EFFECT OF BANCASSURANCE ON THE TRADITIONAL DISTRIBUTION CHANNELS OF INSURANCE COMPANIES IN KENYA

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DECLARATION AND RECOMMENDATION

Declaration

This research project is my original work and has not been submitted to any other institution of higher learning.

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CM11/62515/14

Recommendation

This research project has been submitted for examination with my consent as the supervisor

Signature…… Date…29/5/2019

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DEDICATION

I dedicate this project to my beloved parents for their moral, spiritual and financial support during my study. May God Almighty bless them.

ACKNOWLEDGMENT

I would like to thank Jehovah God Almighty for having guided me throughout my studies. I would like to thank Egerton University for making it possible for me to reach this far. I would like to thank my supervisor Dr. Justus Tari for his continuous and tireless assistance he has offered towards making this project a success. I also take this opportunity to thank my parents for their support and encouragement.

ABSTRACT

Distribution is a key determinant of success of all insurance companies involving a combination of different decisions regarding various channels of distribution. As competition in the insurance industry intensifies, cost savings and customer retention has become critical, forcing insurers to look for ways to drive sales and customer convenience while keeping costs low and maintaining profitability. These factors have led to emergence of new channels such as bancassurance thereby bypassing traditional channels such as brokers and agents. Bancassurance has emerged as an important distribution channel across different countries. Bancassurance as a term first appeared in France in 1980, to define the sale of insurance products through banks distribution channels. The purpose of the study is to assess the effect of bancassurance on the traditional distribution channels of insurance companies. The study specifically focused on the effects of life bancassurance, non-life bancassurance and health bancassurance on the traditional distribution channels of insurance companies. The study used a descriptive research design. The study targeted 55 marketing managers of insurance companies in Kenya and data was collected by use of a questionnaire. The data obtained was cleaned, coded and statistical analysis done with the aid of SPSS. Descriptive and inferential statistics were employed to analyze the data. Descriptive statistics included mean, standard deviation, frequencies and percentages while inferential statistics included simple and multiple regression analysis. The results showed that life bancassurance had a positive and significant effect on the use of traditional distribution channels of insurance companies in Kenya. Further, non-life bancassurance had a positive and significant effect on the use of traditional distribution channels of insurance companies in Kenya. In addition, the study found that health bancassurance had no significant effect on the use of traditional distribution channels of insurance companies in Kenya. The study also found that life, non-life and health bancassurance have a joint effect on the use of traditional distribution channels of insurance companies in Kenya. However, while life bancassurance and non-life bancassurance have a positive effect on traditional distribution channels of insurance companies, health insurance had no significant effect. The study recommends that the government of Kenya should come up with policies to guide the alliance and partnerships between insurance companies and commercial banks as a way of improving the penetration of bancassurance. In addition, the insurance companies should make use of bancassurance in the distribution of products such as unit-linked policies, endowment policies, term assurance policies, group life policies and term policies. Also, insurance companies should come up with strategies to use bancassurance in the distribution of personal insurance, motor insurance, property insurance, liability insurance and Work Injury Benefits Act (WIBA) policies. Further, due to convenience to customers, insurance companies should start distributing health insurance products such as individual health policies, outpatient cover and maternity cover through bancassurance.

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LIST OF ABBREVIATIONS AND ACRONYMS

AKI	Association of Kenya Insurers
ANOVA:	Analysis of Variance
CAGR:	Compound Annual Growth Rate
CCR	Charnes, Copper and Rhodes
CCR:	Charnes, Copper and Rhodes
CEA	Curriculum, Examinations and Assessment
DEA	Data Envelop Analysis
GDP:	Gross Domestic Product
ICICI:	Industrial Credit and Investment Corporation of India
IP:	Insurance Products
IRA	Insurance Regulatory Authority
LIMRA:	Life Insurance Marketing and Research Association
OECD:	Organization for Economic Co-operation and Development
SWOT	Strength Weakness Opportunities Threats
UK:	United Kingdom
USA	United State of America
WIBA:	Work Injury Benefits Act

CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Distribution is the method through which a good or service passes until it reaches the end consumer. A distribution channel can include wholesalers, retailers, distributors and even the internet (Bashir, 2019). Channels are broken into direct and indirect forms, with a direct channel allowing the consumer to buy goods or services from the company and an indirect channel allowing the consumer to purchase the goods from an intermediary. Distribution is a key determinant of success of all insurance companies involving a combination of different decisions regarding various channels of distribution. Over the last few decades, continued environmental, operational and technological changes have led to the development of multiple distribution channels in the insurance industry (Clontz, 2017). As competition in the insurance industry intensifies, cost savings and customer retention has become critical, forcing insurers to look for ways to drive sales and customer convenience while keeping costs low and maintaining profitability. These factors have led to emergence of new channels such as bancassurance (Powell, 2012). With advancement in technology, changes in customer behavior and preferences around products, insurers have been forced to explore and develop alternative distribution channels. These channels now help insurers directly reach their target consumers, bypassing traditional channels such as brokers and agents (Bashir, Madhavaiah, & Naik, 2013).

The past 20 years has seen the traditional intermediaries in the insurance market face challenging conditions as liberalization and innovation alter the competitive landscape. The agency channel has lost significantly especially in Europe (Raghu, Jayaraman, & Rao, 2014). The broker channel has been stable or has lost share particularly in non-life insurance while direct business has experienced notable declines especially in France, Italy and Spain due to a switching from bricks and mortar direct routes in life insurance to bancassurance (Mbhele, 2016). Bancassurance has been a major trend in itself with several reasons accredited for it success. Banks have key informational advantage with access to high quality information about their clients; they enjoy cost advantage by making extensive use of their customer database to target specific client bases and the changing institutional and regulatory environment has enabled banks to sell insurance products to divergent tax treatments (Fiordelisi & Ricci, 2011).

Nazarathy and Weiss (2010) indicate that the three basic models of bancassuarance include joint venture, strategic alliance and the financial services group investment (investment option) and they are practiced in different countries namely, Japan, Thailand, Europe, USA and African countries. According to Fan and Cheng, (2009) the efficiency score of a direct marketing channel in Taiwan was significantly higher than that of a comparable indirect channel, the efficiency relationship between the indirect marketing channel and the direct marketing channel as independent and finally, a marketing efficiency evaluation, when divided into different marketing channels for evaluation, provides meaningful results for marketing decision makers. Chang, Peng and Fan (2011) argue that the relationship between bancassurance channels and traditional sales channels in Taiwan is independent with regard to their efficiency. That is, life insurance companies that perform well in their traditional sales channels do not necessarily perform well in their bancassurance channels. Therefore, a salesperson in a traditional sales channel sells diversified financial products to function well in bancassurance channels. In addition, insurers were to undertake their bancassurance activities by pursuing mergers and acquisitions, which can help minimize the difference in the efficiency of the bancassurance channel vs. traditional sales channel (Marzai, 2018).

In India, Ali and Chartley (2013) found that after agents, banks were the preferred medium of buying insurance because of the bank commitment, cost effectiveness and return of investment. Also, given that the benefits of updated policy information and ease in premium payment and claims receiving, a majority of the customers are willing to purchase their future insurance through the bancassurance model. Hence conveying that the future of bancassuarance can be bright in India too if the tying up companies can channelize their efforts effectively to tap the customer needs.

Gonulal (2012) argue that there is a significant difference in the purchase of life insurance policies from the banking channel Vis a Vis the agency channel. While internal customer satisfaction is affected due to bancassurance channel, external customers do not have any such preferences. Brand name of the partner, wider market coverage due to the partnership and mutual interest of both partners were the main reasons behind the partnerships between banks and insurance companies. With regards to the strength of the distribution partnerships, mutual interest, wider reach and increased reputation due to the tie-up are considered to be the main contributors. Therefore, customer requirement, market reputation, brand synergy between the participating companies and reach of the banks are areas that bancassurance partnership must continuously work on for success.

1.1.1 Bancassurance

Bancassurance has emerged as an important distribution channel across different countries (Nicoleta, 2015). Bancassurance as a term first appeared in France in 1980, to define the sale of insurance products through banks distribution channels. Bancassurance is a combination of two words 'banc', and 'assurance' which refers to banks selling insurance products. It describes a package of financial services that can fulfill consumers banking and insurance needs. According to Wong (2007), banc assurance is a strategy adopted by banks or insurance companies aiming to operate the financial services market in a more or less integrated manner. It is the arrangement whereby branches of a bank distribute insurance products by an insurance company owned wholly or partially by the bank, or the branches distribute products developed by other insurance companies with which the banks have entered into selling arrangement.

The Life Insurance Marketing and Research Association's (LIMRA'S) insurance dictionary defines bancassurance as "The provision of insurance services by banks and building societies. According to the Insurance Regulatory Authority (2015), bancassurance refers to banks acting as corporate agents for insurers to distribute insurance products. Bancassurance offers consumers a one-stop-shop option for a larger range of financial product. It is at present used to describe all kinds of relationship between the banking and the insurance industry. Under the bancassurance business model, the bank acts as an intermediary, helping an insurance company to reach its target customers so as to increase its market share, an arrangement which seems to have mutual benefits for both the banks and insurance companies alike. The benefit for the banks is that they can use their existing staff to earn fee-non-interest income by delivering insurance services in addition to their existing tasks whilst the insurers can gain access to new customers through this new distribution channel, thereby increasing their premium income (Gonulal, 2012).

Bancassurance has developed at an unusual speed and has taken different shapes and forms in different countries depending on demography, economic and legislations in that country (Khalil, Martimort & Parigi, 2017). During the last two decades, bancassurance has been well established in various countries, especially in Western Europe accounting for 35 per cent of the premium income in the European life insurance market. In the Asian markets and Japan, bancassurance increased its market share significantly from 8.5 per cent in 2004 in South Korea compared to 0 per cent prior to 2003, 16 per cent in China in 2006, 33 per cent in

Taiwan in 2006 and 45 per cent in Malaysia in 2006 (Nazarathy & Weiss, 2010). The life bancassurance model was also successful in Brazil attaining a market share of 55 per cent, although less important in Chile and Mexico at 13 per cent and 10 per cent respectively. The development of banc assurance is closely related to the regulatory climate of a country, helping to explain differences in its importance across different countries (Cummins & Doherty, 2006). The increase in banks' market share has come mainly at the expense of agents, brokers and direct sellers. Several factors have been accredited to the success of bancassurance across the different countries including information advantage where banks are well suited to be the first to meet clients in their purchasing cycle for investment products and therefore can be proactive in proposing products based on their clients' financial needs (Darabi & Jalali, 2019). Other factors include institutional and regulatory environment with the integration of the banking and insurance sector and cost where bank employees tend to be cheaper than insurance agents (Chakraborty, 2013).

1.1.2 Traditional Distribution Channels

Apart from bancassurance, other distribution channels for insurance companies exist which include agents, brokers and direct business. Agents are intermediaries linked to one or more insurers on behalf of which they distribute products. A distinction can be made between single –tied agents who sell products exclusively from one provider and multi-tied agents who have agreements with more than one insurer, yet fall shy of full market coverage (Clipici & Bolovan, 2012). Traditionally, tied-agents have been the primary channels for insurance distribution in many parts of the world like India where the public sector insurance companies have their branches in almost all parts of the country and have attracted local people to become their agents. The agents are from various segments in the society and collectively cover the entire spectrum of the society. A person who has lived in the locality for many years sells the products of the insurance company with a local branch nearby (Smith, Hately & Bennett, 2012). Customers trusted the agent and the company, and this arrangement worked adequately in the absence of competition. Tied and multi-tied agents also remain the most important channel in both life and non-life insurance in Germany. However their dominance is considered to have declined over the past few decades since the liberalization of the market in the 1990s (Connor, 2019). Agents have also traditionally dominated the non-life insurance market in France accounting for 68 per cent of the distribution channels market share and 75 per cent in the Italian market. The most frequent reasons cited for the success of agents in the non-life insurance sector are their widespread

geographical presence, technical knowledge, alignment of incentives with the insurance company policy and loyalty (Chakraborty, 2013).

