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Applied Economics

**Growing Role of Bancassurance in the Banking Sector: A Case of
Kenya Tier 1 Local Banks**

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DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the Research Proposal contains no material previously published or written by another person except where due reference is made in the Research Proposal itself.

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ABSTRACT

The Kenyan market need to mitigate their risks as the levels of insurance penetration is low. Bancassurance which is the integration of banking and insurance has been adopted as a distribution channel of insurance products. This paper analyses the contribution of bancassurance to the insurance sector and the recent trends of bancassurance on the performance of banks. The target population was all commercial banks in Kenya. A sample was done for tier 1 local banks in Kenya. The study uses a descriptive research design. Data is represented in tables and charts. The methodology used was an analysis using the CAMEL parameters. The findings are: Capital adequacy analysis shows that the banks' level of solvency is good. Asset Quality analysis shows that the financial position of the banks is strong. Earnings and profitability analysis tend to be contradicting the hypothesis since the investment in the insurance agency was still quite low. The banks however managed to balance their liquidity and profitability. The insurance agency can introduce services such as pricing and reserving in order to maximise their profitability.

KEY WORDS: Bancassurance, CAMEL parameters

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LIST OF ABBREVIATIONS

CBA – Commercial Bank of Africa

CBK – Central Bank of Kenya

Co-op – Co-operative Bank

GDP – Gross Domestic Product

IRA – Insurance Regulatory Authority

KCB – Kenya Commercial Bank

KPMG – Klynveld Peat Marwick Goerdeler

PWC – Price Waterhouse Coopers

SWOT – Strengths, Weaknesses, Opportunities and Threats

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

Insurance is becoming a necessity in the context of personal, commercial and industrial activity. However, most people do not understand the idea of insurance itself. To enhance the understanding and use of insurance, it has to be introduced as part of a wider transaction. An individual keen to purchase a house might not see the essence of insuring the building against damaged property. A bank giving a loan for the purchase is well placed to explain the importance of stabilizing the risk. The bank considers the life and health of the borrower in their ability to service the loan. Property insurance will act as a security to the loan (Gonulal, Goulder, & Lester, 2012).

The banking sector has grown tremendously. It has achieved a high penetration all over the country including the rural areas. With the integration of financial institutions and insurance companies, banks seek to increase the range of products offered to clients. This has led to the adoption of bancassurance by most banks according to Mwangi (2010).

Bancassurance has been widely adopted in Kenya. It offers many advantages to banks, insurance companies and to customers. Popli and Rao (n.d) highlight these advantages. Bancassurance provides an opportunity to banks in product diversification and increases the source of income. Customers appreciate the provision of integrated financial services under one roof and boosts customer loyalty and retention levels. Insurance companies have an advantage through increased insurance penetration and premium turnover.

This study will shed more light on the recent trends that have been observed since the adoption of bancassurance by tier 1 Kenyan banks.

1.2 PROBLEM STATEMENT

The problem this paper study is the contribution of bancassurance to the performance of insurance in Kenya with a focus on the recent trends of bancassurance and its impact on the banking sector and the insurance sector.

The level of insurance penetration in Kenya indicate there exist a gap in risk mitigation. This presents an opportunity for influencing the market to mitigate their risks. According to Hana, Lib, Moshirian and Tian (2010), insurance plays a great role in the GDP of the country. An increase in the purchase of insurance products increases the premiums received which can be invested to generate additional income to the company which in turn increase the GDP of the country.

Insurance uptake needs to be increased in the country in order to reduce risks faced by individuals as well as organisations in their daily activities. In 2015, KPMG determined the penetration rate of insurance in Kenya to be 2.8% (Figure 1). This is quite low compared to other countries in Africa such as South Africa with a higher penetration rate of 14.1% as at 2013. Kenya attributes this to the low income levels, lack of data on mortality and longevity and lack of actuarial skills.

New measures are being adopted to increase insurance penetration rates. Through alternative distribution channels that exist such as agents, brokers and bancassurance, there has been a significant increase in the purchase of insurance policies. According to Yoder et al (2012), bancassurance greatly contributes to insurance penetration. This is because financial institutions have a wide customer base and the customers can be influenced to purchase insurance.

African Insurance Market, 2013

Country	Insurance Premiums (\$bn)	Population (Millions)	Density (Premiums per Capita, \$)	GDP (\$bn)	Penetration (Premiums as % of GDP)
South Africa	51.6	53.2	970.8	366.2	14.1
Morocco	3.2	32.9	96.6	103.8	3.1
Egypt	1.9	84.7	22.3	271.4	0.7
Nigeria	1.6	169.3	9.7	521.8	0.3
Kenya	1.5	41.8	36.4	55.2	2.8
Algeria	1.5	37.9	40.1	208.8	0.7
Angola	1.1	23.7	47.4	124.2	0.9
Namibia	1.0	2.2	437.2	13.1	7.2
Tunisia	0.8	10.9	77.3	47.0	1.8
Mauritius	0.7	1.3	570.3	11.9	6.0
Other countries	4.9	628.7	7.9	652	0.8
TOTAL	69.9	1086.6	64.4	2375.6	2.9
Africa Excluding South Africa	18.3	1033.3	17.7	2009.3	0.9

Source: Swiss Re

Figure 1: Insurance penetration rate in Africa. The table shows the African insurance market as at 2013. The insurance penetration levels in Africa is low. South Africa has the highest penetration rate of 14.1% compared to Kenya with a rate of 2.8%. Kenya is positioned at number 5 after Namibia, Mauritius and Morocco.

