Effects of Bancassurance on Performance of Insurance Firms in Kenya

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Abstract: **The transformation in the financial Institutions over the past decades have resulted to several new products one among them is bancassurance which is the distribution of insurance products through a banks channel. Using three major variables i.e. Profitability, liquidity and customer base, this study sought to examine the concept of bancassurance and its effects on the performance of insurance companies in Kenya. It sought to show how bancassurance has impacted on these financial aspects of insurance companies. The researcher made use of theory of economies of scale, theory of financial intermediation and Modern Portfolio theory to show qualify several elements of these variables. A descriptive research design was adopted in this study to enable the study to generalize the findings to a larger population. The study targeted all the 10 registered insurance companies in Kenya doing bancassurance. Specifically, 87 respondents were chosen so as to reduce redundancies of data collected without compromising comprehensiveness of the same. Use of questionnaires was employed in the study and the collected data was analyzed using SPSS. The tests were conducted at 95% level of confidence (α=0.05). Regression analysis was also conducted to establish if there were any relationship between the dependent and independent variables. From the study, it was found out that with the adoption of bancassurance, the organizations had witnessed rising sales in turn resulted to increased profitability of insurance firms. On customer base, the findings indicated that an increase in the number of clients in each product bundle market reduces fees that increasing customer base. It was also found out that Bancassurance enhances increase of a firm's liquidity. The study concluded that tying up with banks is the rational route for insurers to take for achieving extensive physical spread and countrywide customer access. Further, bancassurance adoption results to reduced operational costs since it enhances an efficient sharing channel with higher productivity and lower costs than customary distribution channels.**

Keywords: **Bank, Insurance Firm, Bancassurance & Performance.**

I. INTRODUCTION

Over the past decades, financial sector has experienced several fundamental changes including but not limited deregulation and advances in technology which had a visible impact on the provision of financial services. Deregulation, in various parts of the world, has made flexible the provision of financial services and promoted competition among financial institutions. This is mainly due to the removal of significant restrictions that have previously hampered the horizontal and, to a greater extent, the vertical expansion of financial firms. Technological progress has also increased profitability and facilitated faster processing and monitoring of multiple activities at even lower costs (Berger (2003). This far, one of the most prominent transformations undergone by the financial services industry has been the emergence and expansion of combined offering of bank and insurance also known as bancassurance (Berger and DeYoung,2006).

Bancassurance as stated by Yuan (2011) is the process of a bank selling insurance products manufactured by insurance subsidiaries that are owned by the bank, either through its own distribution channels or through outside agents. Artikis et al. (2008) state that the earliest recorded usage of the term“bancassurance” was detected in France, in the 1980s where its appearance was associated with the development of the consumer and mortgage credit as well as the liberalization of the financial markets. Established and successful in Europe the concept is relatively new for Asian countries having emerged only in 2002 (Wu et al., 2008).

There were 49 insurance companies operating in Kenya as at the end of 2014. In this year the penetration of insurance 2014 was 2.93% compared to 3.44% in 2013. The reasons for this low insurance penetration include poverty and lack of awareness which appear to be major constraints. As at 31st December 2014, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company), 8 representative offices of foreign banks, 9 Microfinance Banks (MFBs), 2 Credit Reference Bureaus (CRBs), 13 Money Remittance Providers (MRPs) and 87 Foreign Exchange (forex) Bureaus. (Bank supervision report 2014).

As a result of financial transformation in Kenya, the sector has witnessed transformation in product, process and institutional innovations have emerged as faster ways of money transfers (RTGS), advance internet banking, mobile banking setting up of Credit Reference Bureaus (CRB) and most importantly Bancassurance which is regulated by Insurance Regulation Authority (IRA). (Mwaniki, 2008).