According to Cummins, Ray, & Vaughan, (2007) brokers are intermediaries who are independent of the insurers and typically have access to the whole market or a wide selection of it. They are registered under the Insurance Act (cap.142) of the UK Law to carry on insurance business as agents of insureds or intending insureds. They advise individual and corporate buyers of insurance on their insurance needs. They act on their clients' behalf to negotiate and obtain the most appropriate insurance covers at competitive premium rates from their insurers, exercising care and skill in doing so. They are generally classified into three categories: direct insurance brokers, general reinsurance brokers and life reinsurance brokers.

Reinsurance brokers negotiate reinsurance contracts between the ceding insurers and reinsurers. They generally represent the ceding insurers for placing their reinsurance business and perform other necessary services. Unlike an agent, a broker is free to place the client's insurance business with any number of insurers (Jarka, 2018). Although insurance buyers (ordinary retail consumers) may deal directly with insurer, the vast majority of the commercial businesses are usually transacted through registered brokers. The complexity of many commercial risks and large premiums involved often renders the broker's services invaluable to the insured. This is the case in the United Kingdom insurance market where brokers are the dominant model for distributing insurance products to commercial clients accounting for 80 per cent of all commercial premiums written. The overwhelming success of brokers is due to a number of factors including reduced research costs, technical knowledge and informational advantage (Cummins & Doherty, 2006).

Direct business is where sales are made directly by the insurer who has a direct link with the final consumer and does not make use of third parties to facilitate the transaction. Direct sales can take different forms: face-to-face and remote which include internet, telephone and mail. As customers continue to integrate the use of the internet in their daily lives, this has become an attractive medium through which firms can advertise and distribute insurance products (Sharma, 2017). Insurers have directly marketed personal lines such as personal accident insurance, travel insurance, private motor insurance, household insurance, hospital income insurance, Golfer's insurance and domestic maid package insurance through their informative websites. Intending insureds self-declare their pertinent information in the simplified online

proposal forms. Insurance product quotations and policy wordings are made available online. Payment of premiums is instant, made easy through online payment via credit cards. Insurers also periodically send out promotional product brochures direct mails to existing policyholders without servicing agents. Direct business seems to be dominant in both retail and non-motor insurance segment in the United Kingdom accounting for 31 per cent of the market share (Chakraborty, 2013).

1.1.3 Insurance Industry in Kenya

The insurance industry in Kenya consists of among other key players, 55 registered insurance companies (IRA, 2017). According to the AKI 2017 report, insurance is divided into two major classes; life insurance and non-life insurance and an insurance company may choose to underwrite either of the two classes of business or may underwrite both. However, health insurance is emerging as one of the major classes of Insurance according to the to the IRA 2017 report. Despite having such a large number of insurance companies, insurance adoption level is still very low. However, in recent times, the Kenyan market has witnessed the acquisition of insurance firms by banks in a bid to diversify their income channels and to secure their customers, a clear indication that there is a great potential for the growth of bancassurance in Kenya. Insurance penetration has greatly improved mainly because of the fact that banks are found almost everywhere and at the same time the banking sector has also achieved a deeper sense of penetration especially within the rural areas where insurance companies are very few or have no branches at all. Bancassurance has also improved the quality of insurance that customers get because banks are able to negotiate better terms with insurance companies due to the bulk business that they offer. Consumers are therefore able to get cheaper and comprehensive covers (IRA, 2017).

1.2 Statement of the problem

The insurance industry in Kenya has undergone tremendous changes over the years with the industry experiencing a large increase of new entrants into the market. Currently there are about 55 registered insurance companies in Kenya (IRA, 2017). This has resulted in intense competition among the insurance companies in order to establish a market share hence giving rise to innovative products and new distribution channels to market insurance products. One such product is bancassurance which is a process whereby insurance products are sold to customers via their banks.

The Kenyan insurance industry has been depending a lot on agents and brokers to vend insurance products. Since the proxy and dealer led channels have failed to accomplish significant penetration of insurance of insurance, there is need for the insurance industry players to embrace new and more competent channels such as bancassurance (Kirui, 2009). Factors such as expansion of existing market, access to ready client base of banks motivate insurance companies to enter into bancassurance. Apart from the ability to tap into new customer group, escaping from the high costs of captive agents and thus increase premium turnover is another reason prompting insurers to look into bancassurance. Customers also prefer bancassurance to purchase policies due to more benefits and authenticity. This has in turn put pressure on insurance brokers and agents who have had to lower their prices in an effort to remain competitive. Insurance companies that disregard bancasurance risk losing out on the huge customer base of banks resulting to reduced sales turnover. They also stand to lose on the benefits associated with bank premium financing and cheaper distribution though the banks' wider area coverage (AKI, 2017).

Several studies have been done on bancassurance as a choice of distribution of insurance products by insurance firms. For instance, Njeri (2017) conducted a study on the effect of bancassurance on the performance of insurance companies in Kenya; Scovier (2015) examined the effect of bancassurance on financial performance of insurance companies in Nairobi County; and Ombonya (2013) examined bancassurance as a penetration strategy used by insurance companies in Kenya. However, these studies did not show how bancassurance affects the use of traditional distribution channels. This study therefore sought to fill the research gaps by investigating the effect of bancassurance on the traditional distribution channels of insurance in Kenya.

1.3 Objectives of the Study

The main objective of the study was to assess the effect of bancassurance on the traditional distribution channels of insurance companies.

The specific objectives were;

i. To determine the effect of life bancassurance on the traditional distribution channels of insurance companies in Kenya.
ii. To determine the effect of non-life bancassurance on the traditional distribution channels of insurance companies in Kenya.

iii. To determine the effect of health bancassurance on the traditional distribution channels of insurance companies in Kenya.

iv. To determine the joint effect of life, non-life and health bancassurance on the traditional distribution channels of insurance companies in Kenya.

1.4 Research Hypotheses

This study sought to test the following hypotheses;

Ho1: Life bancassurance has no significant effect on the traditional distribution channels of insurance companies in Kenya.

Ho2: Non-life bancassurance has no significant effect on the traditional distribution channels of insurance companies in Kenya.

Ho3: Health bancassurance has no significant effect on the traditional distribution channels of insurance companies in Kenya.

Ho4: Life, non-life and health bancassurance have no significant effect on the traditional distribution channels of insurance companies in Kenya.

1.5 Significance of the Study

The study provides insight into the effect of bancassurance on the traditional distribution channels of insurance companies which becomes a valuable source of knowledge to insurance companies. Insurers can adopt this in order to remain competitive in this dynamic market. It provides insight on how an insurer can establish itself more quickly in a new market using a local bank's existing network and significantly extend its customer base and enjoy access to customers who were previously difficult to reach.

To banks, the study assists them on how to create new revenue flows and diversify their business activities. It may also enable banks to become a one-stop shop for financial services where all customers' needs, whether financial or insurance related can be met. To the regulators, the study enables them set regulations that may be used to ensure that the risks taken by their country's financial institutions are actively managed and controlled in such a way as to maintain sound national finances. Bancassurance can be a means of limiting these systematic risks because it diversifies the banks' sources of revenue, making its business more stable and thereby safer for its customers too. The study may also assist other researchers and academicians to build their knowledge on matters relating to bancassurance,

in particular the effect of bancassurance on the traditional distribution channels of insurance companies.

1.6 Scope of the Study

The present study was about the effect of bancassurance on the traditional distribution channels of insurance companies and a census was conducted on all the insurance companies head offices in the city of Nairobi offering bancassurance services. The study was carried out between January 2017 and October 2018.

1.7 Limitation of the Study

This study used questionnaires to collect data. However, questionnaires have low validity and there is no way of knowing whether the respondents were telling the truth. In addition, questionnaires depend on the respondents' ability to remember and hence are subject to recall bias. To mitigate this, validity and reliability of the instrument was used to determine whether what they indicate meets the required standard through pre-testing. Further, the collection of data through questionnaires depends on the respondents' willingness to answer the questions. The marketing mangers feared to fill the questionnaires due to fear of victimization. In addition, they may feel as if they are being investigated and hence give biased information. To mitigate this, the researcher assured the respondents that the information collected was used for academic purposes only.

1.8 Definition of key terms

Bancassurance: This is an arrangement whereby banks to distribute insurance products of insurance companies with which the banks have entered into selling agreements.

Insurance agents: are intermediaries linked to one or more insurers on behalf of which they distribute insurance products.

Insurance brokers: these are intermediaries who are independent of the insurers and typically have access to the whole market or a wide selection of it.

Direct selling: This is where sales are made directly by the insurer who has a direct link with the final consumer and does not make use of third parties to facilitate the transaction.

Distribution channel: This is the method through which a good or service passes until it reaches the end consumer. It can include wholesalers, retailers, distributors and even the internet itself.

Life insurance: This is insurance that pays out a sum of money either on the death of the insured person or after a set period.

Non-life insurance: is insurance that provides payment depending on the loss from a particular financial event.

Health insurance: This is insurance taken out to cover the cost of medical care.

Traditional distribution channels of insurance: It constitutes licensed insurance agents, brokers and direct selling.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter looks at the effects of bancassurance on the traditional distribution channels of insurance companies in Kenya from a theoretical perspective citing the works of different authors outlining arguments for and against in relation to the study. It presents review of literature in relation to the research questions at hand. The chapter also covers empirical literature and conceptual framework in relation to the variables of the study.

2.1 Theoretical Literature

The theoretical literature will analyze theories and concepts that propose the rationale behind bancassurance as a distributional channel. The theories that will be used include: Transaction Cost Theory, Theory of Push and Pull Bank Insurance and Agency Theory.

2.1.1 The Transaction Cost Theory

The theory of transaction cost was developed by Ronald Coase in the year 1937. Transaction cost economics has been used to model product distribution choice. The transaction cost theory holds that every person seeks to conduct transactions by bearing the lowest possible cost (Jarka, 2018). A transaction is a process by which a product or service is transferred across a technologically separate interface. Since buyers do not possess enough information regarding their purchase, they have to carry out market research to negotiate the terms of purchase in their favor and monitor the delivery process. All these transaction related actions form the transaction cost (Darabi & Jalali, 2019). The transaction cost theory endeavors to find out whether under certain circumstances the minimization of transactions can be achieved by transacting in the open market e.g. through intermediaries or by establishing an internal mechanism within the corporation e.g. direct selling, to coordinate the transactions. According to the theory, three variables must be considered when determining which transaction method minimizes transaction costs. This includes, uncertainty, asset specificity and the frequency of the transaction (Jarka, 2018).

According to Teo & Yu, (2005), uncertainty is caused by both bounded and rationality, opportunism and information asymmetries. When the uncertainty is high and the outcome ambiguous, the theory proposes that an organization should develop an internal mechanism

that directs business rather than transacting in the open market through intermediaries (Xue, *et al.*, 2018).

Lin, (2019) defined asset specificity ass the level of customization of the invested capital that supports the transaction process of the company. When an insurer is afraid of the opportunistic behavior of third parties, they will increase asset specificity by investing in complex structures that will increase their control over the transacting party. A firm should only invest in an internal organization and in-house production if the frequency of transaction is big enough to justify the necessary costs (Jarka, 2018).

Since an intermediary e.g. a broker or agent can spread its costs among many clients, it is deemed more viable for smaller companies. For those insurers who aim at spreading their high fixed costs to as many customers as possible then direct selling becomes a suitable option. When the capital invested in human and monetary increases, independent agents and brokers become useful to serve the complex and customized needs of affluent customers (Xue, *et al.*, 2018).

2.1.2 Theory of Push and Pull in Bank Insurance

The theory of push and pull was first developed by Fredrick Winslow in 1911. This was during the days when the Principles of Scientific Management were being developed. Due to globalization, technology transfer, growing demand in property insurance, motor insurance and life insurance in today's market, insurance companies are pushing solutions via bank insurance services. Currently, majority of the insurance companies are driving their market share by embracing push model rather than pull model. The push concept is a process whereby the insurance entities and banks provide information and solutions in a generally accessible format. It involves taking the products directly to the customer which ensures that they are aware of your brand at the point of purchase (Mbhele, 2016).

The push model allows the policy holders and potential clients to determine what best suits their needs from the insurance companies. One of the base assumptions about pushing solutions to motor insurance, property insurance and life insurance to clients is that the insurance companies or banks can be in a vital position to anticipate the needs of different policy holders and potential customers in advance of the need and prepare the solution ahead of time (Kordi, 2018).