1.3 SCOPE OF THE STUDY

This study will focus on the recent trends of bancassurance in tier 1 local banks that practice bancassurance which include Kenya Commercial Bank (KCB), Equity Bank, Co-operative Bank and Commercial Bank of Africa (CBA).

1.4 RESEARCH QUESTION

1. What is the major trend of bancassurance in the performance of insurance in Kenya?
2. How do the levels of bancassurance affect the insurance industry in Kenya?

1.5 RESEARCH OBJECTIVE

To determine the recent trends in bancassurance and analyse the performance of banks practising bancassurance.

To analyse the impact of bancassurance on the insurance industry in Kenya.

1.6 HYPOTHETICAL SOLUTION

By analysing the financial statements and company reports of banks practising bancassurance, the study will evaluate the recent trends in the company's performance after adopting bancassurance. The likely outcome is that there is a positive trend in the banking sector after the adoption of bancassurance services.

CHAPTER 2: LITERATURE REVIEW

2.1 ORIGIN OF BANCASSURANCE

Bancassurance was initially introduced in Europe before spreading out to other continents. Mbugua (2015) analysed the evolution of bancassurance in Kenya. It began in 2004. The first Insurance Agency license was issued to CBA Bank under the CBA Insurance Agency. In 2007, Equity bank acquired a license to operate under a separate Equity Insurance Agency. In 2010, KCB subsequently acquired a license under KCB Insurance Agency. Since 2011 to date, more than half of Kenyan banks have plunged into bancassurance. The first IRA guidelines on bancassurance were issued in November 2011. CBK issued prudential guidelines allowing banks to distribute insurance in May 2013. One and a half years later, in May 2013, IRA drafted revised guidelines on bancassurance.

2.2 TIER 1 BANKS

There are six banks classified as tier 1 by the CBK. Tier 1 banks control 49.9% of the market and they include: Kenya Commercial Bank (KCB), Equity Bank, Co-operative Bank, Standard Chartered Bank, Barclays Bank and Commercial Bank of Africa (CBA). Equity bank, Co-operative bank and CBA are private local banks while KCB is a local bank with government participation. Standard Chartered and Barclays Bank are foreign banks. (Figure 2).

	Local Banks	Foreign Banks	Banks with Gov't participation
Tier 1	Commercial Bank of Africa Equity Bank Cooperative Bank	Barclays Bank Standard Chartered	Kenya Commercial Bank
Tier 2	Chase Bank Family Bank Imperial Bank I & M NIC Prime Bank	Bank of Africa Bank of Baroda Bank of India CFC Stanbic Citibank N/A Diamond Trust Ecobank Guaranty Trust	Housing Finance National Banks
Tier 3	ABC Charterhouse Credit Bank Dubai Bank Equitorial Bank Fidelity Giro Guardian Jamii Bora Bank Middle East Oriental Commercial Paramount Universal Trans National Bank Victoria Bank	First Community Habib A. G. Zurich Habib Bank Gulf Africa Sidan UBA	Consolidated Bank Development Bank

Figure 2: The Central Bank of Kenya (CBK) ranking of the Kenyan banking sector as of December 2015. The classification is based on the performance of the banks and whether they are local banks, foreign banks or they are local banks with government participation.

Currently, two banks have been put under statutory management: Dubai Bank and Imperial Bank.

2.3 PRODUCTS AND SERVICES OFFERED BY TIER 1 BANCASSURERS

With a focus on local banks, they all have a subsidiary that offers bancassurance.

KCB Insurance Agency

It offers the following products: Property insurance, Liability insurance, Motor insurance, Health Care insurance, Agriculture insurance, Micro insurance and Marine Insurance. It also offers risk management and professional insurance and advisory services.

Equity Insurance Agency

It offers the following products: General insurance, Marine insurance, Motor insurance, Agriculture insurance, Livestock insurance, Micro insurance, Pensions and Medical insurance policies and Life insurance products for groups. The services offered are: Group and staff medical scheme administration services, Claims management and Risk management services, Insurance premium pricing and insurance advisory services.

Co-operative Bank Insurance Agency

The products offered include: Medical, Motor, General, Life cover, Agriculture and Micro-business insurance. It offers similar services to the Equity Insurance Agency.

CBA Bank Insurance Agency

It offers: Car insurance cover, Home Contents insurance, Travel insurance, Education insurance, Life insurance, Credit Policy insurance and Personal Accidents insurance.

2.4 EFFECTIVENESS OF MODELS AT PLAY

The main models that were approved by the Insurance Regulatory Authority in 2014 are the specialist model and the integrated model. Under the integrated bancassurance model, the financial institution has a fully owned subsidiary in which it distributes its insurance products. This reduces on the challenges of cost sharing which mainly arise under the specialist bancassurance model. The specialist model involves the merger between financial institutions and insurance companies. Banks identify prospective clients and the insurance products are distributed by insurance experts who are generally employees or representatives of the insurance company.

Most of the banks have a fully owned subsidiary that provides insurance products to the public thus they have adopted the integrated model. According to Mbugua (2015), the specialist model hasn't been embraced by banks and insurance companies.

There is lack of clear partnership guidelines, the employees of insurer are perceived as outsiders thus they lack buy-in and support from bank staff, the cost/profit sharing criteria was not well defined and there was failure to create a balance for customer, bank and the underwriter through trust, loyalty and growth.

2.5 DRIVERS OF BANCASSURANCE MARKET

The success of the bancassurance market depends on the environment that it operates in. The internal environment involves the activities within the organization while the external environment focus on activities outside the operations of the organization.