Several studies have been carried out on banks, however very minimal has been carried out on bancassurance. Mwangi (2010) carried out a study on the causes of development of bancassurance in Kenya and discovered that bancassurance is enabled by increasing market share, customers receiving interrelated services under one roof and efficacy and efficiency in bank-insurance. The Association of Kenya Insurance (AKI) (2010) carried out a study on the probable distribution networks for insurance business and found great potential in bancassurance, web, worksite marketing, telephone marketing, partnering with non-governmental organizations. Mwiti (2013) did carry out a study on the Effect of Bancassurance on Financial Performance of Commercial Banks in Kenya. Since the concept inception, very little study if any has been done on the effects of bancassurance on the fiscal performance of insurance firms in Kenya

II. FINDINGS

The researcher sought to establish the impact of bancassurance and increased sales which in turn have an impact of the liquidity and profitability levels. The findings were as summarized in Table 1 below

Table 1: Rising sales (liquidity) that facilitates profitability

Statement	NA (%)	LE (%)	N (%)	A (%)	VM (%)	MEAN	SD
Rising sales	8.0	8.0	18.4	34.5	31.0	3.72	1.217
No credit period problems	3.4	4.6	41.4	41.7	9.2	3.48	0.861
No negative comments	8.0	19.5	34.5	21.8	16.1	3.18	1.167
Claims on time	0	3.4	23.0	40.2	33.3	4.03	0.841
Good profitability ratios	3.4	1.1	23	28.7	43.7	4.08	1.014
Good liquidity ratios	3.4	4.5	17.2	29.9	44.8	4.30	2.086
learning from experience	0	0	19.5	42.5	37.9	4.18	0.740
Services to new banks are allowed	4.6	19.5	35.6	18.4	21.8	3.33	1.158

KEY: (NA)-Not at all (LE) - Less extent (N) - Neutral (A) - Agree (VM)-Very Much

From the results indicated above, most of the respondents 34.5% indicated that the organization has witnessed rising sales to a great extent While 41.7% stated that there have been no credit period problems with suppliers due to liquidity to a great extent. On the other hand 34.5% were neutral that they had no negative comments from external auditor on liquidity ratios.

Further 40.2% stated that they met their claims on time due to proper liquidity levels.43.7% stated to a greater extent that their organization has good profitability ratios since bancassurance adoption. 44.8% confirmed that their organization has good liquidity ratios since bancassurance adoption to a greater extent.42.5% of the respondents stated to a great extent that A bancassurance system allows financial managers to learn from experience.35.6% were moderate that experimentations on bancassurance services to new banks are allowed.

As indicated above, even in the mature market, in Kenya the database on actual bancassurance profitability – as conflicting to consultants‟ estimates – is quite insufficient. On the other hand, several leading bancassurers – not surprisingly, perhaps, those with a good story to tell! – have not only revealed current key profit numbers in their investor reporting but also compared them with delivery options.

These findings were in line with Frinquelli (1990), who stated that while the life product is the standard for most numerical analysis of bancassurance, it represents only a fraction of the total tax-advantaged long-term savings which are actively sold by banks. As other bancassurers in these and other markets feel contented in publishing their results by distribution channel, analysts will study them with interest to determine whether bancassurance is truly a more profitable supply channel. The bancassurance profit record is thus a remarkable one. Equally inspiring, however, are the steps insurers in Kenya have taken to development their own profit performance – and thus enable them to meet the reasonable challenge of the banks.

In relation to the effect of liquidity of insurance firms on profitability since the adoption, the study sought to establish **Insurance Firms Lending to Customers** and the findings were as presented in the figure 1 below

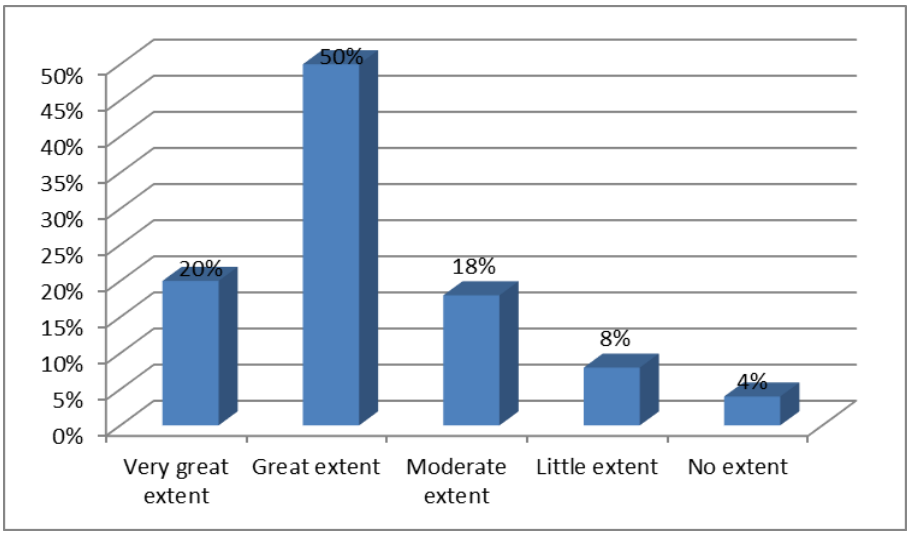

Figure 1: The extent of insurance firms lending to customers

From the findings in Figure 1 majority 50% indicated to great extent that insurance firms lend to customers, followed by 20% who indicated to very great extent that insurance firms lend to customers with only few 4% indicating no extent. This implies that insurance firms play a very important role in lending of finances to potential borrowers to boost their investments.