This theory is relevant to the insurance entities and banks in that it emphasizes on the push factor with the aim of minimizing the amount of time between a customer discovering an insurance product and buying that product which tend to increase their business efficiency in the market. They believe that if, for instance, they create the penultimate user manual that they will cover all of the questions the insurance customer might have, they will limit the amount of contact the customer needs to make to the insurance companies and bank separately. Applying push model in the insurance organization can limit some of the areas for which service is provided which again might provide efficiency in the training of support personnel (Nazarathy & Weiss, 2010).

In relation to this study, the theory explains how pulling solutions has always been a part of most insurance firms where customers come to purchase insurance products being advertised. A customer would visit the banks or insurance providers and ask questions and someone would answer them. In the case of "pull," the customer decisiveness into making choices on their wants reduces the cost involved in accessing such services or products. This is being used more often as consumers have begun to distrust the solutions provided directly by organizations and wish to do the research themselves. This elaborates on the adoption of bancassurance services by different clients in motor, property and life. This model requires the business or organization to provide as much materials as possible in as many formats as possible and hope that the customer discovers the solution. The push approach is efficient from the customer's or the organizations point of view (Nazarathy & Weiss, 2010).

2.1.3 Agency Theory

Agency theory was developed by Stephen Ross and Barry Mitnick in 1970s. The theory states that an agency relationship arises where one or more parties called the principal contracts/hires another called an agent to perform on his behalf some services and then delegates decision making authority to that hired party (Agent). As result of these relationships, there are different agency problems: shareholders and management, shareholders and creditors, shareholders and the government, shareholders and auditors and finally headquarter office and branch or subsidiary (Li, 2011).

The drivers' activing these agency problem: incentive, consumption of perquisites, different risk-profile, different evaluation horizons, Management Buy Out (MBO), Pursuing power and self-esteem goals, and creative accounting. In most agency relationships the principal and the agent will incur positive monitoring and bonding costs (non-pecuniary as well as

pecuniary). There are some divergence between the agent's decisions and those decisions which would maximize the welfare of the principal. The dollar equivalent of the reduction in welfare experienced by the principal as a result of this divergence is also a cost of the agency relationship, and we refer to this latter cost as the residual loss (Khalil, Martimort & Parigi, 2017).

The nature of the claims settlement process provides a complex set of incentives for customers, insurers, and agents. Claims settlement procedures differ according to the incentives associated with the various types of policies. Insurers, like other firms, are driven by profit maximization firms handle claims settlement in a fashion that minimizes costs. Incentives for claims settlement procedures are examined in the various organizational forms. There is a great emphasis for corporate control and viewed managers as a threat of takeover if a firm's management lagged in performance either because of inefficiency or because of agency problems (Raghu, Jayaraman & Rao, 2014).

In relation to this study, the theory explains the relationship between the banking and insurance industry. The theory attempts to deal with two specific problems: first, that the goals of the principal and agent are not in conflict (agency problem), and that the principal and agent reconcile different tolerances for risk. On the other hand mergers may be a manifestation of the agency problem rather than the solution. One reason often given for a merger is that it will increase a firm's market share, but it is not clear how increasing the market share will achieve economies or synergies. Henceforth, the survival of the mutual form is due to the characteristics of financial intermediation (Li, 2011).

2.2 Empirical Studies

This section presents a review of empirical literature on the effect of life bancassurance, non-life bancassurance and health bancassurance on use of traditional distributional channels.

2.2.1 Life Bancassurance

Bancassurance has developed at an unusual speed and has taken different shapes and forms in different countries depending on demography, economic and legislations in that country. During the last two decades, bancassurance has been well established in various countries, especially in Western Europe. Bancassurance contributes 35 per cent of premium income in the European life insurance market. Bancassurance for unit – linked products was notably strongly developed in Italy standing at 91 per cent, Belgium 74 per cent, France 65 per cent

and Croatia at 55 per cent (Fields, Fraser & Kolari, 2017). In France, the increase in banks' market share comes mainly at the expense of agents and direct sellers. Several factors have been accredited to the success of bancassurance in life assurance in France including informational advantage where banks are well suited to be the first to meet clients in their purchasing cycle for investment products and therefore can be proactive in proposing product based on their clients' financial situation and investment needs. Another reason that has led to the success of bancassurance was the issue of trust where banks are considered to have a better professional image than insurance companies. The third reason is the institutional and regulatory environment where in the mid-80's a significant privatization of the banking sector took place creating new banking entities with a significant appetite for profit, and life assurance was seen as an ideal area to expand into (Chakraborty, 2013).

In Italy, the large market share is driven by several factors. The institutional and regulatory environment has seen the financial deregulation and integration between the banking and insurance sectors and cross-selling where investment funds are sold together with insurance products. Banks have a clear advantage in distributing these products because of their ability to act proactively based on a ready-made understanding of the clients' overall financial situation and investment needs. The same situation is replicated in Spain where bancassurance plays a predominant role in the life segment accounting for 70 per cent of the premium distribution. Reasons behind its success include institutional and regulatory environment with the integration of the banking and insurance sector, cost where bank employees tend to be cheaper than insurance agents and proximity where banks can develop closer ties with their clients as customers visit banks more frequently. However, a potential shortcoming of the Spanish bancassurance model is the relative lack of expertise amongst bank employees in insurance product (Chakraborty, 2013).

In several countries in Latin America, banks have benefited from recent reforms like financial deregulations and also by selling insurance products across the counter. In the Asian markets and Japan, bancassurance increased its market share significantly from 8.5 per cent in 2004 in South Korea compared to 0 per cent prior to 2003, 16 per cent in China in 2006, 33 per cent in Taiwan in 2006 and 45 per cent in Malaysia in 2006. The life bancassurance model was also successful in Brazil attaining a market share of 55 per cent, although less important in Chile and Mexico at 13 per cent and 10 per cent respectively. The development of bancassurance is closely related to the regulatory climate of a country, helping to explain differences in its importance across different countries (Cummins & Doherty, 2006).

Although bancassurance is the dominant distribution channel for life assurance products in Western Europe, agents also have a large market share and are particularly widespread in Eastern Europe. In Bulgaria they account for 63 per cent of the market share, 57 per cent in Slovenia, 46.5 per cent in Germany, 43 per cent in Croatia, 39 per cent in Poland and 33 per cent in Turkey. This was mainly attributed to the existence of large agent networks that distribute both non-life and life policies. Brokers also dominated the life insurance market in the UK accounting for 73 per cent of the market share, 79 per cent in Slovakia, 45 per cent in Ireland and 46 per cent in Luxemburg. This is mainly attributed to the high proportion of the life business underwritten abroad majorly relying on brokers' networks. Direct business in Europe is less developed in life than non-life although this channel was significant in turkey accounting for 42 per cent of the market share, 38 per cent in Ireland, and 35 per cent in Croatia. This low uptake in the use of the internet to purchase life products was because life insurance policies being generally complex products, purchasers often require advice to ensure that they are buying products appropriate to their needs. They generally tend to use a more traditional channel than the distance sale channel (CEA Statistics, 2010).

In USA life market, bancassurance only represented 2 per cent of the market share and Canada only 1 per cent. This low penetration was related to the legislation having changed only recently and to the attachment of consumers to traditional intermediaries with agents accounting for 35 per cent and brokers 56 per cent of the market share in the US while agents led the life market in Canada accounting for 60 per cent of the market share. In the US particularly, there were obstacles till lately and banks were not allowed to do insurance business and visa-versa. But it was recently legalized in countries such as United States when Glass – Steagall Act was abolished after passing of the Gramm – Leach Bliley Act 1999 (Urrestarazu *et al.*,2019).

Fiordelisi and Ricci, (2016) in their study of bancassurance efficiency gains in the insurance industry investigated the efficiency in the Italian life insurance industry aiming to assess if bancassurance firms outperform other companies, the study provided a comprehensive view of the phenomenon adopting both an ownership and distributional perspectives. Stochastic Frontier Analysis was applied including some firm specific factors to avoid possible estimation bias deriving from sample heterogeneity. Evidence in favor of bancassurance was significant only from the cost side; furthermore high financial content products appear less profitable than traditional insurance. The study recommended that subjects involved should

carefully adjust the product mix and choose the organizational model, considering flexible and reversible forms of cooperation.

Sreedevi and Auguskani, *(2014) conducted a study on the preference of bancassurance in* India. The study was an empirical and descriptive based study on consumer preference towards bancassurance as a distribution channel. The objectives of the study were to study the awareness of customers on bancassurance, to study the customer perception and analyze factors affecting buying of the insurance products from bank and to make SWOT analysis of bancassurance. Primary data was collected through a well-designed structural questionnaire and discussion with bank customers (Delphi technique) with or without life insurance policy – the sample size comprising of a hundred respondents were identified randomly through convenience sampling. Secondary data was collected from various publications, journals, insurance magazines, official websites annual reports and newspapers. Research findings indicated that a large number of the respondents were not aware of the concept of bancassurance as a distribution channel citing factors such as customer loyalty, positive tax benefits and loan requirements as reasons influencing buying insurance products from banks.

Paramasivan and Naidu, (2014) conducted a study on role of bancassurance in Indian life insurance business. This study was an empirical based study with an objective to understand the role of bancassurance in Indian life Insurance Industry and to measure customer awareness, satisfaction and perception towards buying life insurance products from banks. The study found that bancassurance is a new and an emerging model of channel of distribution adopted by almost all the life insurance players to increase the market share and insurance penetration.

Sharma, (2017) conducted a study on the development of bancassurance in the Indian Life Insurance Industry. The study used a descriptive research design. Bancassurance has become an important channel of distribution of the insurance products. This concept has its origins in France but has now become popular in different parts of the world. It is made up of two words – bank and assurance. Apart from the traditional and most common distribution channels like online distribution, agency, brokers and direct selling, bancassurance is seen by many as an important channel. Banks in India have a large network including in the remote areas. This has helped the Life insurance companies to get improved geographical reach. Through the development and effective use of this distribution channel, the Life insurance

players have been able to target previously untapped markets. For the banks too, it has become an important source of income.

Clantz, (2017) examined the determinants of bancassurance demand and life insurance consumption in the United States. The study adopted a descriptive research design. The results indicated that the determinants that influence the level of life insurance consumption throughout the Organization for Economic Co-operation and Development (OECD) are scrutinized with a particular focus on the influence of systems of law. The key finding highlights the importance of systems of law on consumption patterns, and specifies that there is a significant positive relationship between the French and German civil-law systems and the level of life insurance consumption within the OECD. In addition, the findings in regards to other demographic, macroeconomic and social determinants extend as well as support the existing literature in the field of life insurance.

Omibaba, (2017) conducted a study on the effect of bancassurance 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.

2.2.2 Non-Life Bancassurance

In the non-life segment in Europe, bancassurance is not very well developed representing less than 10 per cent in all countries. The highest market shares were in Turkey at 9.7 per cent, Portugal at 9.3 per cent, the UK at 9.9 per cent, France 9 per cent, the Netherlands 8 per cent and Spain7.9 per cent. Despite the fact that bancassurance had high penetration rates in life business in Europe, this wasn't the case in the non-life business due to the existence of a stronger alternative network i.e. agents. Agents and brokers were the most widespread channels for the distribution of non-life products. Agents take the lion's share and show a high level of penetration in Turkey standing at 70 per cent in 2006 and in Slovenia at 67.5 per cent (Connor, 2019).

In France, agents have traditionally dominated the market and still remains to be the situation currently accounting for 68 per cent of the market share. The prevalence of tied agents is due to some key comparative strength including widespread geographical presence, closeness to the customer base and technical expertise. In Italy, agents remain to be the most dominant distribution model accounting for 75 per cent of the non-life insurance market share. The most cited reasons for the success of agents are their widespread geographical presence, technical knowledge, alignment of incentives with insurance company policy and loyalty. In Spain, agents represent the primary mode of distribution accounting for 40 per cent of the market share. Brokers dominated the non-life market in Belgium, Ireland and the UK accounting for more than 50 per cent of the non-life premium. However, recent trends show a slight decrease in the market share of agents mainly attributed to adoption of new distribution channels by insurers such as bancassurance and internet (Chakraborty, 2013).

