

Banc assurance as a Progenitor of the Financial Performance of Tier 1 Banks in Kenya

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Abstract: Banc-assurance is seen as the future of the banking industry in Kenya. The main objective of the study was to determine the effect of banc-assurance on the financial performance of Tier 1 bank insurers in Kenya. A positivism research philosophy was adopted. The study used explanatory research design. Statistical package of social studies version 24.0 aided in data analysis. Descriptive statistics such as percentages, frequencies, mean and standard deviation were used in the study. Pearson correlation and regression inferential statistical techniques were also incorporated in the study. The study found that a strong positive relationship existed between banc-assurance and ROE ($r = .607^*$, $p = 0.013$) at 95% confidence interval. Bancassurance had no significant relationship with ROA at 95% confidence interval. At 99% confidence interval banc-assurance had a non significant moderate relationship with ROA ($r = .570$, $p = .154$). Bancassurance had a significant positive effect on the financial performance of the Tier 1 bank insurers ($\beta = .890$, $p = 0.000$, $\alpha < 0.00$). The value of adjusted R-square is 0.777 implying that 77.7% of total variation of the financial performance of the Tier 1 bank insurers is explained collectively by banc-assurance activities. The study concluded that banc-assurance has a significant effect on the financial performance of Tier 1 banks offering insurance services and/or products. Tier 1 bank insurers should consider a portfolio that gives both maximum expected returns and minimum variance when choosing the best portfolio for diversification.

Key words: Bancassurance, Return of Equity, Return on Assets, Tier 1 Banks

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I. Introduction

Banc-assurance is seen as the future of the banking industry in Kenya. It is the process by which an insurance company uses the bank network to sell its policies (Anja, Doubell, Herman, & Sandisiwe, 2010). The bank's network is used by the insurance company to reach a wide customer base over which to market its products while the bank gains from the income other than interest income which is risk free. Locatelli, Mompugno, and Zanette (2003) posit that banks face stark reality of reduction in savings due to changes in consumer savings behavior. They further noted that banks have recorded a decrease in household savings by consumers who prefer remunerative investments. This situation has forced banks to fish for opportunities to maintain its interest margin. This has prompted banks to diversify into investment banking or insurance, resulting in Bancassurance. Banc – assurance has resulted in a partnership between banks and insurance companies. Once the partnership is created the insurance company then sells its products to the clients of both the banks and insurance companies (Clipici & Bolovan, 2012).

Banc-assurance can also be defined as the joint venture between banks and insurers to provide life insurance products to bank customers for better financial protection (Swiss Re, 2007). In most developed markets, bancassurance takes one of the following four different models. Distribution partnership where the bank simply behaves as an intermediary, offering products of more than one insurance company. The recognition by the bank of a real need to be in a position to offer insurance products to its customers is the business logic for such a model.

Strategic alliance model where the products are sold by the bank to one insurance company only. The insurer gains exclusive access to the bank's customer base in this model without making major investments in distribution. Since no major distribution investments are made in house, the bank gains product development capability. Joint venture, where the bank and the insurer establish a jointly owned insurance company or distributor (through more or less balanced shareholdings). A new legal entity that distributes insurance or investment products through the network of its banking parent becomes the joint venture. The association between the bank and the insurer is reinforced by a strategic shareholding in some cases. Integrated Bancassurance where the bank owns the insurer or the insurer owns the bank, either directly or through a shared holding company or parent company – often referred to as a financial conglomerate.

In the 1980's, when Banks in select countries in Europe started implementing bancassurance, the rest of the world contemplated for far too long whether or not to join. Eventually, banks followed suit but after losing in terms of lost opportunity or lagging behind the late starters. Nowadays the foray of life insurance premiums in West Europe has been achieved through bancassurance. This translates to up to ninety percent of new life insurance business (Kumar, 2006). Emerging markets such as China and India are exhibiting high growth potential for banc - assurance market. In Pakistan, banc-assurance has been embraced to a great magnitude in the life insurance sector. Strategic alliances exist between life insurers and banks for distribution of life insurance product through the banking shelter.

Whereas the penetration rate of bancassurance is highest in Europe, the penetration rate is lower in North America, due to regulatory constraints. On the other hand bancassurance is increasing in recognition in Asia, mostly in China, where regulatory constraints have been eased. The future of bancassurance remains positive. Banc-assurers could benefit from governments' move to privatize health care and pension liabilities although the progress of bancassurance in individual markets will still be dependent on each country's regulatory and business environment. It is worth noting that new entrants have successfully adopted and implanted bancassurance to compete with incumbent companies in emerging markets. Given the today's fairly low bancassurance penetration in emerging markets, bancassurance will most probably see further advancement in the coming years (Swiss Re Report, 2007).