It can be summarized from the study that there was impact on liquidity to a great extent in the insurance firms since the adoption of bancassurance. On the Bancassurance platform the findings showed that there was enhanced information sharing. This serves as a very important tool in management, distribution as well as profit making. To this end, the study showed that bancassurance play a great role because the majority of the respondents had verify there was good allocation and accessibility of the information.

In the analysis of the findings, the study revealed that the insurance firms raised liquid holdings in order to reduce liquidity risk since the adoption of bancassurance, further (42.86%) also indicated that the insurance firms meets its short term obligations through liquidity while a significant number of the respondents indicated that insurance firms enhances loan disbursement to customers through liquidity. In summary, liquidity plays a major role in insurance firms in meeting very crucial expenditures. Liquidity measurement is given by ratio of liquid assets to total liability deposits. This liquidity ratio has been used in the study of Mugenda (2008), for the performance of Malaysian Islamic bank during 1984-1997. This research also intended to use this ratio.

Rhoades, (2000) argues that the direct exposure to the epicentre of the crisis, the US mortgage market, and to related securities appears to have been limited. But the financial crisis has nonetheless had an increasingly visible impact on the insurance industry, primarily through their investment portfolios, as the crisis spread and financial market valuations and the outlook for real activity deteriorated significantly. The financial crisis may primarily be a banking crisis, and as insurance industry representatives have regularly emphasised, the solvency of the insurance sector as a whole does not appear to be threatened. Nonetheless, companies from that sector have been affected, and in mostly adverse ways. A number of concentrated exposures to credit and market risks have been revealed, including in US mortgage and financial guarantee insurance companies, as well as in certain other insurance-dominated financial groups.

Customer base is an important factor to consider in considering the effect of bancassurance in commercial banks. The study further sough to establish the effect on customer base since the adoption of bancassurance and the findings as presented in table 2 below

Table 2: Bancassurance and Customer base

Characteristics	NA	LE	N	A	VM	MEAN	SD
Rising Earnings Per Share since adoption of Bancassurance	4.6	5.7	21.8	31	36.8	3.9	1.111
Rising market share owing to Bancassurance	4.6	8	23	24.1	40.2	3.87	1.169
Cost reduction since adoption of Bancassurance	0	5.7	17.2	34.5	42.5	4.14	0.904
Rising Profitability since adoption of Bancassurance	2.3	4.6	20.7	32.2	40.2	4.03	1.005
Rising bancassurance sales since its adoption	2.3	6.9	26.4	24.1	40.2	3.93	1.076

KEY: (NA)-Not at all (LE) - Less extent (N) - Neutral (A) - Agree (VM)-Very Much

Most of the respondents 36.8% indicated that there was rising earnings Per Share since adoption of bancassurance. While 40.2% stated that there was a Rising market share to a greater extent owing to bancassurance. Also 42.5% stated to a greater extent that there was Cost reduction since adoption of bancassurance. Further 40.2% were indicated to a greater extent that there was rising Profitability since adoption of bancassurance. While 40.2% indicated that there was a rising bancassurance sale since its adoption.

It can be argued that bancassurance will help cut overlapping costs and try to gain economies of scale and scope and, thereby, driving down unit costs in the fashion of the vertically integrated 20th century corporation. This was supported by 42.5% who stated that there was cost reduction since adoption of bancassurance. With a low-cost structure, the banks can leverage on a cost-effective bundle of business financial services, including cash management, lending, capital markets, risk management, retirement savings, and all types of commercial and personal lines of insurance

The bancassurance model also addresses the problems of persons and small and medium sized establishments by providing a variety of financial services under one roof. The blending of financial services reduces the operational costs of the banks and insurers which can be passed on to the customer without materially affecting their own margins. Furthermore, bancassurance helps to lower the delivery costs of underwriters. This study shows that the cost of selling cover through direct sales force is about twice as high as the cost of vending through bancassurance. It can thus be concluded that bancassurance is an efficient sharing channel with higher productivity and lower costs than customary distribution channels.