Satsangi, (2014) carried out a study on customer preference towards insurance services and bancassurance in India. The main objective of the study was to study the customers' preference towards insurance services in life and non-life and also to find out the awareness on bancassurance among people. The researcher took a sample of 100 respondents from Centurian Bank of Chennai and used descriptive statistics along with chi- square test awareness and preference level of the respondents. The study used factor analysis to analyze the factors affecting the extent of awareness. The results revealed that 64 per cent of the respondents were aware about Centurian bank's tie up with insurance companies. The results also revealed that health insurance by the Industrial Credit and Investment Corporation of India (ICICI), an Indian multinational banking and financial services company, was the most preferred in non -life policies. The chi-square test suggested low correlation of banc assurance clients with Centurian bank accounts. The study concluded that the level of awareness about bancassurance should be worked upon to improve insurance penetration level.

Jongeneel, (2011) did a paper on Bancasurance a case of Pan-European Country Analysis. The purpose of the research was to identify the critical drivers in bancassurance as a distribution channel of insurances. A global comparison of bancassurance was given as conducted in different business models and a descriptive section extended by an analysis of previous literature. The study considered both life and nonlife insurance. Several variables were used to measure their impact on the proportional size of bancassurance including market concentration, internet usage, size of insurance market, level of deregulation and bank branch

density. The empirical results indicated that all the five variables affect bancassurance. Study findings indicated that the evidence for size of the insurance market only holds for the non-life sample, while branch density and internet usage constrained bancassurance performance. Contrarily, market concentration and level of deregulation are perceived to facilitate bancassurance.

Kramaric and Pavic, (2018) conducted a study on the effect of bancassurance on performance of non-life insurance sector in in selected European countries. The analysis referred to 2009-2015 period and was conducted using static panel analysis. Performance measures employed comprised of sales profitability as well as profitability ratio of technical activity whereas independent variables used in the model included share of bancassurance, market share, gross written premium growth rate, claims growth rate, insurance density, share of premium in GDP, share of reinsurance and number of insurance companies. The results of the analysis in both models reveal that market share prove to be statistically significant determinant of insurance sector performance negatively affecting performance. Furthermore, insurance density has statistically significant and positive influence on performance measured with profitability ratio of technical activity.

2.2.3 Health Bancassurance

According to the Curriculum, Examinations and Assessment (CEA) March 2010 statistics on the insurance distribution channels in Europe, Brokers and agents distributed most health policies in Europe followed by direct business and bancassurance. In Portugal, bancassurance accounted for 30 per cent of the health market share. In the Netherlands, health products were mainly sold via direct writing brought about by the privatization of the health insurance regime in 2006.In Austria, Croatia and the Netherlands, direct business is the dominant non-life distribution channel accounting for 40 per cent of the market share in Austria, 70 per cent in Croatia 52 per cent in the Netherlands. This was mainly attributed to the recent privatization of the health insurance scheme, with health insurance products being distributed mainly by distance selling. Direct business also has significant market shares in non – European countries such as China accounting for 53 per cent of the market share, 45 per cent in South Korea and 27 per cent in Malaysia. In the Latin American countries, bancassurance channel was not very developed in the health sector with Brazil accounting for 13 per cent of the market share, Mexico 10 per cent and Chile 19 per cent. (Marzai, 2018).

Nicoleta (2015) investigated the effect of health bancassurance on profitable for banks and insurance companies in Romania. Descriptive research design was adopted during the study. The study established that health bancassurance is growing as an important intermediary in insurance sector since it result to total business as a distribution channel in insurance sector in Romania.

Smith, Hately and Bennett (2012) examined selling health insurance via bancassurance in the United Kingdom. Bancassurance is a growing channel in the distribution of Health Insurance in the UK. Over the past five years sales of insurance products (IP) through the bancassurance channel increased at a compound annual growth rate (CAGR) of 14.4%. Many banks will have capitalized on their large consumer base, opting to cross-sell many of their products with a protection product. Banks are able to take advantage of the fact that many potential protection consumers will already have a relationship with the bank through savings or current accounts.

Clipici and Bolovan (2012) assessed the effect of health bank assurance on traditional distribution channels of insurance firms in United State of America. The researcher adopted descriptive survey research approach. The study found that health bancassurance has significant effect on traditional distribution channel of insurance industry. The results also revealed that health bancassurance has financial benefits relate mainly to cost-sharing; both the distribution ones by using the existing territorial structures with implications aiming at reducing premium rates for clients as well as the operational ones, as it is a well-known fact that insurance companies mobilize less own funds than banks to cover claims. Further, the study established that in the process of globalization, risks often exceed the financial capacity of traditional insurers, their ability to obtain additional capital from partner banks in order to expand their business and improve solvency indicators is another significant benefit of the health bancassurance system. Furthermore, the study found that health bancassurance partnership has significant influence on the value of the insurance company.

Nyawiri and Gekara (2014) determined the effect of health bancassurance on performance of insurance companies in Kenya. The study adopted descriptive research technique. The study found that health bancassurance has significant effect on the performance of insurance companies. The results also revealed that insurance firms have gained a competitive edge by taking advantage of the already existing and expansive bank customers' database in the various banks and their branches. Moreover, the study established that health bancassurance

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has enabled insurance companies to offer differentiated products to a large number of customers thereby increase the companies' revenues and their financial performance. Further, the results revealed that health bancassurance customer base increased volume sales of health bancassurance products and services since insurance companies are exhibiting improved performance by taking advantage of existing bank customers' database in the various bank branches.

2.3 Knowledge Gap

Numerous studies have been conducted on bancassurance and the traditional distribution channels of insurance companies. However, these studies have been limited to specific countries, regions and have looked at different dependent variables. For instance, Chen (2015) examined the relationship between bancassurance and operational performance of life insurers in Taiwan; Chang, Peng and Fan (2011) conducted a Comparison of bancassurance and traditional insurer sales channels in China; Karimian (2017) examined the effect of bancassurance on bank productivity and profitability in Banking Industry in Iran; and Marzai and Neagu (2018) studied the importance of bancassurance models in North Africa. Nonetheless, different countries are characterized by different macroeconomic environments and legal frameworks and hence findings from one country cannot be generalized to another.

In Kenya, Njeri (2017) conducted a study on the effect of bancassurance on the performance of insurance companies in Kenya; Scovier (2015) examined the effect of bancassurance on financial performance of insurance companies in Nairobi County; and Ombonya (2013) examined bancassurance as a penetration strategy used by insurance companies in Kenya. However, these studies used financial performance as the dependent variable, which is different from usage of traditional distribution channels. In addition, these studies did not show how life bancassurance, non-life bancassurance and health bancassurance affect usage of traditional distribution channels.

2.4 Conceptual Framework

Conceptual framework is a diagrammatic representation on the relationship between dependent and independent variables (Mugenda, 2008). This study seeks to establish the effect of bancassurance on the traditional distribution channels of insurance companies in Kenya. The dependent variable in this study is traditional distribution channels provided by insurance broking, tied agents and direct business. The independent variables are life

bancassurance, non-life bancassurance and health bancassurance. Life bancassurance will be measured by group life and individual life while non-life bancassurance will be measure by corporate non-life and personal non-life. Health bancassurance will be measured by corporate and individual health. The intervening variable is the regulatory framework which is integrated in the study to minimize its effect on the study findings.

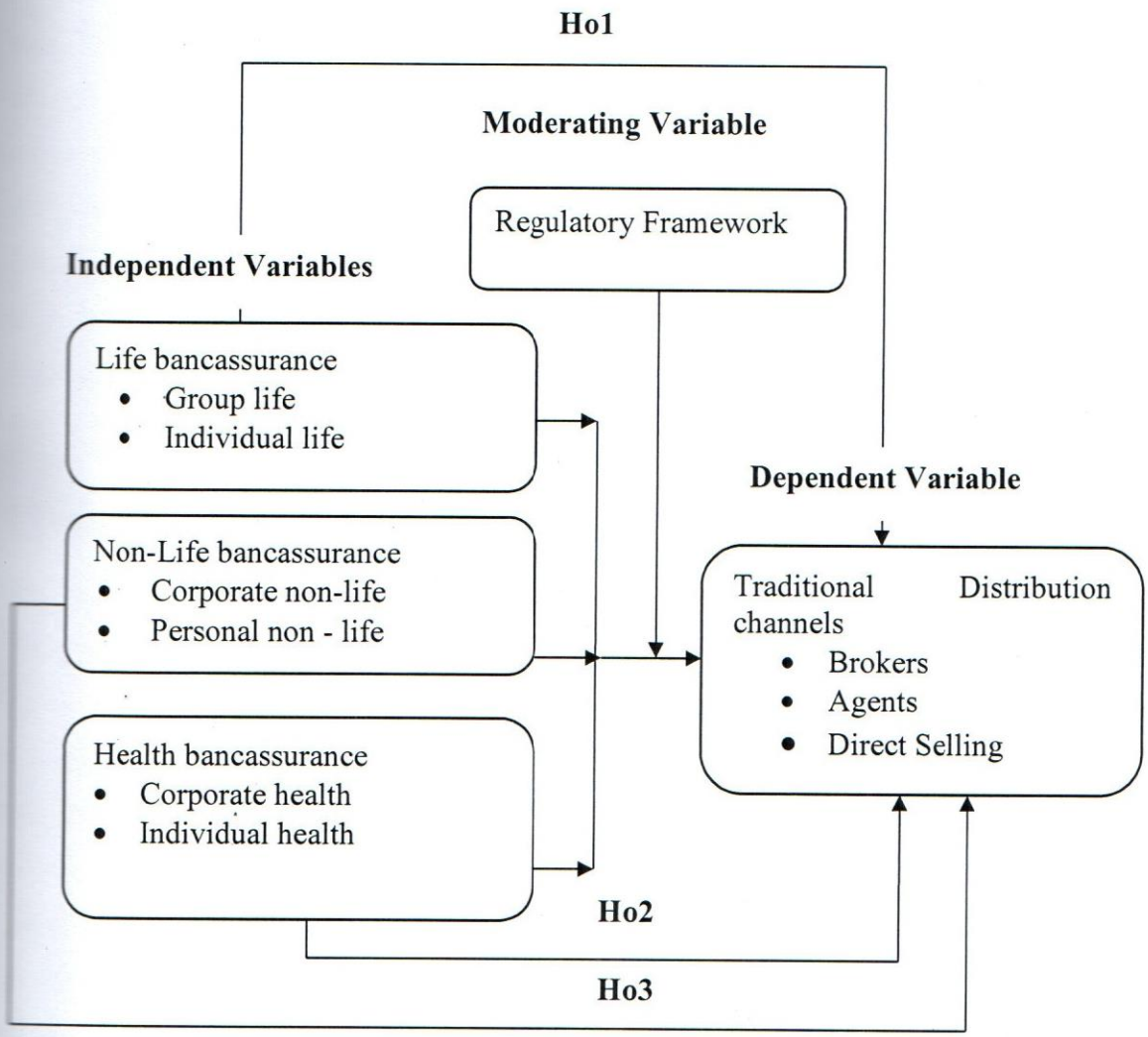


Figure 2. 1: Conceptual Framework

Source: Author (2019)

Life bancassurance result to informational advantage where banks are well suited to be the first to meet clients in their purchasing cycle for investment products and therefore can be proactive in proposing product based on their clients' financial situation and investment needs. Besides that life bancassurance enhance trust among insurance brokers, agents and direct sellers since banks are considered to have a better professional image than insurance companies (Chakraborty, 2013). Non-life bancassurance enables insurers to gain access to a

source of information that provides a comprehensive overview of the provision of genera insurance such as motor insurance and household insurance by all significant banking entitie (Chakraborty, 2013).

Health bancassurance enhance identification of partnership opportunities for accident and health insurance that may arise either because a banking institution is not currently active or because there is scope for replacing existing initiatives. Besides that it enable insurers to identify and appreciate the magnitude of the opportunity to sell accident and health insurance through banks and other lending institutions (Marzai, 2018). Rregulatory framework is important in the success of bancassurance. In Kenya, the Insurance Regulatory Authority reviewed the guidelines on bancassurance in order to facilitate banks licensed by Central Bank of Kenya, (CBK) to distribute and sell insurance to their customers. It recognized the need for increasing insurance penetration in the country by using alternative distribution methods with institutions that have a wide customer base. The improved regulations have enabled most banks to venture into bancassurance (AKI, 2017).