In Africa, Bancassurance is yet to gain as much popularity as it has in the rest of the world. Some of the countries already utilizing the channel are South Africa, Zimbabwe, Botswana and currently Kenya. In South Africa, Banks and life insurers offer similar investment products and in addition, banks have wholly owned insurance brokerage companies that offer services to the public. However, high cost ratios for banks and increased acquisition expenses for insurance companies have been one of the major forces for bancassurance in South Africa. There is an increase in the number of banks strategizing with insurance companies in designing suitable products for their customers. Consequently the arrangement has made the banks to create rewarding business relationships. A number of banks with bancassurance products are thus joining up life protection and saving plans (International Monetary fund, 2005).

Indeed, some banks such as Commercial Bank of Africa, Kenya Commercial Bank, Equity Bank and Family Bank are already conducting bancassurance over the counter. There is great potential for development and growth of bancassurance in Kenya because the insurance products will be sold at branches that are conversant with peoples' every day needs. The financial performance of some of the tier 1 banks offering insurance products and services is wanting. Commercial bank of Africa is finalizing on their partnership with NIC bank so as to improve its financial performance. This implies that as much as banks are diversifying their portfolios, it has not translated into improved financial performance of some of the Tier 1 banks in Kenya. Therefore this study seeks to find out the effect of bancassurance on the financial performance of Tier 1 banks in Kenya.

1.1 Tier 1 Banc- Assurers in Kenya

There are six banks classified as tier 1 by the Central Bank of Kenya. Tier 1 banks control 49.9% of the market and they include: Kenya Commercial Bank, Equity Bank, Co-operative Bank, Standard Chartered Bank, Barclays Bank and Commercial Bank of Africa. Private local banks include; Commercial Bank of Africa, Cooperative Bank and Equity Bank. Kenya Commercial Bank is a local bank but with government shareholding. Foreign banks include; Standard Chartered and Barclays Bank. Tier 1 banks with subsidiaries that offer bancassurance include; Kenya Commercial Bank, Equity Bank, Cooperative Bank and Commercial Bank of Africa.

Kenya Commercial Bank has KCB Insurance Agency which offers products such as: Health Care insurance, Motor insurance, Property insurance, Agriculture insurance, Liability insurance, Micro insurance and Marine Insurance. It also offers professional insurance and advisory services and risk management. Equity Insurance Agency offers products such as: Livestock insurance, Marine insurance, General insurance, Motor insurance, Agriculture insurance, Micro insurance, Pensions and Medical insurance policies and Life insurance products for groups. Group and staff medical scheme administration services, Claims management and Risk management services, Insurance premium pricing and insurance advisory services are some of the services offered by the Bank.

Co-operative Bank Insurance Agency offers products such as Medical, Motor, General, Life cover, Agriculture and Micro-business insurance but it offers similar services to the Equity Insurance Agency. CBA Bank Insurance Agency offers products such as Car insurance cover, Home Contents insurance, Travel insurance, Education insurance, Life insurance, Credit Policy insurance and Personal Accidents insurance.

II. Literature Review And Hypothesis Development

2.1 Theoretical Framework

This study was conducted against the backdrop of two main theories: Modern Portfolio Theory (Markowitz, 1952) and theory of Financial Intermediation (Gurley & Shaw, 1960).

2.1.1 Modern Portfolio Theory

The Modern Portfolio theory was espoused by Markowitz (1952). The theorist emphasizes on how exactly an investor can reduce the standard deviation of portfolio returns by choosing stocks that do not exactly move together (portfolio diversification). An investor should diversify his or her funds among all those securities which give maximum expected return (Markowitz, 1952). He further went ahead to work on the basic principles of portfolio construction that eventually led to the concept of Efficient Portfolios. Markowitz (1952) opines that a portfolio that gives both maximum expected returns and minimum variance should be commended to the investor.

These basic principles are the foundation for much of what has been written about risk and return. An efficient portfolio consists of a set of assets that give either a high return for a given level of risk or a low risk for a given level of return. In essence, a shrewd investor may reduce the risk of a negative return by holding a portfolio of different assets in order to mitigate the risk of loss should one of those assets not produce the expected outcome, that is, diversification. Thanks to diversification, the portfolio risk is less than the average risk of the separate stocks (Brealey, Myers, Marcus, Wang & Zhu, 2007).