Teunissen (2008) pinpointed the main drivers of bancassurance growth as: a supportive regulatory regime is needed, insurers have access to the banks' client base and it is an additional revenue to banks. Also, there is need for a positive fiscal treatment of long term savings products as they exploit tax advantages. In 2012, PWC's study also found out that bancassurance integrated model has an advantage. Banks can build on their existing relationships and they are often more trusted than independent advisors. The study also concurs with the supportive regulatory regime needed. The sales of insurance by banks is high in countries where products tend to be relatively simple and standardised. These drivers have been an opener to the development of bancassurance in Kenya. In 2013, Ombonya also found out that bancassurance has increased its distribution channels and attracted new customers thus increasing the insurance uptake. In addition, the improved regulatory framework, innovative products, enhanced public education and use of technology has enhanced the bancassurance market.

2.5.1 Level of Regulation

A supportive regulatory framework is important in the success of bancassurance. The study done by Teunissen in 2008 showed that the development of bancassurance products in countries such as France, Italy and Spain was favoured by a high degree of regulatory freedom. PWC (2012) also explained that regulation affects the pricing and delivery of insurance products.

In Kenya, the Insurance Regulatory Authority (2014) reviewed the guidelines on bancassurance in order to facilitate financial institutions to distribute and sell insurance to their customers as they have a wide customer base. It recognized the need for increase in insurance penetration in the country by using alternative methods of distributing

insurance products such as financial institutions licensed by the Central Bank of Kenya, (CBK). The improved regulations have enabled most banks to venture into bancassurance.

2.5.2 Technology Advancement

Technology plays a crucial role in the success of the bancassurance model. Innovations in the financial sector gives bancassurers a competitive edge. Integrating the bancassurance model into the traditional banking services enables fast, easy and cheap mode of payments of premiums and benefits. According to Jongeneel (2011), adopting new technological measures enhances the delivery method of financial services for instance through multi-dynamic channels. This model entails a design with multiple communication channels and sales points. It thus reduces on costs and strengthens relationships with clients.

A study done by PWC in 2012 explains that the effective use of technology helps in sharpening productivity and customer responsiveness. Also embracing digital developments causes greater innovation and differentiation in products designing.

Mobile phones can boost the performance of bancassurance. In 2015, KPMG analysed the usage of mobile phones. Most Kenyans have mobile phones thus buying insurance through a phone can be an exciting opportunity for growth in bancassurance. It offers a more affordable way for Kenyans especially in remote areas to gain access to bancassurance products.

2.5.3 Bank Branch Density

Distribution of insurance services through banks is profitable if the net benefits is positive. Bergendahl (1995) identified that profitability depends on: the number of branches, the number of insurance specialists per branch, the number of customers, the cross-selling ratio and the degree of learning. The larger the number of branches and the number of specialists per branch, the greater the investment cost. The cross-selling ratio considers the number of customers per branch and the potential buyers from the total customers of insurance products. It should be high to increase profitability.

In 2004, Brahman, Irala, & Pulugundla explains how the wide branch network and the banks multiple delivery channels can maximize customer experience.

For the bancassurers to generate positive net benefits, it has to have small setup costs, rapid growth in sales commission and small administrative costs. Bergendahl (1995) explains that the set-up cost for most bancassurers is small since they are a subsidiary of the main company. If the bank succeeds in selling the insurance products to its customers, it will be able to strive a longer relationship than ordinary bank products like loans and deposits.

Most tier 1 banks have a great trust from their wide customer base. Brahman, Irala, & Pulugundla (2004) and Teunissen (2008) support this since banks enjoy personal contact with their clients. They also have all the financial information of their customers. Banks can thus offer quality advice and enhance the customer experience. Jongeneel (2011) also supports this assertion as banks can get valuable leads through their core operations. Banks can identify developments in the customer's life cycle and they can seize the opportunity to unlock suitable insurance products. The products are highly likely to connect with the individual needs of its actual customer base at the right time. This gives an edge to banks in distributing insurance compared to other agents.

2.5.4 Revenue Generation

The sale of insurance products by banks offers another avenue to generate profits. This in turn leads to revenue generation to the nation. Teunissen in 2008 found out that bancassurance in Asia developed fast. Among the main contributing factor was the bank's desire to broaden their income base. The banks increase their income through commissions and profit-sharing agreement in case they have partnered with insurance companies. They can also spread their fixed costs to the insurance business and increase the productivity of their staff as they can increase their client base. The increase in number of clients increase the income base which in turn increases the revenues.

In 2011, Jongeneel gave a bank's perspective of bancassurance that it boosts profits which in turn increases their earnings. Also the bank and insurance products are closely related thus banks can easily cross-sell insurance products.

2.6 MEASURING PERFORMANCE

The measure of insurance penetration and insurance density shows the level of development of insurance sector in a country. According to Legrand (2008), to assess the global growth potential, the benchmark of the company's productivity per branch and bank's customer base penetration against successful competitors is evaluated. The penetration rate is measured using the ratio of bank's clients that holds a policy with its bancassurance or the ratio between number of policies and the number of bank customers.

Kumari and Dorthy (2014) analyzed the insurance penetration and density in India and since the opening of the insurance sector for public participation, there has been an increase in both insurance penetration and insurance density. Insurance penetration is measured as the percentage of insurance premiums to the GDP. Insurance density is measured as per capita premium which is the ratio of premium to the population.

2.7 IMPROVING PENETRATION LEVELS

Bancassurance has increased the insurance penetration in the economy. The bank can further adopt measures to improve the penetration within its clients' base. Legrand (2008) identified ways in which he can achieve this by targeting new customer segments, especially the affluent and high net-worth customers. By expanding the product offer to new insurance lines e.g. non-credit related and non-life insurance products can also improve the penetration.

Legrand (2008) further identified the main target customers include the bank's mass market customers and bank's clients taking loans and mortgages. The former can be offered simple life savings and pension products. The latter can be offered credit-related risk products. This will boost their loyalty to the bank.