2.5 Summary of the Literature

The theories which have been used in the current study include: The Transaction Cost Theory, Theory of Push and Pull in Bank Insurance and Agency Theory.. Transaction cost economics has been used to model product distribution choice. The transaction cost theory holds that every person seeks to conduct transactions by bearing the lowest possible cost. A transaction is a process by which a product or service is transferred across a technologically separate interface. The push concept is a process whereby the insurance entities and banks provide information and solutions in a generally accessible format. It involves taking the products directly to the customer which ensures that they are aware of your brand at the point of purchase. Agency theory states that an agency relationship arises where one or more parties called the principal contracts/hires another called an agent to perform on his behalf some services and then delegates decision making authority to that hired party.

The empirical literature shows that the adoption of bancassurance has been low and most insurance companies have still been using traditional distribution channels like agents, brokers and direct selling. Specifically, the adoption of life bancassurance, non-life bancassurance and health bancassurance has been low the negatively affecting the utilization.

HAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design and methodology that were used to carry out the study. The chapter also deals with the research design, target population, type of data collection, data collection procedures, pilot test, validity and reliability of the instrument as well as the data analysis technique and how data was presented.

3.2 Research design

The research adopted a descriptive research design to gather data relating to the effect of bancassurance on the usage of traditional distribution channels of insurance companies. According to Bryman and Cramer (2012), the descriptive research aims at describing the characteristics of a phenomenon in a population and thereby establishing the facts. Russell (2013) posited that this method can enable the researcher to acquire a lot of information through description of a situation without affecting it in any way. This was in tandem with the aim of this research to describe the research and report it as it is by investigating the variables under the study in their natural context. By doing so, the researcher was able to provide an in-depth data analysis that allowed for derivation of more information and meaning from the research.

3.3 Target population

Singpurwalla (2013) explained that a population refers to the whole group of items under study in a given field of research and always have similar characteristics. The unit of analysis in this study was 55 insurance companies (IRA, 2017). However, the unit of observation was marketing managers at the head offices of the insurance companies in Kenya offering bancassurance. The target population of the study was therefore 55 marketing managers at the head offices of the insurance companies in Kenya.

3.4 Sample Size and Sampling Techniques

Since the sample size was small, the study employed a census study and hence the whole population was involved. A census is an attempt to list all elements in a group and to measure one or more characteristics of those elements (Bryman & Cramer, 2012). Census refers to the

quantitative research method, in which all the members of the population are enumerated. It is considered to be a complete count of the whole population, wherein each and every unit of the population is included in the collection of data. One of the advantages of census is that the results drawn by conducting a census are accurate and reliable while there are chances of errors in the results drawn from the sample.

3.5 Research Instruments

The study used primary data. Primary data as explained by Kothari (2012) is fresh data collected primary and secondary data. Secondary data is the data that has been previously collected for other purposes and has undergone a statistical process. Bryman and Cramer (2012) further explains that different methods that can be used to collect primary data include focus group discussions, observation, structured and semi-structured questionnaires, structured and semi-structured interviews (personal and telephone interviews) and mailed questionnaires. The study collected primary data using a questionnaire. The researcher took the questionnaire to the respondents who are marketing managers at the head offices of the insurance companies in Kenya offering bancassurance. The study period was from June 2017 to August 2018.

Semi structured questionnaires were used to collect primary data from the respondents. Questionnaires are commonly used for cases where the respondents willingly cooperate and are within reach (Sahu, 2013). This kind of data collection method is convenient as it can be used to reach many people provided such persons can independently read and write. The structured questions were used as they conserve energy, money and time and facilitate an easier analysis as they are in immediate usable form. The questionnaire comprised of five sections. The first section contained questions on demographic information. The second, third and fourth sections contained questions on the three independent variables while the fourth section comprised of questions on the dependent variable.

3.6 Reliability and Validity

3.6.1 Reliability

According to Bryman (2013), the reliability of an instrument is the measure of the degree to which a research instrument produces consistent results or data after repeated trials. In order to test the reliability of the instrument, the Cronbach alpha test which is a measure of internal consistency was used in which closely related set of items are taken as a group. A "high" value of alpha often was used as evidence that the items measure an underlying (or latent) construct, is used. Reliability assessment of internal consistency of the items is determined using Cronbach alpha coefficient. According to Creswell (2014), the general reliability coefficients around 0.9, was considered excellent, values around 0.8 as very good and values around 0.7 as adequate (Sahu, 2013). For this study, a co-efficient of 0.7 was used as the threshold. The Criterion-related to reliability is achieved through correlation analysis using the SPSS software version 21. According to the findings, life bancassurance had a Cronbach reliability alpha of 0.787, non-life bancassurance had a Cronbach reliability alpha of 0.778, Health bancassurance had a Cronbach reliability alpha of 0.781 and usage of traditional distribution channels had a Cronbach reliability alpha of 0.788. This clearly shows that the research instrument was reliable and hence no amendments were needed.

Table 3. 1: Cronbach Reliability Alpha

Construct	Cronbach reliability alpha
Life bancassurance	0.787
Non-life bancassurance	0.778
Health bancassurance	0.781
Traditional distribution channels	0.788
Average	**0.783**

3.6.2 Validity

According to Kothari (2012), validity is concerned with whether the findings are really about what they appear to be about. Cooper and Schindler (2006) define validity as the quality attributed to proposition or measures of the degree to which they conform to establish knowledge or truth. This was achieved by providing adequate coverage of the investigative questions and is done by reviewing literature related to this study and discussion with experts in the area and the supervisor. To ensure content validity, the constructed questionnaire was

discussed with the supervisor and other experts in the department with an aim of improving the questionnaire. In addition, the questionnaire was pilot tested in insurance companies' branches in Nakuru, which was not part of the study. The respondents were asked to identify items that are ambiguous or difficult to understand.

3.7 Data Collection Procedure

Before beginning data collection, a data collection letter was obtained from Graduate School in Egerton University. The researcher then reported to the management of various insurance companies for clearance. A drop and pick later method was used to administer the questionnaires to the respondents. The respondents were given a period of two weeks to fill the questionnaires. The respondents were required to complete questionnaire as honestly and as completely as possible. The respondents were assured that strict confidentiality was maintained in dealing with their identities.

3.8 Data Analysis and Presentation

Data was analyzed by use of both inferential and descriptive statistics with the help of statistical software known as Statistical Package for Social Sciences (SPSS version 22). According to Sahu (2013) Inferential statistic is defined as a random sample of data derived from a population that is used to describe and make inferences about a particular population under investigation. Inferential statistics was used to make inference and predict the population under study based on data that was obtained from the population by the use of questionnaire. Before analysis, the completed questionnaires were edited for completeness and consistency. Descriptive statistics was used to summarize the background information. Descriptive statistics composed of calculation of percentages, and frequencies, measures of central tendency (mean) measures of dispersion (standard deviation). The results were presented using tables and figures which included bar charts and pie charts.

The study adopted multiple regression analysis to analyze the joint effect of bancassurance on the traditional distribution channels of insurance. According to Hair, (2005), multiple regression analysis is applied to analyze the effect of independent variable on dependent variables. SPSS version 20 software was used for analysis purposes. The study applied a 95% confidence interval. A 95% confidence interval indicated a significance level of 0.05. This implied that for an independent variable to have a significant influence on the dependent variable, the p-value ought to be below the significance level (0.05).

The simple regression model for hypotheses one is shown below;

H_01: Life bancassurance has no significant effect on the traditional distribution channels of insurance companies.

$Y=\beta_0+\beta_1X_1+\varepsilon$

Whereby; Y = Traditional distribution channels of insurance companies; B_0 =Constant; β_1 =Coefficients of determination; X_1 = Life bancassurance; and ε = Error term

The simple regression model for hypotheses two is shown below;

H_02: Non-life bancassurance has no significant effect on the traditional distribution channels of insurance companies.

$Y=\beta_0+\beta_1X_1+\varepsilon$

Whereby; Y = Traditional distribution channels of insurance companies; B_0 =Constant; β_1 =Coefficients of determination; X_1 = Non-life bancassurance; and ε = Error term

The simple regression model for hypotheses three is shown below;

H_03: Health bancassurance has no significant effect on the traditional distribution channels of insurance companies in Kenya.

$Y=\beta_0+\beta_1X_1+ +\varepsilon$

Whereby; Y = Traditional distribution channels of insurance companies; B_0 =Constant; β_1 =Coefficients of determination; X_1 = Health bancassurance; and ε = Error term

The multiple regression model for hypotheses four is shown below;

Ho4: Life, non-life and health bancassurance have no significant effect on the traditional distribution channels of insurance companies in Kenya.

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+ \beta_3X_3+\varepsilon$$

Where:

Y is the dependent variable (traditional distribution channels)

β_0 is the regression intercept

β_1, β_2, β_3 are the slopes of the regression equation

The independent variables are;

X_1 is life bancassurance

X_2 is non-Life bancassurance

X_3 is health bancassurance

ε is the Error term

Table 3. 2: Summary of Statistical Techniques of Analysis

Statement of Hypothesis	Statistical techniques of Analysis
Ho1: There is no significant effect between life bancassurance and the traditional distribution channels of insurance companies	Simple Linear Regression
Ho2: There is no significant effect between non-life bancassurance and the traditional distribution channels of insurance companies	Simple Linear Regression
Ho3: : There is no significant effect between health bancassurance and the traditional distribution channels of insurance companies	Simple Linear Regression
Ho4: The combined effect of life and non-life bancassurance has no significant effect on the traditional distribution channels of insurance	Multiple Regression Analysis

CHAPTER FOUR
RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the research findings and discussions of the results with reference to the specific objectives. The study sought to assess the effect of bancassurance on the traditional distribution channels of insurance companies. The specific objectives are to establish the effect of life bancassurance on the traditional distribution channels of insurance companies; to determine the effect of non-life bancassurance on the traditional distribution channels of insurance companies; to determine the effect of health bancassurance on the traditional distribution channels of insurance companies; and to determine the joint effect of life, non-life and health bancassurance on the traditional distribution channels of insurance companies. The results of this study were present in tables and figures.

4.2 Response Rate

The study targeted 55 respondents. However, out of the 55 questionnaires distributed only 33 questionnaires were filled and returned, consisting of 60% response rate. This complied with Mugenda and Mugenda (2003) who suggested that for generalization a response rate of 50% is adequate for analysis and reporting, 60% is good and a response rate of 70% and over is excellent. This means that the response rate for this study was good enough to establish the effect of bancassurance on the traditional distribution channels of insurance companies in Kenya.

4.3 Demographic of the Respondents

This section presents a brief description of the demographic characteristics of the respondents involved in this study. This provides a better understanding of the respondents included in the study therefore providing a good foundation for detailed discussion of the results based on the stipulated objectives of the study. The demographic characteristics include period of operation, category of business underwritten and performance of distribution channels.

4.3.1 Age of Operation of Insurance Companies

Table 4.1 below indicates the distribution of insurance companies by their duration of operation. The researcher sought to find the distribution of insurance companies by their duration of operation. The study revealed that 72.7 % of the insurance companies have been in operation for over 20 years, 12.1% had been in operation for between 11 and 15 years, 6.1% had been in operation for between 6 and 10 years, the same percent indicated that they had been in operation for between 16 and 20 years and 3% indicated that they had been in operation for between 1 and 5 years. This shows that most of the insurance companies in Kenya had been in operation for over 20 years.

Table 4. 1: Age of Operation of Insurance Companies

	Frequency	Percent
1-5 Yrs	1	3.0
6-10 Yrs	2	6.1
11-15 Yrs	4	12.1
16-20 Yrs	2	6.1
Over 20 Yrs	24	72.7
Total	**33**	**100.0**

4.3.2 Distribution of the Respondents by Category of Business Underwritten

Table 4.2 presents the results of the category of insurance business underwritten by the insurance companies. The researcher requested the respondents to indicate the category of business underwritten by their company. From the findings, majority of the insurance companies underwrite non-life business accounting for 52%, followed by 33% underwriting both life and non-life business while the remaining 15% underwrite life business.