Commercial Banks have over the years noticed that there is a need to diversify their portfolio of offerings to remain relevant, increase their earnings and maintain their sustainability in this cut-throat competitive financial services industry. With the liberalization of the market coupled with deregulation and globalization, banks have found it increasingly difficult and costly to maintain their profitability. Jongeneel (2011) noted factors such as and evolved ecommerce channel and changes in consumer attitudes leading to the steady decline in interest margins on loans of Commercial Banks from the 1980s. Banks are now investing in financial innovation and venturing into areas of diaspora banking, internet banking, Mobile banking, custodial services, shares management, trade and commodity banking and bancassurance.

Bancassurance as a Bank's strategy to venturing into other areas of business and diversification has positive impacts to its financial performance. Providing a variety of financial services to the same customer base enhances customer loyalty. This could have a positive impact on the long term earnings of the bank. Jongeneel (2011) stated that, by being a one-stop-shop financial solution, a commercial bank seizes the opportunity to grow in significance. Secondly, Banc- assurance provides additional income to the bank known as fee income. Brealey and Myers (2003) further noted that diversification brings scale, which may make it easier to attract professional management, gain access to international financial markets, or to gain political power in countries where government tries to manage the economy or where laws and regulations are erratically enforced.

2.1.2 Theory of Financial Intermediation

Financial intermediation is the transfer of funds from agencies that have a surplus to agencies that have a deficit through Financial Intermediaries (Andries, 2009). The Theory behind Financial Intermediation arose from three different approaches namely; the theory of informational asymmetry, transactional cost theory and the theory of regulation of monetary regulation (Bert & Dick, 2003). The theory of Informational asymmetry dates back to the 1960's. It was developed by Gurley and Shaw (1960) and emphasized that intermediaries came about as a result of informational asymmetry leading to high transactional costs. The need to reduce the effects of imperfect markets gave rise to financial intermediaries as they were seen to eliminate or partially reduce some specific forms of transactional costs through pooling of resources of individual customers leading to scale economies (Andries,2009).

The theory of Transaction cost, developed by Benston and Smith Junior (1976), emphasized on the impact of transactional technologies that were brought about by financial intermediation (Bert & Dick, 2003). Intermediaries are perceived to be a coalition of individual creditors and debtors who exploit the scale economy at the level of transactional technologies (Andries, 2009). Through their function of processing huge volumes of data at high efficiencies, clients perceive that they are experts at making the best financial decisions. The third approach to Financial Intermediation is based on the regulation of money production and of saving in and financing of the economy (Bert & Dick, 2003). This approach was developed by (Guttentag & Lindsay, 1968). Claus and Grimes (2003) posits that this method of regulation influences the liquidity and solvability of intermediaries involved. Banks have found it increasingly difficult to maintain their profitability due to increased competition, globalization and liberalization of the market. The need for specialized partnerships is seen to be imperative for the long-term growth and sustainability of these financial institutions as well as maintaining their liquidity.

By comparison, Insurance companies have over the years found it increasingly difficult to maintain their competitive advantage in the ever- changing competitive environment. Kiragu (2014) noted that the increasingly competitive environment in the financial services market has resulted in the pressure to develop and utilize alternative delivery channels. With this, Insurance companies are striving to ensure that they can garner a huge customer base to increase their premiums. Banc-assurance proves to be a worthwhile vehicle for both the Bank and the Insurance Company through the concept of Financial Intermediation. As financial institutions faced with the backdrop of the ever changing and competitive financial services industry, their partnerships allow them to take advantage of efficiencies in transactional technologies and reduction in transactional costs. More importantly, their combined efforts increases customer loyalty as accumulators of funds as clients perceive that they will invest in the funds wisely.

2.2 Financial Performance

Profit is the ultimate goal of commercial banks hence all the strategies designed and activities performed thereof are meant to realize this grand objective. To measure the financial performance of banc assurers, there are varieties of ratios used. Murthy (2015) posit that the major ones are Return on Asset and Return on Equity. Return on Equity is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. Return on Equity is what the shareholders look in return for their investment. A business that is more likely to be one that is capable of generating cash internally is the one which has a high return on equity. Thus, the higher the Return on Equity the better the company is in terms of profit generation. It is further explained by Khrawish (2011) that Return on Equity is the ratio of Net Income after Taxes divided by Total Equity Capital. It is the rate of return earned on the funds invested in the bank by the shareholders. It reflects how effectively and efficiently the management of banks' is using shareholders' funds. It can further be deduced from the above statement that if the Return on Equity is better then the management in utilizing the shareholders capital more effectively.