2.8 SWOT ANALYSIS OF BANCASSURANCE

Every development that is invented or created has strengths, weaknesses, threats and opportunities for further advancement. Banking has less risks than insurance thus it is essential to carry out a SWOT analysis on the interaction between the two sectors.

2.8.1 Strengths

The advantages that bancassurance has over other distribution channels as pointed out by Gonulal, Goulder & Lester (2012) include:

i. Gaining of efficiencies in the administration

Bancassurance is an additional product to the banks in increasing profitability. Banks have an advantage since they can exploit the services of the current employees to sell the insurance products by training them. Rajasekar and Kumar (2014) supports the assertion that the bank's trained staff, its brand name and the confidence and reliability of the bank's customers boosts the sale of insurance products. Popli and Rao (n.d.) are positive that optimizing manpower utilization is a strength to the banks.

ii. Capital advantages through diversification of risks

Banks offer a wide variety of services. They can diversify their risks in various sectors of their operations such as the financial sector and the insurance sector. This builds a high credibility and trust in their services and customers will have more confidence in them.

iii. Arbitrage opportunities.

It enables the bank to have competitive advantage over competitors. Teunissen (2008) explains that banks have an advantage in liquidity, lending and investing services. The benefit from the visibility and convenience of their branch networks gives them an edge over other distribution channels of insurance.

Among other strengths that Rajasekar and Kumar (2014) outlines include their large customer base which they can sell the products to them. Banks understand the psychology of their customers as they interact with them on a regular basis. They can design products that suits their needs. Banks have a large and massive scale because they enjoy a wide network of branches even in rural areas. Pobl and Rao (n.d.) support this assertion of the proximity to customers and large database as well as strengthening customer relationships.

2.8.2 Weaknesses

Just like all institutions, banks have weaknesses that affect their operations and hinders progressive growth. Insurance product design can be a weakness to a bank. A poorly packaged product can damage a firm's brand. In 2011, Jongeneel pinpointed that management issues may arise under bancassurance. For a specialists' model, there is no clear trade-off in product design and split-up of product marketing expenditures. Also, there may be no understanding on who is in charge of the client relationship management.

Rajasekar & Kumari (2014) outlined the weaknesses faced by banks. There is lack of an IT culture in all future corporations and the internet connections are not properly provided to the staff. Most bank employees have no understanding of the insurance products. The bank staff have to undergo a certain minimum period of training and have a test to get them licensed. Also, there is lack of personalized services since the bank employees cannot offer during and after the sales service due to uncertainty.

2.8.3 Opportunities

Bancassurance is an opportunity in itself in increasing insurance penetration in the economy. There also exist opportunities for bancassurers to exploit in order to increase their profitability as well as insurance penetration. Gonulal, Goulder & Lester (2012) identifies the opportunities which include: delivery of after-sales services and increasing customer loyalty and lifetime value. A well designed insurance product will attract more customers and offering free additional services to clients boost their morale and encourages them to try out the products designed for them. Rajasekar & Kumari (2014) agree that opportunities exist for bancassurers. Many people in diverse areas need information about insurance and banks can use their networks in all branches to sensitize them. Also, the bank has a large database. It can group customers in a homogeneous manner so as to provide them with products that meet their needs.

According to Gonulal, Goulder & Lester (2012), life insurance can be used to eliminate the hazards of both secure and unsecure lending. As the bank issue a loan, it can insure the loan against risk of default of the borrower in case of death. For instance, if the borrower purchases a house using the loan, the dependants will be affected by the uncleared loan since the house acts as security for the loan. The bank may have to take ownership of the house and auction it in order to gain back the loan money. The life

insurance package will thus completely repay the debt if it had been taken. Rajasekar & Kumari (2014) also identifies the opportunity of tapping into the high population of the country and offering life cover.

Under property and motor insurance, Gonulal, Goulder & Lester (2012) explain how the opportunities can be exploited. Property insurance insure against economic hazards affecting each property especially from concerns on continuing loan repayment or risk of damage of the security. For instance, a house purchased using the bank loan or a property acting as a security to the loan may be damaged due to theft, natural disasters or fire. This will be a loss both to the bank and the borrower. The bank can recover its liability through the insurance cover. Motor insurance apply to a car loan. Since the value of a motor depreciates quickly and its location is not fixed, the bank may insure the car and reduce the loan term to ensure the car's value is not too low. Rajasekar & Kumari (2014) outlines the willingness of customers to get services such as safe deposit system and other products from banks. This is an opportunity for banks to market many property related general insurance.

2.8.4 Threats

The main challenges may arise due to conflict with insurance companies and also regulation issues may restrict their full participation in selling all insurance products. Competition is a main threat to bancassurers. According to Porter's five forces (1995), the main competitive forces include the bargaining powers of customers and suppliers, rivalry among banks and insurance companies, threat of new entrants and threat of substitutes. The customers might not be willing to buy the products due to high costs or they may lack an understanding of the products work. Insurance companies may not be receptive of the new entrants (banks) into the insurance arena.

Rajasekar & Kumari (2014) explains how reputational contagion is a problem. The loss of market confidence towards one, i.e. insurance companies, may lead to loss of confidence on the other i.e. banks. The similar management and consolidated financials does not differentiate the services in the banks.

In addition to reputational contagion, poor manpower management and non-response from targeted customers is a huge threat. The lack of insurance knowledge by employees prevents them from convincing customers to purchase the product.

The customers might not be receptive of the products. In India, the perception of insurance as a savings option rather than providing a risk cover pose a threat to bancassurers.

