relationship between dependent variable and the independent variables.

The test results show that there are no two variables that have very strong correlations as all the correlations are less than the threshold of strong correlation of ± 0.8 . The correlations observed are weak positive and negative correlations an indication that there are no two variables that will interfere with each other during regression hence implying that the data collected qualifies for linear regression.

Table 4.6: Multicollinearity Test

Variable	VIF	1/VIF
branches	2.68	0.373420
clientele	2.67	0.374063
technology	1.43	0.698103
products	1.42	0.702973
Mean VIF	2.05	

Source: Author (2017)

The mean VIF=2.05 is less than 5 which implies that there is no multicollinearity. This is affirmed by the tolerance factor (values of 1/VIF) for each of the variables being less than 1.This is in agreement with the classical linear model (CLM) assumptions that for a regression analysis to be performed, there should be no multicollinearity in the independent variables.

Heteroscedasticity Test

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of penetration

         chi2(1)      =     0.00
         Prob > chi2  =   0.9942
```

Source: Author (2017)

The prob>chi2=0.9942 is greater than 0.05.Thus the null hypothesis (constant variance) is accepted and conclude that there is homoscedasticity. This aligns with CLM assumption that variance of error terms is constant.

Ramsey Reset Test

```
Ramsey RESET test using powers of the fitted values of penetration
       Ho:  model has no omitted variables
                 F(3, 16) =      0.45
                 Prob > F =      0.7178
```

Source: Author (2017)

The prob>F=0.7178 is greater than 0.05.We therefore accept the null hypothesis (model has no omitted variables) and conclude that the model has no omitted variables.

4.4 Descriptive Statistics of the variables

The descriptive statistics comprise of mean, standard deviation and the trends of the dependent and independent variables. There were a total of 24 observations. The findings as shown below illustrate that penetration had a mean of 3.854 and standard deviation of 0.634. This means that there was little deviation of the observed penetration values.

Branches had a mean of 41.875 and standard deviation of 55.166.This means that there was great variation in the number of branches offering bancassurance. Some of the banks had centralized bancassurance in their head office while other banks offered bancassurance through all the branches. Clientele had a mean of 2.000 and standard deviation of 1.414. This means that majority of the banks had between 0-500,000 customers under bancassurance. Bancassurance technology had a mean of 1.125 and standard deviation of 0.337 and indication that there was great variability in introduction of technology with regards to bancassurance. 3 out of the 24 banks had not introduced any technology with regards to bancassurance.

Bancassurance product innovations had a mean of 4.708 and standard deviation of 0.509. This means that there was little variation in the response on extent to which product innovations contribute to performance of bancassurance.

Table 4.7: Descriptive Statistics of the variables