Table 4. 2: Category of Insurance Business Underwritten

	Frequency	Percent
Life Insurance	5	15.2
Non-Life Insurance	17	51.5
Composite	11	33.3
Total	**33**	**100.0**

4.3.3 Distribution Channels

Table 4.3 indicates the various insurance distribution channels used by insurance companies. The researcher wanted to find out the various insurance distribution channels used by the insurance companies and which of them was the most used. According to the findings 51.4% of the insurance companies indicated that majority of their businesses are transacted through

agents followed by brokers at 36.4%, while bancassurance and direct selling was the least used at 6.1%.

Table 4. 3: Distribution Channels

	Frequency	Percent
Bancassurance	2	6.1
Brokers	12	36.4
Agents	17	51.4
Direct Selling	2	6.1
Total	**33**	**100**

4.4 Life Bancassurance

The researcher sought to establish whether bancassurance is the major distribution channel for group life policies. The various aspects of life insurance looked into include group life policies, individual policies, endowment policies, whole life policies, unit linked policies, term assurance policies and Pension/retirement plans. The findings are summarized in Table 4.4.

From the findings, the respondents disagreed with a mean of 1.575 and a standard deviation of 1.750 that there is a high uptake in the use of bancassurance channel to purchase Unit linked Policies. The respondents also disagreed with the statement that bancassurance is the major distribution channel for Group Life policies as shown by a mean of 1.545 and a standard deviation of 1.733. In addition, the respondents disagreed with a mean of 1.393 and a standard deviation of 1.519 with the statement indicating that term assurance policies are mainly distributed by bancassurance. With a mean of 1.303 and a standard deviation of 1.510 the respondents disagreed with the statement bancassurance is the most widespread channel for distribution of whole life policies. In addition, the respondents disagreed with the statement that bancassurance is the primary mode for distributing individual life policies as shown by a mean of 1.242 and a standard deviation of 1.275. Further, the respondents disagreed with the statement that endowment Policies are mainly distributed by bancassurance as shown by a mean of 1.151 and a standard deviation of 1.253. Also, the respondents disagreed with the statement indicating that the vast majority of Pension/ Retirement plans are transacted through bancassurance as shown by a mean of 1.060 and a standard deviation of 1.197. This clearly indicated that majority of life insurance products are transacted through the traditional distribution channels. These findings are contrary to Chakraborty (2013) findings that the increase in banks' market share comes mainly at the

expense of agents and direct sellers in France. In addition, the findings disagree with Megnani (2013) findings that bancassurance contributes premium income in the European life insurance market through the distribution of individual life policies, endowment policies and pension/ retirement plans. Nonetheless, the findings agree with Cummins and Doherty (2006) findings that although bancassurance is the dominant distribution channel for life assurance products in Western Europe, agents also have a large market share and are particularly widespread in Eastern Europe.

Table 4. 4: Life Bancassurance Uptake for Different Categories

	N	Mean	Std. Deviation
Bancassurance is the major distribution channel for Group Life policies	33	1.545	1.733
Bancassurance is the primary mode for distributing Individual Life Policies	33	1.242	1.275
Endowment Policies are mainly distributed by bancassurance	33	1.151	1.253
Bancassurance is the most widespread channel for distribution of Whole life Policies	33	1.303	1.510
There is a high uptake in the use of bancassurance channel to purchase Unit linked Policies	33	1.575	1.750
Term Assurance Policies are mainly distributed by bancassurance	33	1.393	1.519
The vast majority of Pension/ Retirement plans are transacted through bancassurance	33	1.060	1.197

4.5 Non-life Bancassurance

The study sort to establish whether bancassurance is the major distribution channel for non-life insurance products. The various aspects of non-life insurance looked into include commercial business, personal insurance, motor insurance, property insurance, liability insurance, Work Injury Benefits Act (WIBA) policies. Study findings are indicated in Table 4.5 below.

The respondents were uncertain on the statement indicating that bancassurance is the dominant distribution channel for motor insurance as shown by a mean of 2.545 and a standard deviation of 1.621. The respondents disagreed with the statement that the vast majority of commercial business are transacted through bancassurance as shown by a mean of 2.234 and a standard deviation of 1.436. The respondents also disagreed with the statement indicating that bancassurance is the dominant model for distributing personal insurance as indicated by a mean of 2.333 and a standard deviation of 1.428. In addition, the respondents

disagreed with the statement that bancassurance is the primary channel for distribution of property insurance as shown by a mean of 2.333 and a standard deviation of 1.513. With a mean of 1.969 and a standard deviation of 1.237 the respondents disagreed with the statement that liability insurance is mainly distributed through the bancassurance channel. Also, the respondents disagreed with the statement that bancassurance is the dominant distribution channel for Work Injury Benefits Act (WIBA) as shown by a mean of 1.727 and a standard deviation of 0.944. These findings agree Chakraborty (2013) findings that in the non-life segment in Europe, bancassurance is not very well developed representing less than 10 per cent in all countries. In addition, the findings concur with Raikumari (2007) findings that despite the fact that bancassurance had high penetration rates in life business in Europe, this wasn't the case in the non-life business due to the existence of a stronger alternative network i.e. agents. Agents and brokers were the most widespread channels for the distribution of non-life products.

Table 4. 5: Non-life Bancassurance Uptake for Different Categories

	N	Mean	Std. Deviation
The vast majority of commercial business are transacted through bancassurance	33	2.234	1.436
Bancassurance is the dominant model for distributing personal insurance	33	2.333	1.428
Bancassurance is the dominant distribution channel for motor insurance	33	2.545	1.621
Bancassurance is the primary channel for distribution of property insurance	33	2.333	1.513
Liability insurance is mainly distributed through the bancassurance channel	33	1.969	1.237
Bancassurance is the dominant distribution channel for WIBA policies	33	1.727	0.944

4.6 Health Bancassurance

The study sought to establish whether bancassurance is the major distribution channel for health insurance products. The various aspects of health insurance looked into include, corporate health products and individual health policies. Study findings are indicated in Table 4.6 below.

From the findings, the respondents agreed with a mean of 2.181 and a standard deviation of 1.424 that bancassurance distributes most individual health policies. The respondents also disagreed with the statement that bancassurance is the primary channel for distribution of

outpatient cover as shown by a mean of 2.000 and a standard deviation of 1.457. In addition, the respondents disagreed with a mean of 1.939 and a standard deviation of 1.367 that bancassurance is the dominant distribution channel for low cost cover. Further, the respondents disagreed with the statement indicating that the vast majority of corporate health products are transacted through bancassurance as shown by a mean of 1.666 and a standard deviation of 0.924. Also, the respondent disagreed with the statement that maternity cover is mainly distributed through the bancassurance channel as shown by a mean of 1.575 and a standard deviation of 1.090.

With a mean of 1.454 and a standard deviation of 0.971 the respondents disagreed with the statement that the vast majority of high and medium cost covers are distributed through bancassurance. The respondents further disagreed with a mean 1.545 and a standard deviation of 1.063 that bancassurance is the dominant distribution channel for inpatient cover. This clearly indicated that majority of health insurance products are transacted through the traditional distribution channels. These findings agree with a report by Curriculum, Examinations and Assessment (CEA) that in the insurance distribution channels in Europe, Brokers and agents distributed most health policies in Europe followed by direct business and bancassurance. The findings also agree with Smith, Hately and Bennett (2012) findings that bancassurance is a growing channel in the distribution of Health Insurance in the UK and hence has not been fully utilized.

Table 4. 6: Health Bancassurance A Uptake for Different Categories

	N	Mean	Std. Deviation
The vast majority of corporate health products are transacted through bancassurance	33	1.666	0.924
Bancassurance distributes most individual health policies	33	2.181	1.424
Bancassurance is the dominant distribution channel for inpatient cover	33	1.545	1.063
Bancassurance is the primary channel for distribution of outpatient cover	33	2.000	1.457
Maternity cover is mainly distributed through the bancassurance channel	33	1.575	1.090
Bancassurance is the dominant distribution channel for low cost cover	33	1.939	1.367
The vast majority of high and medium cost covers are distributed through bancassurance	33	1.454	0.971

4.7 Effect of bancassurance on Traditional Distribution Channels

The researcher sought to find out whether bancassurance has led to reduction of business placed through the traditional distribution channels. The results are indicated in Table 4.6 below. The respondents agreed with a mean of 3.969 and a standard deviation of 0.847 that bancassurance has led to reduction of business through brokers. In addition, the respondents agreed with a mean of 3.787 and a standard deviation of 0.892 that bancassurance has led to reduction of business placed through insurance agents. Also, the respondents agreed with a mean of 3.575 and a standard deviation of 1.199 that bancassurance has led to a drop in business placed directly.

Table 4. 7: Effect of bancassurance on Traditional Distribution Channels

	N	Mean	Std. Deviation
Bancassurance has led to reduction of business through brokers	33	3.969	0.847
Bancassurance has led to reduction of business placed through insurance agents	33	3.787	0.892
Bancassurance has led to a drop in business placed directly	33	3.575	1.199

4.8 Regression Analysis

The study used simple regression analysis for each of the independent variables and the dependent variable and a multiple regression for the joint effect of the three independent variables on the dependent variable.

4.8.1 Simple Regression

4.8.1.1 Life Bancassurance

A univariate analysis was conducted to investigate the effect of Life bancassurance on the traditional distribution channels of insurance companies. The null hypothesis stated:

$H_0$1: Life bancassurance has no significant effect on the use of traditional distribution channels of insurance companies.

The R-Squared is the variance proportion in the dependent variable that can be explained by the independent variable: the larger the R-squared the larger the effect of the independent variable on the dependent variable. The R Squared can range from 0.000 to 1.000, with 1.000 showing a perfect fit that indicates that each point is on the line. The r-squared for the effect of life bancassurance on the traditional distribution channels of insurance companies was 0.819. This shows that life bancassurance can explain 81.9% of the traditional distribution channels of insurance companies in Kenya.

Table 4. 8: Model Summary for Life Bancassurance and Traditional Distribution Channels

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.905[a]	.819	.813	.35044

a. Predictors: (Constant), Life Bancassurance

The analysis of variance is used to determine whether the regression model is a good fit for the data. It also gives the F-test statistics, the linear regression's F-test has the null hypothesis that there is no linear relationship between the two variables. The F-calculated (140.457) was greater than the F-critical (4.1709) and the p-value (0.000) was less than the significance level (0.05), which implies that the model is a good fit for the data and hence can be used to predict the effect of life bancassurance on the traditional distribution channels of insurance companies.

Table 4. 9: ANOVA for Life Bancassurance and Traditional Distribution Channels

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.249	1	17.249	140.457	.000[b]
	Residual	3.807	31	.123		
	Total	**21.056**	**32**			

a. Dependent Variable: Traditional Distribution Channels

b. Predictors: (Constant), Life Bancassurance

From the results the simple regression model was;

$Y= 2.253 + 0.805X_1$

The regression results indicate that holding the independent variable (life bancassurance,) constant, the traditional distribution channels of insurance companies in Kenya will have an index of 2.253. The findings also show that life bancassurance has a positive effect on the use of traditional distribution channels of insurance companies in Kenya as shown by a beta coefficient of 0.805. This shows that a unit change in the use of life bancassurance would lead to a corresponding effect on the use of traditional distribution channels of insurance companies in Kenya. The relationship is significant as the P-value (0.000) was less than the significance level (0.05). Therefore we can reject the null hypothesis that "Life bancassurance has no significant effect on the traditional distribution channels of insurance companies". These findings agree with Paramasivan and Naidu (2014) findings that insurance companies in India were using bancassurance in the distribution of life insurance.

Table 4. 10: Coefficients for Life Bancassurance and Traditional Distribution Channels

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	**Std. Error**	**Beta**		
1	(Constant)	2.253	.142		15.824	.000
	Life Bancassurance	.805	.068	.905	11.851	.000

a. Dependent Variable: Traditional Distribution Channels

4.8.1.2 Non-Life Bancassurance

The study used a univariate analysis to investigate the effect of non-life bancassurance on the traditional distribution channels of insurance companies in Kenya. The null hypothesis stated:

H_02: Non-life bancassurance has no significant effect on the use of traditional distribution channels of insurance companies.

The r-squared for the effect of non-life bancassurance on the usage traditional distribution channels of insurance companies was 0.840. This shows that non-life bancassurance can explain 84% of the traditional distribution channels of insurance companies.