2.9 ADVANTAGES TO THE INSURANCE COMPANY

Insurance companies draw their benefits from the banks' aim to increase insurance penetration in the economy. As banks enhance customer satisfaction through sale of insurance products, insurers' role gets more defined. Pobli and Rao (n.d.) outlines the benefits from bancassurance to the insurer. Through the banks, insurers have a ready-made market and an access to a vast customer base. They have the potential of cross-selling and gaining credibility in customer's mindset.

Ghimire (2013) also agree that insurance companies benefit from the trustworthy image and reliability that people normally attribute to banks. In the study by Pahuja & Verma (n.d.), bancassurance is a tool of increasing insurance penetration and premium turnover. It enables insurance companies to tap the hidden potential in rural areas.

In 2015, Alavudeen and Rosa concluded that insurance companies get better geographical reach without additional costs.

2.10 ADVANTAGES TO THE CUSTOMER

Customers benefit from integrated services all under one roof, they get risk coverage at the bank itself and banks are well positioned to give informed choices in financial matters. According to Pobli and Rao (n.d.), customers benefit from reduced price, high quality products, professional guidance and delivery of services at the doorstep. Ghimire (2013) further states that customers can get better value products.

2.11 ANALYSIS OF FINANCIAL PERFORMANCE USING CAMEL PARAMETERS

Kumar, Harsha, Anad and Dhruva (2012), Kumari and Dorthy (2014) and Ghimire (2014) explain the significance of the ratios used. The ratios have been prescribed by IMF and World Bank. Reddy (2012) used CAMEL parameters which he found to be a significant tool to assess the relative financial strength of a bank and suggest measures to improve the weakness of a bank.

Capital Adequacy Analysis

It is a key indicator of the financial capability of a company. Capital acts as a security to the insured and assurance that the company is capable of paying out claims. It promotes the stability and financial soundness of the bancassurers. The findings by Reddy (2012) shows that best performing banks have high capital adequacy. Kumar, Harsha, Anad and Dhruva (2012) used Capital to Total Assets ratio. Kumari and Dorthy (2014) used the same ratio in addition to Net Premium to Total Assets ratio as he analysed insurance companies. The Net Premium/Capital covers the underwriting risks while the Capital/Total assets covers assets risks. The ratio of Net Premium/Capital should be greater than 1. A higher ratio shows that the bank's net premiums should be higher than the capital it holds. The ratio of Capital/Total assets should be less than 1. This reduces the risk that the assets will be highly volatile. Ghimire (2014) found out that increasing the capital makes the ratio better.

Asset Quality Analysis

It determines the overall financial health of a company. It reflects the measure of existing and potential credit resulting from debts. Reddy (2012) simplifies it that it shows the bank's type of debtors. Ratio of equities to total assets is used. The ratio should be less than 1. This reduces the exposure to credit risk as a result of the debt being low (Kumari & Dorthy, 2014). The decreasing ratio from their findings was as a result of earlier robust growth in investments, fixed assets, advances and later increase in short term asset base.

Reinsurance and Actuarial Issues

It can be analysed using the risk retention ratio. The risk retention analysis reflects the ability of the company to manage and withstand risks. It measures the capability of the

bancassurers to rely on oneself rather than over-relying on the reinsurer. The adequacy of technical reserves shows that the quality of estimated value of reported and outstanding claims is better than average claims. Kumari and Dorthy (2014) had a constant risk retention ratio in their findings. The risk retention ratios used are: Net Premium to Gross Premium and Net Technical Reserves to Average Net Claims.

Management efficiency analysis

It determines the efficiency in operations. Reddy (2012) explains that the ratio analyses the ability for the management to generate business and maximize profits. Poor performing banks had a low ratio. According to Ghimire (2014), he concludes that the operational efficiency indicator is closely correlated with management efficiency hence the ratio of operating expenses to gross premiums is used. Poor efficiency indicators could create problems in the management of technical and investment risks. The ratio should be less than 1. The bank should be able to minimize its operating expenses in order to minimize risks. The life insurance companies analysed by Ghimire (2014) had an upward trend.

Earning and Profitability Analysis

It aims at analysing the operational and non-operational performance of a bank. It determines the price earnings ratio and the profitability levels in a company. Earnings are the only source of long term capital. Low profitability may signal fundamental problems to the insurer and indicate solvency issues. The main financial indicators of earnings and profitability that Ghimire (2014) include: Return on Equity(ROE) which indicates the overall level of profitability, Investment Income to Investment Assets and the Expense ratio. The expenses ratio is the ratio of expenses to net premiums. The ROE had a decreasing trend thus discouraging investors to hold the shares. The other ratios had an upward trend.

Liquidity Analysis

It measures the degree of how a company can easily liquidate its assets. Adequate liquidity ought to be maintained in order to meet expected and unexpected cash needs. Banks have to make adequate provision of liquid assets in order to have a better liquidity position. The ratio used is Current Assets to Current Liabilities. The ratio should be greater than 1 in order to show that the bank is highly liquid. This reduces the chances of liquidity risk if the current assets can be easily liquidated to cater for current liabilities. Kumar, Harsha, Anad and Dhruva (2012) explain that the ratio of Liquid assets to total assets and Liquid assets to total deposits can be used to capture the impact of liquidity on how banks perform.

Ghimire (2014) had an upward trend of the liquidity of the institutions he analysed. Kumari and Dorthy (2014) found out that the SBI life insurance companies need to make provision for liquid assets so as to improve their liquidity position. The ratio had been decreasing over the period under study. The findings from Kiptis & Wanyoike (2016) showed that liquidity influenced the financial performance negatively.