Return on Assets is also another major ratio that indicates the profitability of a bank. The formula for calculating ROA the proportion of income divided by the proportion of total asset (Khrawish, 2011). The ability of the bank management to generate income by utilizing company assets at their disposal is measured by ROA. It shows further whether the resources of the company are used efficiently to generate income. It also indicates the efficiency of the banks' management in generating net income from all the resources of the Bank. Chen and Wong (2004) stated that a higher Return on Assets shows that the company is more efficient in using its resources.

2.3 Empirical Review

Scovier (2015) researched on the effect of Banc-assurance on financial performance of Insurance Companies in Kenya. The study was delimited to Insurance Companies in Nairobi County. The constructs for financial performance used in the study were; profitability, cost reduction, return on assets, earnings per share and liquidity. A descriptive research design was adopted in their study. The target population comprised of 51 registered insurance companies in Kenya. Data was collected using semi structured questionnaires. Data collected was edited, coded and entered into statistical package for social science for analysis. Regression analysis was conducted to establish the effect of bancassurance on the financial performance of insurance companies in Nairobi County. The study found that bancassurance increases sales of organizations which in turn increases the profitability of insurance firms. Additionally, the findings highlight that Bancassurance increases insurance firm's earning per share, this can be replicated from the increased profitability and return on assets. It was also noted that bancassurance enhances increase of a firm's liquidity. Finally, It was concluded that insurance firm (s) that have merged with banks record high profitability since there is an apparent increase in the number of clients in each product bundle market.

Arora and Manish (2013) conducted an analysis on contribution performance of bank assurance on Financial of Bank of India. The study aimed at establishing the impact of bank assurance on performance of banks and to establish the motivation behind adoption of bank assurance by banks as a major channel for maintaining fee-based income. The study found that the performance of both insurance company and the bank depended on each other however and that there is a favorable impact of bank assurance on the financial performance of banks. The figures of net profit, total income, capital adequacy ratio (CAR), earnings per share (EPS), and return on assets (ROA) revealed that bank assurance paves the way for banks to grow.

Waweru (2014) conducted a study on the effect of bancassurance on the financial performance of commercial banks in Kenya. The study used a descriptive design. A total of twelve banks offering Bancassurance in Kenya were used in the study. The study used secondary sources of data. This data was acquired from CBK reports for a period of 5 years, that is, from 2009 to 2013. Statistical Package for Social Sciences version 19.0 aided in data analysis. Multiple regression and correlation analysis were used in the data analysis. Analysis of Variance was used to test the fitness of the model with a test of significance of 95%

confidence level. The study revealed that there was strong positive relationship between the financial performance of commercial banks and banc-assurance.

Muhoro (2011) conducted a study to determine the effect of bank assurance as a strategy used by banks to increase uptake of insurance products in Kenya. The study was done at Commercial Bank of Africa Limited (CBA). The study targeted all head of departments, senior managers and branch managers (census) in all the selected branches of CBA. Data was collected using in-depth interviews and analyzed descriptively and presented in tables, figures and charts. The study found that uptake of insurance increases as a result of the adoption of bank assurance. Also, through increased distribution channels, new customer's attraction while retaining the old and winning the customers trust unlike the traditional agents since most customers trust banks and they frequently visit it. A competitive edge has been gained by Banks offering bank assurance through tapping into existing bank customers' database in the various branches. Also, through innovative marketing channels such as online marketing or e-sales and the use of well trained staff.

Omondi (2013) did a study on the determinants of adoption of Banc-assurance by Commercial Banks in Kenya. Forty- three licensed commercial banks comprising of six tier 1 banks, fifteen tier 2 and twenty-two tier 3 banks formed the target population. The results of the study showed that adoption of Banc-assurance by Commercial Banks was influenced by the need for new revenue stream, diversification and economies of scope. A significant positive association existed between business diversification, economies of scale, need for new revenue stream and the adoption of Banc-assurance by the Commercial Banks.

Krstic, Vojvodic- Miljkovic and Mandic (2011) investigated bank assurance as one of the new options for the development of Serbian financial industry. The study found that banking and insurance are the two inextricably related parts of the financial sector and the interconnections between them are particularly strong in times of crisis. The study also established growing presence of a model of integrated performance of banks and insurance companies in the market exhibited by the provision of banking and insurance services in one place through the form of bank assurance. Banc-assurance benefits the banking industry in the times of increasing competition among participants in the financial market including: expanding the base of clients; retaining the existing clients; increasing sales or profits; as well as improving the supply through a creation of new products according to the structure and needs of clients. Literature reviewed led to the development of the following hypothesis statements:

H₀1: Bancassurance has no significant effect on Return on Equity of Tier 1 banks in Kenya.

H₀2: Bancassurance has no significant effect on Return on Assets of Tier 1 banks in Kenya.