Table 4. 11: Model Summary for Non-life Bancassurance and Traditional Distribution Channels

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.916[a]	.840	.834	.33015

a. Predictors: (Constant), Non-Life Bancassurance

The F-calculated (162.179) was greater than the F-critical (4.1709) and the p-value (0.000) was less than the significance level (0.05), which implies that the model is a good fit for the data and hence can be used to predict the effect of non-life bancassurance on the usage traditional distribution channels of insurance companies.

Table 4. 12: ANOVA for Non-life Bancassurance and Traditional Distribution Channels

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.677	1	17.677	162.179	.000[b]
	Residual	3.379	31	.109		
	Total	**21.056**	**32**			

a. Dependent Variable: Traditional Distribution Channels

b. Predictors: (Constant), Non-Life Bancassurance

From the results the regression model was;

$Y = 2.313 + 0.703X_1$

The regression results indicate that holding the independent variable (non-life bancassurance,) constant, the traditional distribution channels of insurance companies Kenya will have an index of 2.313. The findings also show that non-life bancassurance has a positive effect on the traditional distribution channels of insurance companies in Kenya as

shown by a beta coefficient of 0.703. This shows that a unit change in the use of non-life bancassurance would lead to a corresponding effect on the use of traditional distribution channels of insurance companies in Kenya.. The relationship is significant as the P-value (0.000) was less than the significance level (0.05). Therefore we can reject the null hypothesis that "Non-life bancassurance has no significant effect on the traditional distribution channels of insurance companies". These findings agree with Kramaric and Pavic (2018) findings that insurance companies in European countries had adopted bancassurance in the distribution of non-life insurance.

Table 4. 13: Coefficients for Non-life Bancassurance and Traditional Distribution Channels

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.313	.129		18.000	.000
	Non-Life Bancassurance	.703	.055	.916	12.735	.000

a. Dependent Variable: Traditional Distribution Channels

4.8.1.3 Health Bancassurance

A univariate analysis was conducted to investigate the effect of health bancassurance on the traditional distribution channels of insurance companies in Kenya. The null hypothesis stated:

$H_0$3: Health bancassurance has no significant effect on the use of traditional distribution channels of insurance companies in Kenya.

According to the results, the r-squared for the relationship between health bancassurance and the use of traditional distribution channels of insurance companies in Kenya was 0.040. This shows that health bancassurance can explain 4% of the traditional distribution channels of insurance companies in Kenya.

Table 4. 14: Model Summary for Health Bancassurance and Traditional Distribution Channels

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.200[a]	.040	.009	.80747

a. Predictors: (Constant), Health Insurance

The F-calculated (1.295) was lower than the F-critical (4.1709) and the p-value (0.264) was less than the significance level (0.05), which implies that the model is a good fit for the data and hence can be used to predict the effect of health bancassurance and the use of traditional distribution channels of insurance companies in Kenya.

Table 4. 15: ANOVA for Health Bancassurance and Traditional Distribution Channels

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.844	1	.844	1.295	.264[b]
	Residual	20.212	31	.652		
	Total	21.056	32			

a. Dependent Variable: Traditional Distribution Channels

b. Predictors: (Constant), Health Insurance

From the results the regression model was;

$Y = 4.064 + 0.153X_1$

The regression results indicate that holding the independent variable (health bancassurance,) constant, the traditional distribution channels of insurance companies will have an index of 4.064. The findings also show that health bancassurance has a negative effect on the traditional distribution channels of insurance companies in Kenya as shown by a beta coefficient of 0.153. However, the effect was not significant as the P-value (0.264) was more than the significance level (0.05). Therefore we can accept the null hypothesis that "Health bancassurance has no significant effect on the traditional distribution channels of insurance companies". These findings contrary to Smith, Hately and Bennett (2012) findings that selling health insurance via bancassurance in the United Kingdom had led to a reduction in the use of traditional channels.

Table 4. 16: Coefficients for Health Bancassurance and Traditional Distribution Channels

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.064	.288		14.092	.000
	Health Insurance	-.153	.134	-.200	-1.138	.264

a. Dependent Variable: Traditional Distribution Channels

4.8.2 Multiple Regression

The study sought to establish the relationship between bancassurance and traditional distribution channels. The literature review led to the belief that bancassurance has led to a reduction of business placed through the traditional distribution channels of insurance. Regression analysis was done to test the hypothesis that bancassurance has no significant effect on the traditional distribution channels of insurance. In testing the hypothesis, a regression equation model was used in the form of:

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon$$

The variables of the study were: traditional distribution channels expressed by Y; X_1 =Life Bancassurance, X_2= Non –life Bancassurance, X_3= Health Bancassurance and ε= Error term (the residual error of the regression).

Table 4. 17: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.931a	.866	.852	.31201

a. Predictors: (Constant), Non-Life Bancassurance, Life Bancassurance, Health Bancassurance

The model summary in table 4.9 above shows r-squared of the study, which indicates the variation in the dependent variable that can be explained by the independent variables. In this study the r-squared was 0.866, which implies that life bancassurance, non-life bancassurance and health bancassurance can explain 86.6% of the traditional distribution channels of insurance companies Kenya. This therefore means that other factors not accounted in this study contribute 13.4% of the traditional distribution channels of insurance companies in Kenya.

Table 4. 18: Analysis of Variance – ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.233	3	6.078	62.433	.000[b]
	Residual	2.823	29	.097		
	Total	21.056	32			

a. Dependent Variable: Traditional Distribution Channels

b. Predictors: (Constant), Life Bancassurance, Non-Life Bancassurance, Health Bancassurance

The ANOVA test in table 4.10 above was used to test the significance of the model and to test whether the model is a good fit for the data. From the results, the F-calculated (62.433) was greater than F-critical (3.3158) from F-distribution table. In addition, the p-value (0.000) was less than the significance level (0.05), which implies that the model is a good fit for the data and hence can be used in predicting the effect of life Bancassurance, non-life bancassurance and health bancassurance on the traditional distribution channels of insurance companies Kenya.

Table 4. 19: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.270	.175		12.938	.000
	Life Bancassurance	.359	.153	.404	2.346	.026
	Non-Life Bancassurance	.415	.132	.541	3.140	.004
	Health Bancassurance	-.019	.053	-.025	-.367	.716

a. Dependent Variable: Traditional Distribution Channels

From the regression results shown in Table 4.11, the regression equation changes as follows;

$Y=2.270+0.359X_1+0.415X_2-0.019X_3$

The regression result presented in table 4.11 indicates that holding the independent variables (life bancassurance, non-life bancassurance and health bancassurance) constant, the traditional distribution channels of insurance companies Kenya will have an index of 2.270.

The findings indicate that life bancassurance has a positive and significant effect on the traditional distribution channels of insurance companies Kenya as shown by a regression coefficient of 0.359. The p-value (0.026) was less than the significance level (0.05) and hence

the association was significant. This implies that a change in life bancassurance would lead to a corresponding effect on the traditional distribution channels of insurance companies in Kenya. The study findings agree with Choudhurry, (2010) who concluded that there is a significance difference in the purchase of life insurance policies from the banking channel Vis a Vis the agency channel.

The results also indicate that non-life bancassurance has a positive and significant effect on the traditional distribution channels of insurance companies Kenya as shown by a regression coefficient of 0.415. The p-value (0.004) was less than the significance level (0.05) and hence the association was significant. This implies that a change in non-life bancassurance would lead to a corresponding effect on the traditional distribution channels of insurance companies in Kenya. This agrees with the findings by Chang, Peng and Fan, and (2011) that concluded that there is a positive and significant correlation between the traditional sales channels and bancassurance channel.

The results also show that health bancassurance has an inverse and insignificant effect on the traditional distribution channels of insurance companies Kenya as shown by a regression coefficient of -0.019. The p-value (0.716) was greater than the significance level (0.05) and hence the association was insignificant.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter entails presentation of the summary of the findings, conclusions, recommendations as well as suggestions for further studies. Summary of the findings, conclusions as well as recommendations for further studies were based on the purpose and objectives of this study.

5.2 Summary of the findings

The first objective was to determine the effect of life bancassurance on the traditional distribution channels of insurance companies in Kenya. The study found that life bancassurance has a positive and significant effect on the traditional distribution channels of insurance companies in Kenya. This positive effect can be explained by the fact that most of the insurance companies have not fully adopted life bancassurance and the utilization is very low. The findings showed that life bancassurance in Kenya remain a relatively new concept that is still at the teething stage. In addition, bancassurance is not the major distribution channel for life policies implying that majority of life businesses are still transacted through the traditional distribution channels like brokers, agents and direct selling. There is a low uptake in the use of bancassurance channel to distribute unit-linked policies, endowment policies, term assurance policies and group life policies.

The second objective was to determine the effect of non-life bancassurance on the traditional distribution channels in Kenya. The study established that life bancassurance has a positive and significant effect on the traditional distribution channels of insurance companies in Kenya. The positive effect can be explained by the fact that the adoption and utilization of life bancassurance among insurance companies was very low. The use of bancassurance channel for distributing non-life insurance policies is not also very well developed in Kenya. The study found that the vast majority of commercial businesses are transacted through bancassurance. In addition, bancassurance was not a dominant model for distributing personal insurance, property insurance, liability insurance and Work Injury Benefits Act (WIBA) policies. However, it is key to note that there is an increase uptake in the use of bancassurance channel to distribute motor insurance and this is popularly driven by the easy target of bank customers obtaining car loans.

The third objective was to determine the effect of health bancassurance on the traditional distribution channels of insurance companies in Kenya. The study established that health bancassurance has no significant effect on the use of traditional distribution channels of insurance companies in Kenya. The findings on health bancassurance indicated that majority of health insurance businesses are still transacted through the traditional distribution channels. There was a low uptake in the use of bancassurance channel to distribute Individual health policies, Outpatient cover and low cost cover. In addition, the findings indicated that maternity cover was not mainly distributed through the bancassurance channel. In addition, bancassurance was not the dominant distribution channel for inpatient cover. Also, the vast majority of high and medium cost covers were not distributed through bancassurance.

The fourth objective was to determine the joint effect of life, non-life and health bancassurance on the traditional distribution channels of insurance companies in Kenya. The study concludes that life, non-life and health bancassurance have a joint effect on the traditional distribution channels of insurance companies in Kenya. However, while life bancassurance and non-life bancassurance have a positive effect on traditional distribution channels of insurance companies, health insurance had no significant effect. Although bancassurance has been a trend in itself, the study shows that majority of insurance business in Kenya are still distributed through the traditional distribution channels. Agents have traditionally dominated both life and non-life insurance market and the most frequent reasons cited for the success of agents are their widespread geographical presence, technical knowledge, alignment of incentives with the insurance company policy and loyalty. Majority of commercial businesses are transacted through brokers due to complexity of many commercial risks and the large premium involved. The overwhelming success of brokers is due to reduced research cost, technical knowledge and information advantage. However it is key to note that with the onset of bancassurance channel, the traditional distribution channels have experience notable decline in the market share.

5.3 Conclusion

The purpose of the study was to establish the effect of bancassurance on the traditional distribution channels of insurance companies in Kenya. The study specifically focused on the effects of: life bancassurance, non-life bancassurance and health bancassurance on the traditional distribution channels of insurance companies in Kenya. Transaction Cost Theory, Push and Pull Theory and the Agency Theory were used to explain the rationale behind bancassurance as a distribution channel. The study used primary data gathered from the marketing managers of insurance companies. The collected data was edited and cleaned for completeness in preparation for coding. Once the data was coded, it was entered into the Statistical Package for Social Sciences (SPSS) version 20 for analysis. Descriptive statistics such as mean, standard deviation, maximum and minimum were used to analyze the data. Regression analysis was used to test the effect of bancassurance and the traditional distribution channels of insurance companies in Kenya. A census was conducted on all the 55 insurance companies in Kenya and a response rate of 60% was obtained with 33 questionnaires returned. The findings of the study led to the following conclusions:

Life bancassurance has a positive and significant effect on the use of traditional distribution channels of insurance companies in Kenya. There is a low uptake in the use of bancassurance channel to distribution of unit-linked policies, endowment policies, term assurance policies, group life policies and term policies. The study also concludes that non-life bancassurance has a positive and significant effect on the traditional distribution channels of insurance companies in Kenya. Nonetheless, bancassurance was not a dominant model for distributing personal insurance, motor insurance, property insurance, liability insurance and Work Injury Benefits Act (WIBA) policies.