CHAPTER 3: METHODOLOGY

3.1 HYPOTHESIS

This chapter will evaluate whether there are positive trends in the banks after the adoption of bancassurance distribution strategy.

3.2 RESEARCH DESIGN

The study will adopt a descriptive research design. The data collected will be analysed and the findings will describe the recent trends in bancassurance. The dependent variable is the role of bancassurance in the banking sector. The independent variable is the banking sector.

3.3 TARGET POPULATION AND SAMPLE SIZE

The target population was all commercial banks in Kenya that practise bancassurance. The sample population under study is the tier 1 local banks. There are six tier 1 banks in Kenya: KCB, Equity bank, Co-operative bank, Standard Chartered, Barclays Bank and Commercial bank of Africa. Standard Chartered and Barclays Bank are foreign banks. The study will focus on the other four banks. The study period covers a period of two to five years depending on when bancassurance was introduced in the banks.

3.4 RESEARCH INSTRUMENTS

The study is mostly based on secondary data. Secondary data is obtained from various publications such as company reports, financials, magazines and newspapers and also from the company official website.

3.5 DATA COLLECTION METHOD

Data collection involved downloading financial reports from the respective company websites. The audited annual reports also are found in the company websites. General trends and regulations of the banking industry are found in the banking act as well as the Capital Market Authority and Central Bank of Kenya publications. Trends in the insurance sector are found in the insurance act and other publications by the Insurance Regulatory Authority.

3.6 DATA ANALYSIS METHOD

The study will generate both qualitative and quantitative data. Qualitative data will be analysed through content analysis. The findings will be represented in form of tables and charts. Quantitative data will be analyzed using the CAMEL parameters. These are Capital adequacy analysis, Asset quality analysis, Management efficiency analysis, Earnings and profitability analysis and Liquidity analysis.

The data analysis tool that will be used is Excel.

Kumari & Dorthy (2014) evaluated the performance of bancassurance in India using the CAMEL parameters. This study will apply the same parameters to the sample population in the Kenyan scenario.

Ghimire (2014) explained the significance of each parameter to the financial performance of Nepalese Life Insurance Companies. The Capital adequacy is a key indicator of the financial capability of a company. Capital acts as a security to the insured and assurance that the company is capable of paying out claims. It promotes the stability and financial soundness of the bancassurers. Valuations of assets and liabilities of the bancassurers affects the analysis of capital adequacy. Adjustments to both sides of the statement of financial position directly affects capital. Higher capital adequacy ratio is a good indicator of the financial health of the banks. To calculate the adequacy of the companies under study, the ratios normally used are:

$$\begin{aligned} &= \frac{\text{Net Premium}}{\text{Capital}} \\ &= \frac{\text{Capital}}{\text{Total Assets}} \end{aligned}$$

The Net Premium/Capital covers the underwriting risks while the Capital/Total assets covers assets risks. The ratio of Net Premium/Capital should be greater than 1. A higher ratio shows that the bank's net premiums should be higher than the capital it holds. Net premiums are the cash inflows less the expenses. The ratio of Capital/Total assets should be less than 1. This reduces the risk that the assets will be highly volatile.

The asset quality analysis determines the overall financial health of a company. It reflects the measure of existing and potential credit resulting from debts. Ratio of

equities to total assets is used. The ratio should be less than 1. This reduces the exposure to credit risk as a result of the debt being low.

$$= \frac{\text{Equities}}{\text{Total Assets}}$$

Management efficiency analysis determines the efficiency in operations. It is difficult to directly quantify management soundness. The operational efficiency indicator is closely correlated with management efficiency. Therefore, the ratio of operating expenses to gross premiums is used. Poor efficiency indicators could create problems in the management of technical and investment risks. Gross premium reflects the overall volume of business activity. The ratio should be less than 1. The bank should be able to minimize its operating expenses in order to minimize risks.

$$= \frac{\text{Operating Expenses}}{\text{Gross Premiums}}$$

Earning and profitability analysis aims at analysing the operational and non-operational performance of a bank. It determines the price earnings ratio and the profitability levels in a company. Earnings are the only source of long term capital. Low profitability may signal fundamental problems to the insurer and indicate solvency issues. The main financial indicators of earnings and profitability include:

=Return on Equity

Return on equity indicates the overall level of profitability.

$$= \frac{\text{Investment Income}}{\text{Investment Assets}}$$

= Expenses Ratio. It is the ratio of expenses to net premiums.

$$= \frac{\text{Expenses}}{\text{Net Premiums}}$$

Expenses ratio considers the operating costs of the bank. It measures the performance of the underwriting operation. It signifies the bank's efficiency before factoring in expenses such as claims on policies and investment gains or losses. The ratio should

less than 1. This signifies the rate at which the expenses are covered by the cash inflow from net premiums.

Liquidity analysis measures the degree of how a company can easily liquidate its assets. Adequate liquidity ought to be maintained in order to meet expected and unexpected cash needs. Banks have to make adequate provision of liquid assets in order to have a better liquidity position. The ratio used is:

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The ratio should be greater than 1 in order to show that the bank is highly liquid. This reduces the chances of liquidity risk if the current assets can be easily liquidated to cater for current liabilities.

Liquidity and profitability are conflicting measures of the financial performance. Holding more liquid assets hinders the profitability but increases the company's credibility and solvency.

CHAPTER 4: EMPIRICAL RESULTS AND FINDINGS

This chapter presents original results and interpretations concerning the analyzed data of the Tier 1 local banks. The data for the study was obtained from financial reports of the banks under study.

Some ratios have been excluded from the study since the required data is not available. The net premiums and gross premiums are not available for banks. The interest income is assumed to be the investment income.