III. Materials and Methods

Research philosophy can simply be defined as a belief about the way in which data about a phenomenon should be gathered, analyzed and used (Cooper, Schindler, & Sun, 2006). For this study, a positivism research philosophy was adopted. The choice for the positivism research philosophy is supported by the principle underlying this philosophy. According to the principles of positivism, the philosophy depends on quantifiable observations that lead themselves to statistical analysis (Kothari, 2004). It is noted that positivism is in accordance with the empiricist view that knowledge stems from human experience (Singh, 2006). This principle conforms to the nature of the study in that it deals with the quantifiable observations. With regard to the progression of this study, it was guided by the hypotheses in attempt to show the association between independent variable and dependent variable. All these attributes of the study apply for the positivism research philosophy hence its choice as the ideal research philosophy. The study adopted an explanatory research design to govern the study. The study comprised of a census of all branch managers, retail banking, commercial banking and credit functional area heads. The study utilized both primary and secondary data. Secondary data was from published financial reports of the Tier 1 Kenyan banks.

Primary data was collected using the drop and pick method. The structured questionnaires were used in an effort to conserve time and money as well as to facilitate in easier analysis as they were in immediate usable form. Most of the items adopted a 5 point Likert scale (1- very low extent, 2-low extent, 3-moderate extent, 4- great extent, 5-very great extent). SPSS version 24.0 aided in data analysis. Descriptive statistical metrics such as means, frequencies, percentages and standard deviation and inferential statistical metrics such as Karl Pearson product moment correlation and simple linear regression model were adopted. The regression econometric models adopted were as follows:

$$ROA = \beta_0 + \beta_1 x_1 + e \dots \dots \dots [1]$$

$$ROE = \beta_0 + \beta_1 x_1 + e \dots \dots \dots [2]$$

Where; x_1 = Bancassurance; e = error term; β_0 = intercept, β_1 = coefficient of x_1

IV. Results & Discussions

The study sought to find out the bio data of the bank – assurers. In regards to type of ownership of the bank, 12 (75.0%) revealed that three of the banks were privately owned and 4 (25.0%) noted that one of the bank’s was owned by both the government and the public. In a bid to establish the duration the bank has been offering banc - assurance services and/or products, 2 (12.5%) noted a period less than one year, 5(31.3%) between 2 to 5 years and 9 (56.3%) above 5 years. Of the total respondents, 4 (25.0%) had been working at the facility for less than one year, 3 (18.8%) for a period between 1 and 5 years and 9 (56.3%) for a period greater than 5 years. Finally, 4 (25.0%) of the respondents were branch managers, 4 (25.0%) were retail banking line managers, 4(25.0%) were working in the commercial banking section and 4 (25.0%) in the credit section as tabulated below:

Table 4.1: Bio data

		Frequency	Percent
Type of ownership of the Bank	Private	12	75.0
	Both Government and Public	4	25.0
	Total	16	100.0
Duration the bank has been offering bancassurance services and/or products	Less than one year	2	12.5
	2– 5 Years	5	31.3
	>5 Years	9	56.3
	Total	16	100.0
Length of service	Less than one Year	4	25.0
	1-5 Years	3	18.8
	>5 Years	9	56.3
	Total	16	100.0
Position held in the bank	Branch Managers	4	25.0
	Retail banking Line Managers	4	25.0
	Commercial Banking	4	25.0
	Credit section	4	25.0
	Total	16	100.0

The study sought to find out the extent to which banc assurance affects the number of customers, 2(12.5%) of the respondents revealed to a low extent, 2(12.5%) to a very low extent, 3(18.8%) to a moderate extent, 5(31.3%) to a great extent while 4(25.0%) to a very great extent. The item realized a mean of 3.4375 and a standard deviation of 1.36473. In regards to the market share of the bank, 3 (18.8%) of the respondents noted to a low extent, 2 (12.5%) to a very low extent, 3 (18.8%) to a moderate extent, 4 (25.0%) to a great extent and 4 (25.0%) to a very great extent. This implies that banc assurance has a great effect on the market share of the banks. In determining whether banc assurance has an effect on the loan portfolio of the bank (s), 2 (12.5%) of the respondents noted to a low extent, 2 (12.5%) to a very low extent, 2(12.5%) to a moderate extent, 7 (43.8%) to a great extent and 3(18.8%) to a very great extent. The itemized mean was 3.4375 and the standard deviation was 1.31498.