```
. summarize penetration branches clientele technology products
```

Variable	Obs	Mean	Std. Dev.	Min	Max
penetration	24	3.854167	.6338147	2.75	5
branches	24	41.875	55.16561	1	175
clientele	24	2	1.414214	1	5
technology	24	1.125	.337832	1	2
products	24	4.708333	.5089774	3	5

Source: Author (2017)

4.6 Impact of bancassurance on life insurance penetration

The general objective of the study was to establish the impact of bancassurance on life insurance penetration in Kenya. The independent variables of the study were number of branches offering bancassurance, bancassurance clientele, bancassurance technological platform and bancassurance product innovation. The dependent variable of the study was penetration of life insurance in Kenya. A multiple linear regression analysis was conducted and results are as presented in table 4.7 below.

Table 4.8: Model Summary

Source	SS	df	MS		
Model	5.417778	4	1.3544445	Number of obs	= 24
Residual	3.82180533	19	.201147649	F(4, 19)	= 6.73
				Prob > F	= 0.0015
				R-squared	= 0.5864
				Adj R-squared	= 0.4993
Total	9.23958333	23	.401721014	Root MSE	= .44849

penetration	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
branches	.0015287	.0027741	0.55	0.588	-.0042776	.0073351
clientele	.1310855	.10812	1.21	0.240	-.0952122	.3573833
technology	1.268799	.3313089	3.83	0.001	.5753612	1.962236
products	.0409913	.219142	0.19	0.854	-.4176783	.4996608
_cons	1.907581	1.266462	1.51	0.148	-.7431558	4.558317

R squared is the coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings the value of R squared is 0.5864, an indication that bancassurance branch network, bancassurance clientele, bancassurance technology and bancassurance product innovations jointly explain 58.64 percent of the variations in life insurance penetration in Kenya. This means that 41.36 percent can be attributed to other factors not studied in this research.

The prob>F=0.0015 is less than 0.05 hence an indication that the model is significant and best suited for the regression analysis. From the above results it was revealed that holding bancassurance branch networks, bancassurance clientele, bancassurance technological platforms and bancassurance product innovations to a constant zero, life insurance penetration would be at 1.91.

This results lead to the following general model that explains the relationship between bancassurance and life insurance penetration in Kenya.

$$Y = 1.908 + 0.002X_1 + 0.131X_2 + 1.269X_3 + 0.041X_4$$

Branches has a coefficient of 0.002 and p-value of 0.588. This indicates an insignificant positive relationship between bancassurance branch network and life insurance penetration in Kenya. It implies that a unit increase in bancassurance branch network would lead to increase in life insurance penetration by a factor of 0.002.Banks should therefore aim at increasing the number of branches offering bancassurance services.

Clientele has a coefficient of 0.131 and p-value of 0.240. This indicates an insignificant positive relationship between bancassurance clientele and life insurance penetration in Kenya. It implies that a unit increase in bancassurance clientele would lead to increase in life insurance penetration by a factor of 0.131. Banks should aim at attracting more customers through intense advertisement to increase their client base and market for their financial products.

Technology has a coefficient of 1.269 and p-value of 0.001.This indicates a significant positive relationship between bancassurance technology and life insurance penetration in Kenya. Technology has the greatest effect on life insurance penetration in Kenya. A unit increase in bancassurance technology would lead to increase in life insurance penetration by a factor of 1.269. Effective coordination of technological platform allows customers to enjoy flexibility and efficiency in the market. Banks should invest in technology and keep abreast with the advancements so as to meet the growing changes in market structures, regulation, customer tastes and preferences.

Products has a coefficient of 0.041and p-value of 0.854. This indicates an insignificant positive relationship between bancassurance product innovations and life insurance penetration in Kenya. A unit increase in bancassurance product innovations would lead to decrease in life

insurance penetration by a factor of 0.041. Banks should strive to have a wide range of products that are flexible and tailor made to suit their client needs as an increase in the number of products purchased by a customer from a given organization decreases the chances of losing that customer to a competitor.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the key findings of the study as well as the conclusions drawn, limitations of the study and recommendations proposed by the study.

5.2 Summary of Findings

The general objective of the study was to establish the impact of bancassurance on life insurance penetration in Kenya. The specific objectives were to establish the effect of bancassurance branch networks, bancassurance clientele, bancassurance technology and bancassurance product innovations on life insurance penetration in Kenya.

The four independent variables that were studied explain 58.64 percent of life insurance penetration with other factors not studied contributing to 41.36 percent of life insurance penetration in Kenya.

5.2.1Bancassurance Branch Networks and Life Insurance Penetration in Kenya