The premium received is recognized in profit or loss in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

4.1 TREND OF MAJOR FINANCIAL INDICATORS

4.1.1 EQUITY BANK GROUP

Equity Insurance Agency is a fully owned subsidiary of Equity Bank. It was licensed in May 2007 by the commissioner of insurance to offer both life and non-life insurance. It was established with an aim of addressing the insurance needs of Kenyans across the wide economic strata.

The regulatory capital increased gradually through the years but the steepness of the increase was higher during 2014 and 2015. This was as a result of the Equity Insurance Agency making a significant positive contribution to the profitable growth thus need for a continuous increase in capital.

Net fees and commissions reflect the premium received. There was a slight drop in the 2012 by 2% and increased in 2013 by 30%. However, the increase in 2014 was 10%, a lower compared to 2013. In 2015, the increase was 20%. This showed that the commission from the premiums received increased over the period as the insurance agency continued to grow.

Profit for the year has also been on the rise over the period 2011-2015 as follows: (17%, 10%, 29% and 1%). The increase was highest in 2014 at 29%. The Insurance agency made a significant growth in the Equity Group's performance.

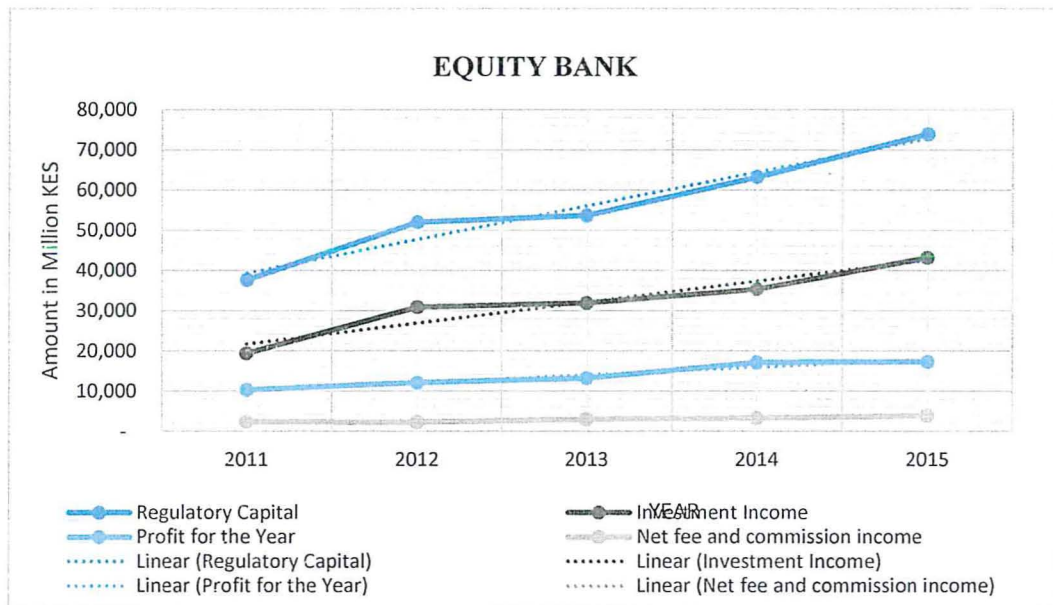


Figure 3: Performance trend of major financial indicators of Equity Bank Group. The financial indicators are increasing gradually. Source: Annual reports for Equity Bank Group for each of the years 2011 to 2015.

4.1.2 KCB GROUP

KCB insurance Agency is a fully owned subsidiary of KCB Bank. It was launched in 2014.

The regulatory capital was increased by 16% in 2014 while in 2015, it was decreased by 14%. This was as a result of a reduction in the regulatory credit risk reserve of the group. Despite the reduction of the regulatory capital in 2015, the group was still in compliance with the minimum core capital requirement of KES 1 billion according to the Central Bank of Kenya.

Profit of the year has been on the increase. The rate of increase in 2014 was 17% and the 2015 rate was 16%.

The fees and commission income has also been on the rise. In 2012, the incremental rate was 5% then 9% in 2013, 21% in 2014 and 11% in 2015. After the launch of KCB Insurance Agency, the commission income increased at a relatively higher rate compared to the previous years. This shows that bancassurance raised the income to the group.

Investment income of KCB Group has been increasing. There was an increase by 54% in 2012, a decrease of 3% in 2013, an increase of 14% in 2014 and 19% in 2015. The high record of 2014 and 2015 shows that the return from the invested assets was high.