Further, the study concludes that health bancassurance has no significant effect on the traditional distribution channels of insurance companies in Kenya. There is a low uptake in the use of bancassurance channel to distribute individual health policies, outpatient cover and low cost cover, maternity cover as well as high and medium cost covers. The study also concludes that life, non-life and health bancassurance have a joint effect on the traditional distribution channels of insurance companies in Kenya. However, while life bancassurance and non-life bancassurance have a positive effect on traditional distribution channels of insurance companies, health insurance had no significant effect.

5.4 Recommendation

The study found that the penetration of bancassurance in the distribution of life, non-life and health bancassurance is low. The study thus recommends that the government of Kenya should come up with policies to guide the alliance and partnerships between insurance companies and commercial banks as a way of improving the penetration of bancassurance.

The study found that the use of life bancassurance among insurance companies in Kenya was low. The study therefore recommends that the insurance companies should make use of bancassurance in the distribution of products such as unit-linked policies, endowment policies, term assurance policies, group life policies and term policies.

The study established that the utilization of non-life bancassurance among insurance companies in Kenya was low. The study therefore recommends that insurance companies should come up with strategies to use bancassurance in the distribution of personal insurance, motor insurance, property insurance, liability insurance and Work Injury Benefits Act (WIBA) policies.

The study found that insurance companies were rarely using bancassurance in the distribution of health insurance products. Due to convenience to customers, insurance companies should start distributing health insurance products such as individual health policies, outpatient cover and maternity cover through bancassurance.

5.5 Suggestions for Future Research

This research was specifically designed to study and establish the effect of bancassurance on the traditional distribution channels of insurance companies in Kenya. It is recommended that further research on how the performance of the bancassurance channel can be enhanced be carried out. The study also found that life bancassurance, non-life bancassurance and health bancassurance could only explain 86.6% of the traditional distribution channels of insurance companies in Kenya. The study therefore recommends further studies on other aspects of bancassurance such as convenience, cost reduction and customer trust that affect the traditional distribution channels of insurance companies in Kenya.

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APPENDICES

Appendix i: Introductory Letter

Egerton University,
Faculty of Commerce,
Department of Accounting Finance and Management Science,
P.O.Box 13357- 20100,
Nakuru, Kenya.

TO THE GENERAL MANAGER.

Dear sir/madam

REF: QUESTIONNAIRE FOR RESEARCH UNDERTAKING

I am a student from Egerton University currently conducting research on **the effect of banc assurance on the traditional distribution channels of insurance companies.** You are kindly requested to fill in the questions depending on the instructions given. The information you provide will be treated with utmost confidentiality and will be used for the purpose of accomplishing academic goals only. Note that there are no wrong or right answers.

Yours faithfully

Naserian Ntikalai

Appendix ii: Questionnaire

PART A: DEMOGRAPHIC DATA

1. Name of the insurance company .....

2. How long has your insurance company been operational?

   1-5 yrs ( ) 6-10yrs ( ) 11-15yrs ( ) 16-20yrs ( ) over 20yrs ( )

3. Indicate the category of insurance business your company underwrites

   a) Life insurance ( )

   b) Non – life insurance ( )

   c) Composite ( )

4. Which of the following is your leading distribution channel?

   a) Bancassurance ( )
   b) Brokers ( )
   c) Agents ( )
   d) Direct selling ( )

PART B: LIFE BANCASSURANCE

In this section the study is interested in your view about Life Bancassurance.

5. Read each of the following statements and tick the appropriate choice.

Key 1-Strongly disagree, 2- Disagree, 3- Uncertain, 4- Agree, 5– Strongly agree

	1	2	3	4	5
Bancassurance is the major distribution channel for group life policies					
Bancassurance is the primary mode of distribution for individual life policies					
Endowment policies are mainly distributed by bancassurance					
Bancassurance is the most widespread channel for distribution of whole life policies					
There is a high uptake in the use of bancassurance channel to purchase unit linked policies					
Term assurance policies are mainly distributed by bancassurance					
The vast majority of pension plans / retirement benefits schemes are transacted through bancassurance					

PART C: NON-LIFE BANCASSURANCE

In this section the study is interested in your view about non-life bancassurance.

6. Read each of the following statements and tick the appropriate choice.

Key 1- Strongly disagree, 2- Disagree, 3- Uncertain, 4- Agree, 5– Strongly agree

	1	2	3	4	5
The vast majority of commercial business are transacted through bancassurance					
Bancassurance is the dominant model for distributing personal insurance					
Bancassurance is the dominant distribution channel for motor insurance					
Bancassurance is the primary channel for distribution of property insurance					
Liability insurance is mainly distributed through the bancassurance channel					
Bancassurance is the dominant distribution channel for Work Injury Benefits Act (WIBA) policies					

PART D: HEALTH BANCASSURANCE

In this section the study is interested in your view about health bancassurance.

7. Read each of the following statements and tick the appropriate choice.

Key 1- Strongly disagree, 2- Disagree, 3- Uncertain, 4- Agree, 5– Strongly agree

	1	2	3	4	5
The vast majority of corporate health products are transacted through bancassurance					
Bancassurance distributes most individual health policies					
Bancassurance is the dominant distribution channel for inpatient cover					
Bancassurance is the primary channel for distribution of Outpatient cover					
Maternity cover is mainly distributed through the bancassurance channel					
Bancassurance is the dominant distribution channel for low cost cover					
The vast majority of corporate High and medium cost covers are transacted through bancassurance					

PART E: TRADITIONAL DISTRIBUTION CHANNELS

In this section the study is interested in your view about the overall effect of bancassurance on the traditional distribution channels of insurance.

8. Read each of the following statements and tick the appropriate choice.

Key 1- Strongly disagree, 2- Disagree, 3- Uncertain, 4- Agree, 5– Strongly agree

	1	2	3	4	5
Bancassurance has led to reduction of business through brokers					
Bancassurance has led to reduction of business placed through insurance agents					
Bancassurance has led to a drop in business placed directly					

Appendix iii: List of Insurance Companies

1. AAR Insurance Company Limited
2. Africa Merchant Assurance Company Limited
3. AIG Kenya Insurance Company Limited
4. Allianz Insurance Company of Kenya Limited
5. APA Insurance Limited
6. APA Life Assurance Company Limited
7. Barclays Life Assurance Kenya Limited
8. Britam General Insurance Company (K) Limited
9. Britam Life Assurance Company (K) Limited
10. Cannon Assurance Company Limited
11. Capex Life Assurance Company Limited
12. CIC General Insurance Company Limited
13. CIC Life Assurance Company Limited
14. Continental Reinsurance Limited (Kenya)
15. Corporate Insurance Company Limited
16. Direct line Assurance Company Limited
17. East Africa Reinsurance Company Limited
18. Fidelity Shield Insurance Company Limited
19. First Assurance Company Limited
20. GA Insurance Limited
21. GA Life Assurance Limited
22. Geminia Insurance Co. Limited

23. ICEA Lion General Insurance Company Limited

24. ICEA LION Life Assurance Company Limited

25. Intra Africa Assurance Company Limited

26. Invesco Assurance Company Limited

27. Kenindia Assurance Company Limited

28. Kenya Orient Insurance Limited

29. Kenya Orient Life Assurance Limited

30. Kenya Reinsurance Corporation Limited

31. Liberty Life Assurance Kenya Limited

32. Madison Insurance Company Kenya Limited

33. Mayfair Insurance Company Limited

34. Metropolitan Cannon Life Assurance Limited

35. Occidental Insurance Company Limited

36. Old Mutual Assurance Company Limited

37. Pacis Insurance Company Limited

38. Phoenix of East Africa Assurance Co. Limited

39. Pioneer General Insurance Company Limited

40. Pioneer Assurance Company Limited

41. Prudential Life Assurance Company Limited

42. Resolution Insurance Company Limited

43. Saham Assurance Company Kenya Limited

44. Sanlam General Insurance Company Limited

45. Sanlam Life Assurance Company Limited

46. Takaful Insurance of Africa Limited

47. Tausi Assurance Company Limited

48. The Heritage Insurance Company Limited

49. The Jubilee Insurance Company of Kenya Limited

50. The Kenyan Alliance Insurance Company Limited

51. The Monarch Insurance Company Limited

52. Trident Insurance Company Limited

53. UAP Insurance Company Limited

54. UAP Life Assurance Company Limited

55. Xplico Insurance Company Limited

Source: Insurance Regulatory Authority (2017)

Appendix iv: Research permit



NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone:+254-20-2213471,
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NACOSTI, Upper Kabete
Off Waiyaki Way
P.O. Box 30623-00100
NAIROBI-KENYA

Ref. No. **NACOSTI/P/19/79985/27845**

Date: **6th May 2019**

Naserian – Ntikalai
Egerton University
P.O. Box 536-20115
NJORO.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"Effect of Bancasurance on the traditional distribution channels of insurance companies in Kenya."*** I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **3rd May, 2020.**

You are advised to report to **the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit **a copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

GODFREY P. KALERWA MSc., MBA, MKIM
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.

THIS IS TO CERTIFY THAT:
MS. NASERIAN - NTIKALAI
of EGERTON UNVERSITY, 318-20117
NAIVASHA,has been permitted to
conduct research in *Nairobi County*

on the topic: *EFFECT OF BANCASURANCE ON THE TRADITIONAL DISTRIBUTION CHANNELS OF INSURANCE COMPANIES IN KENYA*

for the period ending:
3rd May,2020

.....
Applicant's Signature

Permit No : NACOSTI/P/19/79985/27845
Date Of Issue : 6th May,2019
Fee Recieved :Ksh 1000



.....
Director General
National Commission for Science, Technology & Innovation

Appendix v: Research Publication

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EFFECT OF LIFE BANCASSURANCE ON THE TRADITIONAL DISTRIBUTION CHANNELS OF INSURANCE COMPANIES IN KENYA

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Abstract: Distribution is a key determinant of success of all insurance companies involving a combination of different decisions regarding various channels of distribution. As competition in the insurance industry intensifies, cost savings and customer retention has become critical, forcing insurers to look for ways to drive sales and customer convenience while keeping costs low and maintaining profitability. These factors have led to emergence of new channels such as Bancassurance thereby bypassing traditional channels such as brokers and agents. Bancassurance has emerged as an important distribution channel across different countries. Bancassurance as a term first appeared in France in 1980, to define the sale of insurance products through banks distribution channels. The purpose of the study was to assess the effect of life bancassurance on the traditional distribution channels of insurance companies. The study used descriptive research design. Primary data and was collected and analyzed. The study targeted 55 marketing managers of insurance companies in Kenya and data was collected by use of a questionnaire. The data obtained was cleaned, coded and statistical analysis done with the aid of SPSS. Descriptive and inferential statistics were employed to analyze the data. To determine the effects of bancassurance on the traditional distribution channels of insurance companies, regression model was used. Study findings indicate that there is a significant relationship between life bancassurance and the traditional distribution channels of insurance companies in Kenya. The study concludes that traditional distribution channels i.e. brokers, agents and direct selling are still the major distribution channels for both life insurance products.

Key Words: Life Bancassurance, Distribution Channels, Insurance

Introduction

Distribution is the method through which a good or service passes until it reaches the end consumer. A distribution channel can include wholesalers, retailers, distributors and even the internet. Channels are broken into direct and indirect forms, with a direct channel allowing the consumer to buy goods or services from the company and an indirect channel allowing the consumer to purchase the goods from an intermediary. Distribution is a key determinant of success of all insurance companies involving a combination of different decisions regarding various channels of distribution (Irfan & Madhavaiah, 2013). Over the last few decades, continued environmental, operational and technological changes have led to the development of multiple distribution channels in the insurance industry. As competition in the insurance industry intensifies, cost savings and customer retention has become critical, forcing insurers to look for ways to drive sales and customer convenience while keeping costs low and maintaining profitability. These factors have led to emergence of new channels such as bancassurance. With advancement in technology, changes in customer behavior and preferences around products, insurers have been forced to explore and develop alternative distribution channels. These channels now

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