Bancassurance branch networks refer to bank branches that offer bancassurance. The findings show that there is an insignificant positive relationship between bancassurance branch networks and life insurance penetration in Kenya. An increase in branches offering bancassurance leads to an increase in insurance penetration in Kenya. This result is consistent with the findings of Romain(2013) who suggested that a large number of point of sale offer geographical and human proximity which facilitates contact between banks and customers thereby increasing sales opportunities for financial products. These results are further affirmed by the findings of Waweru (2014) who indicated that bank branches have now become major distribution channels for sale of insurance products and provide potential and ready market for sale of life insurance products.

5.2.2Bancassurance Clientele and Life Insurance Penetration in Kenya

Bancassurance clientele refers to the number of customers that banks have under bancassurance platform. It was found that there is an insignificant positive relationship between bancassurance clientele and life insurance penetration in Kenya. An increase in client base leads to an increase in life insurance penetration in Kenya. This result is ratified by findings of Wamwati (2008) who suggested that a large client base presents a viable opportunity for bancassurers to market their products that include insurance products thereby increasing the insurance penetration levels.

5.2.3Bancassurance Technology and Life Insurance Penetration in Kenya

The findings show that there is a significant positive relationship between bancassurance technology and life insurance penetration in Kenya. The introduction of bancassurance technology through product, institutional and process innovations helps realize process and transactional efficiencies. Effective coordination of the technological platform allows customers to enjoy flexibility and efficiency in the market. Improved technological infrastructure allows bancassurers to exploit on customer information with regards to sales opportunities and transactional efficiencies.

5.2.4Bancassurance Product Innovation and Life Insurance Penetration in Kenya

Product innovations refer to development of new products or improvement of already existing products. It was found that bancassurance product innovation has an insignificant positive relationship with life insurance penetration in Kenya. Provision of flexible and tailor made insurance products help accommodate the various categories of insured persons thus resulting in an increase in insurance penetration.

5.3 Conclusions

From the research findings we can substantively conclude that bancassurance branch networks, bancassurance clientele, bancassurance technology and bancassurance product innovations have positive relationship with life insurance penetration in Kenya. Overall, bancassurance technology was found to have the greatest effect on life insurance penetration in Kenya.

5.4 Recommendations

The study recommends that management of banks should come up with strategies to promote adoption of bancassurance to their customers through intense advertising to its customer most of whom are not insured.

The government should consider amending the insurance act and make at least on life product to be mandatory at affordable premiums.

5.5 Limitations of the study

In attaining its objective the study was limited to 26 commercial banks that offered bancassurance in Kenya.

Some of the respondents were reluctant to fill the questionnaire owing to their tight marketing schedules. However, this was overcome by allowing the respondents more time to fill the questionnaire.

5.6 Suggestions for Further Research

This study examined the effect of bancassurance on life insurance penetration in Kenya with main focus on the effect of bancassurance branch networks, clientele, technological platform and product innovations. The research leaves out other factors such as regulations of the banking

sector which is a vital component of bancassurance. I therefore suggest further research that would incorporate the other factors which may affect life insurance penetration.

A similar study should be done with data collected from insurance companies to determine the effect of bancassurance on their financial performance of insurance companies.

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Appendices

Appendix I: List of Commercial banks Offering Bancassurance

1. African Banking Corporation Ltd.
2. Barclays Bank of Kenya Ltd.
3. CFC Stanbic Bank Ltd.
4. Chase Bank Ltd.
5. Commercial Bank of Africa Ltd.
6. Consolidated Bank of Kenya Ltd.
7. Co-operative Bank of Kenya Ltd.
8. Credit Bank Ltd.
9. Diamond Trust Bank Kenya Ltd.
10. Eco-Bank Ltd
11. Equity Bank Ltd.
12. Family Bank Ltd.
13. Fidelity Commercial Bank Ltd.
14. Gulf Africa Bank (K) Ltd.
15. Housing Finance Ltd.
16. Imperial Bank Ltd.
17. I&M Bank Ltd.
18. Jamii Bora Bank Ltd.
19. Kenya Commercial Bank Ltd.
20. Sidian Bank.
21. National Bank of Kenya Ltd.
22. NIC Bank Ltd.
23. Prime Bank Ltd
24. Standard Chartered Bank (K) Ltd.
25. Trans-National Bank Ltd.
26. Spire Bank Ltd.

Source: (Central Bank of Kenya, 2015)

Appendix II: Time frame

Proposal Development	**Pilot testing**	**Data collection**	**Data Analysis**	**Final Dissertation**
4 months				
	1 week			
		3 weeks		
			4 weeks	
				1month
Total				**7 months**

Appendix III: Budget