In order to establish a relationship, the researcher computed the correlation coefficient and the findings were as indicated in tale 3 below

Table 3: Correlation coefficient

	Profitability	Liquidity	Customerbase
Profitability		1	
Liquidity	0.8507	1	
Customer base	0.75601	0.80318	1

Table 3 show that all the predictor variables were shown to have a positive association between them at a significant level of 0.05 and hence included in the analysis There was strong positive relationship between liquidity and profitability (correlation coefficient 0.8507), profitability and customer base (correlation coefficient 0.75601), customer base and liquidity (correlation coefficient 0.80318).

Further to this, the researcher sought to compare means using analysis of variance. ANOVA findings (P-value of 0.00) as shown in table 4 show that there is correlation between the predictors variables profitability, Liquidity and customer base and response variable (financial performance of insurance).

Table 4: Analysis of Variance (ANOVA)

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.852	4	.213	1.242	.000
Residual	20.35		119	.171	
Total		22.64		123	

Predictors: (Constant), profitability, liquidity, and Customer base

Dependent Variable: Financial Performance of Insurance Companies

III. CONCLUSIONS

From the findings of the study, it can be concluded that most organizations experienced rising sales (liquidity) that facilitate profitability due to adoption of bancassurance. One of the biggest strength of bancassurance is information sharing and accessibility. This increases customer base which is fundamental in profitability growth.

Since the adoption of bancassurance, there is rising sales (liquidity) that facilitate profitability. This is a clear indication that bancassurance had a great impact on insurance profitability and therefore the insurance company should fully adopt bank assurance as means of profit making. The trend shows that Insurance firms have to take advantage of the customers‟ long-term trust and relationships with banks. The connection is a mutually profitable one, where the bank can widen its range of products on offer to customers and earn more, while the insurance company gains by getting constant visibility at the bank branches, and also the security of getting premium payments on time.

It was further found out that majority of the respondents supported the idea that there was a rising market share to a greater extent owing to bancassurance. This declaration can be supported by (Staikouras, 2006) that growth in the bancassurance channel is occurring most rapidly in emerging economies outside of Kenya, where insurers are increasingly making use of banks' large client bases to market their policies. For instance, the share of the bancassurance channel in Kenya‟s life insurance marketplace grew from around 25% to 41% between 2007 and 2012, thereby replacing agents as the main distribution channel. In contrast, the share of bancassurance in Europe's superior economies is likely to have reached a peak and may even decline in prospect years, partly because of reputational damage to the banking sector in the wake of the financial crisis but also because alternative sharing systems tend to be stronger here

IV. RECOMMENDATIONS

From the results we can recommend that insurance firms should work with banks to experience rising sales that facilitate profitability due to adoption of bancassurance. Since bancassurance increases earnings Per Share and banks also have much lower allocation costs than insurance firms and thus are emerging as the ideal distribution channel tying up with banks is the rational route for insurers to take for achieving extensive physical spread and countrywide customer access at minimum cost.

It is further recommended that banks should adopt distribution arrangements which provide both banks and insurance firms with additional sales and profitability potential with minimum of investment. The referral form of supply is a procedure, whereby the bank passes on commercial leads to career mediators of the cover company with which it has a tie-up. Unlike the recommendation arrangement, an agency association has the merit of preparing the bank staff to sell assurance products after receiving good training in agreement with the program prescribed for the purpose. The guidelines restrict banks to enter into business agency arrangement with only one life financier and one non-life underwriter. Banks becoming a corporate agent need to entitle a senior executive to be the nodal point with accountability to account for devotion to the terms of the insurance rule. From a supervisory perspective, we would prefer that cover firms go in for a more formal company agency model rather than the recommendation model.

Finally insurance firms should strive to increase in the number of clients in each product bundle market to reduce fees. Bancassurance should help cut overlapping costs and try to gain economies of scale and scope and, thereby, driving down unit costs in the fashion of the vertically integrated 20th century corporation. With a low-cost structure, the banks can leverage on a cost-effective bundle of business financial services, including cash management, lending, capital markets, risk management, retirement savings, and all types of commercial and personal lines of insurance.

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