The respondents were asked whether banc-assurance has an effect on the deposits of the bank, 2(12.5%) of the respondents revealed to a low extent, 3(18.8%) to a very low extent, 3 (12.5%) to a moderate extent, 5(31.3%) to a great extent and 4(25.0%) to a very great extent. The item realized a mean of 3.3750 but with a variation in responses of 1.40831. From the findings, 2(12.5%) of the respondents noted that additional costs incurred as a result of banc assurance affects banc assurance to a very low extent, 3 (18.8%) to a moderate extent, 9(56.3%) to a great extent while 2 (12.5%) to a very great extent. The itemized mean was 3.5625 and 1.15289 was the standard deviation. In regards to the effect of cross marketing activities as a result of banc assurance, 2(12.5%) of the respondents noted to a low extent, 2(12.5%) to a very low extent, 3 (18.8%) to a moderate extent, 7(43.8%) to a great extent and 2(12.5%) to a very great extent. The item realized a mean of 3.3125 and a standard deviation of 1.25000. All the items of banc assurance realized a grand mean of 3.3958 and a standard deviation of 1.32903 respectively implying that banc - assurance influences financial performance of banks as shown in Table 4.2:

Table 4.2: Bancassurance

		V.L.E	L.E	M.E	G.E	V.G.E	Mean	Std. Deviation
The number of customers	F	2	2	3	5	4	3.4375	1.36473
	%	12.5	12.5	18.8	31.3	25.0		
Market share of the bank	F	3	2	3	4	4	3.2500	1.48324
	%	18.8	12.5	18.8	25.0	25.0		
The loan portfolio of the bank	F	2	2	2	7	3	3.4375	1.31498
	%	12.5	12.5	12.5	43.8	18.8		
Deposits of the Bank	F	2	3	2	5	4	3.3750	1.40831
	%	12.5	18.8	12.5	31.3	25.0		
Additional costs incurred as a result of Bancassurance	F	0	2	3	9	2	3.5625	1.15289
	%	0.0	12.5	18.8	56.3	12.5		
Cross marketing activities as a result of Bancassurance	F	2	2	3	7	2	3.3125	1.25000
	%	12.5	12.5	18.8	43.8	12.5		
Composite							3.3958	1.32903

This study sought to assess the financial performance among bank assurers as a result of bancassurance. 2 (12.5%) of the respondents revealed that banc- assurance had improved ROE to a very low extent, 2 (12.5%) to a low extent, 2 (12.5%) to a moderate extent, 7 (43.8%) to a great extent and 3 (18.8%) to a very great extent. The itemized mean was 3.4375 and the standard deviation was 1.31498. Further, 3(18.8%) of the respondents revealed that banc – assurance had improved ROA to a low extent, 3 (18.8%) to a very low extent, 2 (12.5%) to a moderate extent, 2 (12.5%) to a great extent and 6 (37.5%) to a very great extent. The item realized a mean of 3.3125 and a standard deviation of 1.62147.

In regards to asset securitization by selling insurance products, 2 (12.5%) of the respondents revealed to a very low extent, 2 (12.5%) to a low extent, 3 (18.8%) to a moderate extent, 6 (37.5%) to a great extent and 3 (18.8%) to a very great extent. The item realized a mean of 3.3750 and a standard deviation of 1.31022. Finally, 2(12.5%) of the respondents noted that fee based income had improved to a very low extent, 3 (18.8%) to a low extent, 2 (12.5%) to a moderate extent, 3 (18.8%) to a great extent and 6(37.5%) to a very great extent. The item realized a mean of 3.5000 and a standard deviation of 1.50555. The grand mean of 3.4063 and a standard deviation of 1.43806 were recorded implying that banc – assurance had improved the profitability of the banks as shown in Table 4.3:

Table 4.3: Financial Performance

		V.L.E	L.E	M.E	G.E	V.G.E	Mean	Std. Deviation
ROE	F	2	2	2	7	3	3.4375	1.31498
	%	12.5	12.5	12.5	43.8	18.8		
ROA	F	3	3	2	2	6	3.3125	1.62147
	%	18.8	18.8	12.5	12.5	37.5		
Asset securitization by selling insurance products	F	2	2	3	6	3	3.3750	1.31022
	%	12.5	12.5	18.8	37.5	18.8		
Greater fee based income	F	2	3	2	3	6	3.5000	1.50555
	%	12.5	18.8	12.5	18.8	37.5		
Composite							3.4063	1.43806

Karl Pearson product moment correlation was used to assess for association between dependent variables (ROA & ROE) and the independent variable (Bancassurance) before conducting regression analysis and the results were as follows; banc-assurance had a strong significant relationship with ROE ($r = .607^*$, $p = 0.013$) at 95% confidence interval. When ROA was used as a proxy of financial performance, banc - assurance had no significant relationship with ROA at 95% confidence interval. At 99% confidence interval banc – assurance had non significant moderate relationship with ROA ($r = .570$, $p = .154$). The results are as tabulated below;

Table 4.4: Correlations Matrix

		ROE	ROA	Bancassurance
ROE	Pearson Correlation	1		
	Sig. (2-tailed)			
ROA	Pearson Correlation	-.319	1	
	Sig. (2-tailed)	.229		
Bancassurance	Pearson Correlation	.607*	.154	1
	Sig. (2-tailed)	.013	.570	

*. Correlation is significant at the 0.05 level (2-tailed).