No.	Item Description	Cost (KES)
1	Cost of literature review	15,000
2	Printing and Binding	7,000
3	Data collection	10,000
4	Data Analysis	8,000
5	Final dissertation	5,000
6	Miscellaneous expenses	5,000
Total		**50,000**

Appendix IV: Letter of Introduction

Dear Sir/Madam,

RE: MASTER OF SCIENCE (MSc.) - FINANCE AND ACCOUNTING RESEARCH PROJECT.

I am a postgraduate student at KCA University pursuing a degree in MSc. Finance and Accounting. Currently I am carrying out a research project which is a requirement for the fulfillment for the Award of Master degree.

The research is to assess the effect of Bancassurance on life insurance penetration in Kenya.

In this regard, I kindly request you to assist in completing the research questionnaire. I take this opportunity to commit and guarantee that the information collected/obtained from you is only for academic purposes and the same will be treated with utmost confidentiality.

Your assistance will be highly appreciated.

Yours faithfully,

OMBABA FRANCIS MOSOMI

STUDENT REG No. 15/05694

Appendix V: Questionnaire

Research Questionnaire

This questionnaire has been designed to assist the researcher collect data concerning impact of bancassurance on life insurance penetration in Kenya. You are kindly requested to complete this questionnaire as honestly as possible. The data obtained from this questionnaire will be used solely for academic purposes and will be handled with utmost confidentiality.

SECTION A: GENERAL INFORMATION

Please tick (✓) where applicable.

1. Name of the Bank

……

2. Do you have a specific business unit tasked with bancassurance?

Yes ( ) No ( )

3. If your answer in question 2 is yes, which type of insurance products do you offer through bancassurance?

Life ( ) Non-life ( ) Both ( )

4. Please indicate bank ownership.

Local ( ) Foreign ( ) Both ( )

5. What is your bancassurance sales collection per year (ksh.)?

Less than 1 million ( ) 1-10million ( ) 11-20m ( )

21-30m ( ) More than 30m ( )

SECTION B: INDEPENDENT VARIABLES

PART 1: BANK BRANCHES

6. How many branches do you have in Kenya?.....

7. How many of these branches offer bancassurance?.....

8. From what areas do you have the greatest number of customers?

Urban ( ) Rural ( ) Other ( )

9. Do you offer Agency banking services?

Yes ( ) No ( )

10. To what extent do you agree that the following contribute to performance of bancassurance?

(1=No extent, 2=low extent, 3=moderate extent, 4=great extent, 5= very great extent)

	1	2	3	4	5
Branch offices offering bancassurance that are present across the country					
Agency banking services					

PART 2: CLIENT BASE OF BANKS.

11. To which income bracket do majority of your clients fall?

Low income earners ( )

Middle income earners ( )

High income earners ( )

12. How many customers does your bank have under bancassurance platform?

0-250,000 ( ) 250,001-500,000 ( ) 500,001- 750,000 ( )

750,001 – 1M ( ) Above 1M ( )

13. To what extent do you agree that the following contribute to performance of bancassurance?

(1=No extent, 2=low extent, 3=moderate extent, 4=great extent, 5= very great extent)

	1	2	3	4	5
The increasing middle class segment in Kenya					
Increase in bankable Kenyans					
Insurance uptake by the young people					

PART 3: TECHNOLOGICAL LEVELS.

14. Has your bank introduced any technology with regards to bancassurance?

Yes ( ) No ( )

16. Which of these technologies do your clients use with regards to bancassurance?

Internet banking ( ) mobile banking ( ) Bancassurance application ( )

Any other (Please specify)

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17. what is the most preferred mode of premium payment by your clients?

Cheques ( ) Cash ( ) Direct debits ( ) Standing orders ( )

EFT ( ) Check offs ( ) Mobile money ( )

18. To what extent do you agree that the following contribute to performance of bancassurance?

(1=No extent, 2=low extent, 3=moderate extent, 4=great extent, 5= very great extent)

	1	2	3	4	5
Convenience of payment of premiums					
Introduction of internet banking					
Introduction of mobile banking					
Introduction of bancassurance application					

PART 3: Product innovations.

19. Please tick the products innovated by your bank with regards to bancassurance.

NON- LIFE PRODUCTS

Agriculture insurance policies ( )

Travel insurance policies ( )

Medical insurance products ( )

Mortgage protection ( )

LIFE PRODUCTS

Education policies ( )

Retirement/funeral expenses ( )

Endowment plans ( )

Marine insurance ( )

Motor insurance ( )

Any other (Please specify)

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20. To what extent do you agree that the following contribute to performance of bancassurance?

(1=No extent, 2=low extent, 3=moderate extent, 4=great extent, 5= very great extent)

	1	2	3	4	5
Flexibility and diversification of insurance products					
Launch of tailor made products					

21. Please indicate extent to which the following affect penetration

(1=very low extent, 2=low extent, 3=moderate extent, 4=great extent, 5= very great extent)

	1	2	3	4	5
Growth in numbers of insured persons					
Growth in gross underwritten premium					
Increase in level of awareness of insurance products					
Easy accessibility of insurance services					

22. Please give any recommendations that you think if implemented would enhance penetration of life insurance in Kenya.

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Thank you