4.2 Regression Analysis

Simple linear regression analysis is a statistical metric used for predicting the unknown value of a variable from the known value of one variable (Saunders, Lewis & Thornhill, 2009). In this study, simple linear regression analysis helped predict financial performance from banc– assurance. The regression model is based on several assumptions; linearity of residuals, normality of residuals, auto correlation of residuals and homoscedasticity.

Scatter plot was used to test linearity of residuals. A scatter plot of residuals and y values was drawn. ZRESID values were recorded on the vertical axis and ZPRED plotted on the horizontal axis. If the scatter plot follows a linear pattern, not a curvilinear pattern that shows that linearity assumption is met (Lind, Marchal, & Wathen, 2012). The linearity assumption was upheld in this study as the residual points followed a linear pattern and not a curvilinear pattern as shown in the figure below:



Fig 4.1: Scatter plot for test of Linearity

In regards to normality of residuals, it implies that residuals are normally distributed. Kolmogorov – smirnov and Shapiro - wilk test were conducted. The former is suitable for large samples while the latter for small samples. A p - value greater than 0.05 means that the residuals are normally distributed (Lind, Marchal, & Wathen, 2012). Shapiro - wilk has a p value of .241 implying that in this study the residuals were normally distributed.

Table 4.5: Test of Normality of Residuals

Tests of Normality	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Financial performance	.439	35	.154	.606	35	.241

a. Lilliefors Significance Correction

Auto correlation among study variables means that successive observations of the dependent variable are not correlated. This indicates that successive residuals have no pattern and are not highly correlated and there are no long runs of positive or negative residuals (Saunders, Lewis, & Thornhill, 2009). The Durbin-Watson's d tests the null hypothesis that the residuals are not linearly auto correlated (Kothari, 2004). The value of d lies between 0 and 4, values around 2 indicate no autocorrelation. As a rule of thumb values of 1.5 < d < 2.5 show that there is no auto-correlation in the data (Saunders, 2009). The value of Durbin Watson was at 1.797 which indicates no autocorrelation among the variables as shown in Table 4.6:

Table 4.6: Auto correlation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.890 ^a	.792	.777	1.78090	1.797

Homoscedasticity assumption implies that the variation in the residuals is the same for both large and small values of the predicted value of the dependent variable (Kothari, 2004). A scatter plot of residuals and y values was drawn. Y values were taken on the vertical y axis, and standardized residuals (ZRESID) were plotted on the horizontal x axis. If the residuals do not fan out in a triangular fashion that means that the

homoscedasticity assumption is met. The figure below shows that the residuals are not in a triangular fashion which implied that the homoscedasticity assumption was upheld.



Fig 4.2: Test of Homoscedasticity

The standardized beta coefficient was .324 when ROE is used as the proxy for financial performance. The results of beta coefficient are .607. Implying that a unit change in banc- assurance influenced .607 changes in ROE as shown in Table 4.7:

Table 4.7: Coefficients Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.434	1.725		-.831	.420
	Bancassurance	.204	.071	.607	2.860	.013

a. Dependent Variable: ROE

Analysis of variance is a statistical technique which measures the differences in means, in this study it was between financial performance and its predictor variable. The results are shown in the Table 4.8:

Table 4.8: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9.564	1	9.564	8.177	.013 ^b
	Residual	16.374	14	1.170		
	Total	25.938	15			

a. Dependent Variable: ROE
b. Predictors: (Constant), Bancassurance

The value of F- statistic was 8.177 at 1 degrees of freedom. At 95% confidence level the effect size of the regression model is significant ($p=0.013$) indicating that Return on Equity can be predicted from banc-assurance. From the results in Table 4.6, $R = .607$, R square = .369, adjusted R Square = .324, and the standard estimate error = 1.08146. R coefficients indicate the degree of linear relationship between the outcome variable with the predictor variable, whereas the coefficient of determinations R square shows the provision of the total variation in financial performance as explained by the independent variable, banc-assurance in the regression equation. The adjusted R square gives us the coefficient of determination indicating that the independent variables explains 32.4% change in financial performance as shown in Table 4.9:

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.607 ^a	.369	.324	1.08146	1.814

a. Predictors: (Constant), Bancassurance
b. Dependent Variable: ROE

The study also used ROA as a proxy for financial performance. The standardized beta coefficient was .154 when ROA is used as the proxy for financial performance. The results of beta coefficient are .154 implying that a unit change in banc-assurance influenced .154 changes in ROA as shown in Table 4.10:

Table 4.10: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.793	2.645		.678	.509
	Bancassurance	.064	.109	.154	.582	.030

a. Dependent Variable: ROA

Analysis of variance is a statistical technique which measures the differences in means, in this study it was between financial performance and its predictor variable. The results are shown in the Table 4.11:

Table 4.11: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.931	1	.931	.338	.020 ^b
	Residual	38.507	14	2.750		
	Total	39.438	15			

a. Dependent Variable: ROA
b. Predictors: (Constant), Bancassurance

The value of F- statistic was .338 at 1 degrees of freedom. At 95% confidence level the effect size of the regression model is significant (p=0.570) indicating that Return on Assets can be predicted from banc-assurance. From the results in Table 4.12, R = .154, R square = .024, adjusted R square = -.046 and the standard estimate error = 1.65845. Banc-assurance explains 4.6% changes in the financial performance as shown in Table 4.12:

Table 4.12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.154 ^a	.024	-.046	1.65845	1.440

a. Predictors: (Constant), Bancassurance
b. Dependent Variable: ROA

The results of composite financial performance are as elucidated below. The results of standardized beta coefficient are .890. Implying that a unit change in banc-assurance influenced .890 changes in financial performance as shown in Table 4.13:

Table 4.13: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-6.873	2.840		-2.420	.030		
	Bancassurance	.859	.117	.890	7.307	.000	1.000	1.000

a. Dependent Variable: Financial Performance

The value of F- statistic was 53.395 at 1 degrees of freedom. At 95% confidence level the effect size of the regression model is significant (p=0.000) indicating that financial performance can be predicted from banc-assurance.

Table 4.14: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	169.347	1	169.347	53.395	.000 ^b
	Residual	44.403	14	3.172		
	Total	213.750	15			

a. Dependent Variable: Financial
b. Predictors: (Constant), Bancassurance

From the results in Table 4.15, R = .890, R square = .792, adjusted R Square = .777, and the standard estimate error = 1.78090. Bancassurance explains 77.7% change in financial performance.

Table 4.15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.890 ^a	.792	.777	1.78090	1.797

a. Predictors: (Constant), Bancassurance
b. Dependent Variable: Financial Performance

The study had proposed the null hypothesis that banc-assurance has no significant effect on Return on Equity of Tier 1 banks in Kenya (H_01). The effect was found to be significant ($p < 0.05$). The hypothesis was therefore rejected implying that banc-assurance has a significant effect on firm's financial performance. The second null hypothesis was that banc assurance has no significant effect on Return on Assets of Tier 1 banks in Kenya (H_02). The effect was found to be significant ($p < 0.05$). The results of this study are in tandem with the findings of Arora and Manish (2013); Scovier (2015); Waweru (2014) that banc assurance has a significant effect on the financial performance of Tier 1 bank assurers in Kenya.

V. Conclusion and Recommendations

The study concludes that banc-assurance has a significant effect on the financial performance of Tier 1 banks offering insurance services and/or products. From the extant literature, it is clear that the number of customers, market share of the bank, loan portfolio and deposits of the bank, cross marketing activities of the banks has improved as a result of banc assurance activities. There exists a joint venture between some of the Tier 1 banks and insurers to provide life insurance products to bank customers for better financial protection. Banc-assurance models adopted by the Tier 1 bank assurers can either be distribution partnership, strategic alliance, joint venture and integrated banc-assurance. Banc-Assurance brings economies of scale; it makes it easier to attract professional management, gain access to international financial markets, or to gain political power in countries where government tries to manage the economy or where laws and regulations are erratically enforced.

As much as the study concludes that banc assurance increases a firm's financial performance the same is not fully reflected on the ground. For example, Commercial Bank of Africa is finalizing on their partnership with NIC bank so as to improve its financial performance. Therefore the study recommends that Tier 1 Bank assurers should undertake due diligence when selecting the best banc – assurance model to adopt when diversifying their portfolios. Tier 1 bank assurers should consider a portfolio that gives both maximum expected returns and minimum variance when choosing the best portfolio for diversification.

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