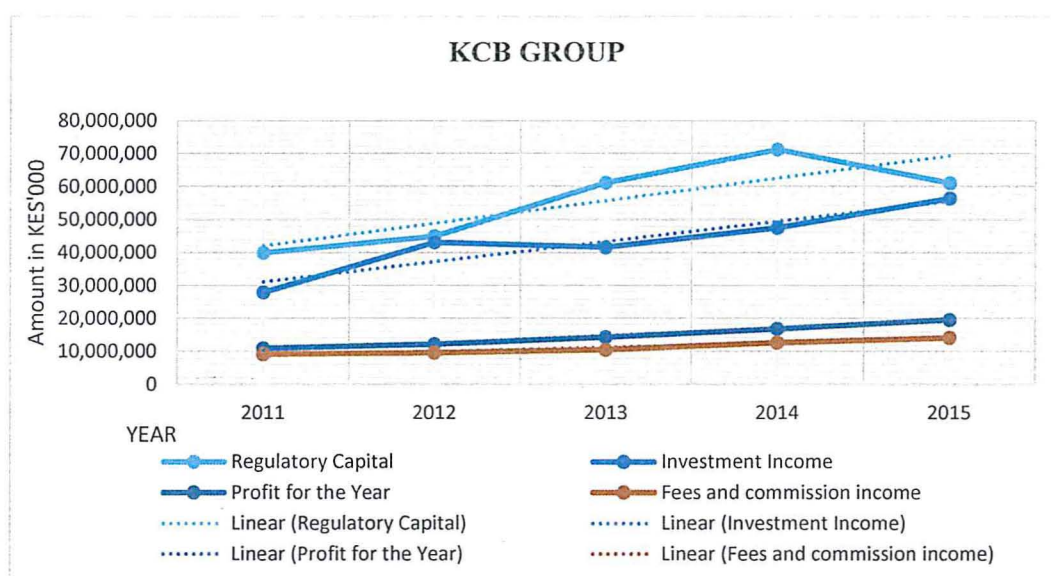


Figure 4: Performance trends of the major financial indicators of KCB Bank Group. The trend for each financial indicator has been increasing. Source: KCB Group annual reports for each of the years 2011 to 2015.

4.1.3 COMMERCIAL BANK OF AFRICA (CBA)

CBA Insurance Agency is a fully owned subsidiary of the CBA Bank. The performance of the group as shown by regulatory capital, investment income, annual profits and commission income from the sale of bancassurance products is discussed below.

Regulatory capital was increased by 25% in 2012 and 9% in 2013. The year 2014 showed a tremendous increase of 99% while the increase in 2015 was by 16%.

Investment income increased over the 5-year period. The increase was 63% in 2012, 10% in 2013, 34% in 2014 and 40% in 2015.

Profit of the year was higher in 2012 than in 2011 by 87%. 2013 reflected an increase of 20% from 2012 and there was a decrease in 2014 by 10%. The group managed to increase its profits by 6% in 2015 although it was still lower than the 2013 profits.

Fees and commission income have been performing well although there was a decline in 2014 by 11%. 2012 reflected a positive change of 23% and in 2013, it was a significant increase of 75%. The increase in 2015 was 8% which was still lower than the income in 2013.

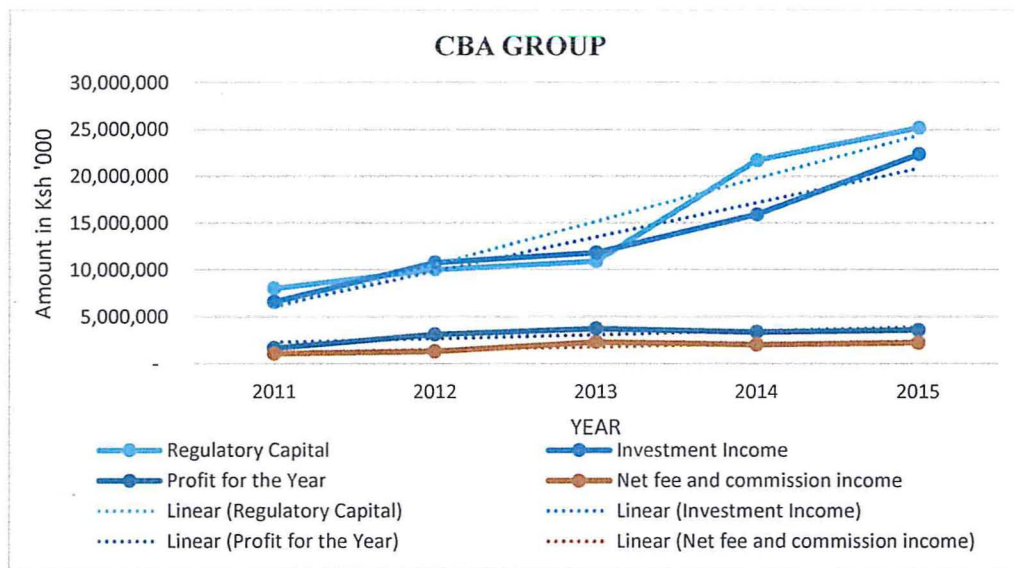


Figure 5: Performance trends of the major financial indicators of CBA Bank Group. The trend of each financial indicators is increasing although the steepness of the gradient varies e.g. regulatory capital and investment income has a steep gradient. Source: Annual reports of CBA Group for each of the years 2011 to 2015.

4.1.4 CO-OPERATIVE BANK

Co-op Consultancy and Insurance Agency Limited is a fully-fledged subsidiary of Cooperative Bank. It has partnered with various reputable insurance companies in offering a full banquet of innovative insurance products. The underwriter partners are: CIC Group, JUBILEE life insurance, BRITAM, First Assurance, AAR insurance, Heritage Insurance co., PACIS insurance company, Kenya Orient Insurance co., INVESCO Assurance co., DIRECT LINE Assurance.

The group has consistently increased its regulatory capital (53%, 25%, 29% and 14%) over the years from 2012 to 2015 respectively. This shows that the group has a good capital strength. The strong capital base enables the group to maintain investor, creditor and market confidence and also to sustain the future development of the business.

The group's profit of the year has been on the rise apart from in 2014 where it declined by 12%. In 2012, the profits grew by 44%, 2013 by 18% and in 2015, it grew tremendously by 46%. The agency contributed to this growth as it made a profit after tax of KES. 121,604,207 in 2015 and KES. 82,748,514 in 2014.

Investment income has been growing. The growth rate in 2012 was 32%, in 2013 it declined by 2% and increased by 25% and 23% in 2014 and 2015 respectively.

Fees and commission income has also shown a positive growth. The growth rate was 9% in 2012, 18% in 2013, 22% in 2014 and 9% in 2015. The net premium received is recorded under the fees and commission income. The continuous increase in commission income may be as a result of an increase in the number of policyholders and are constantly paying their premiums when due.

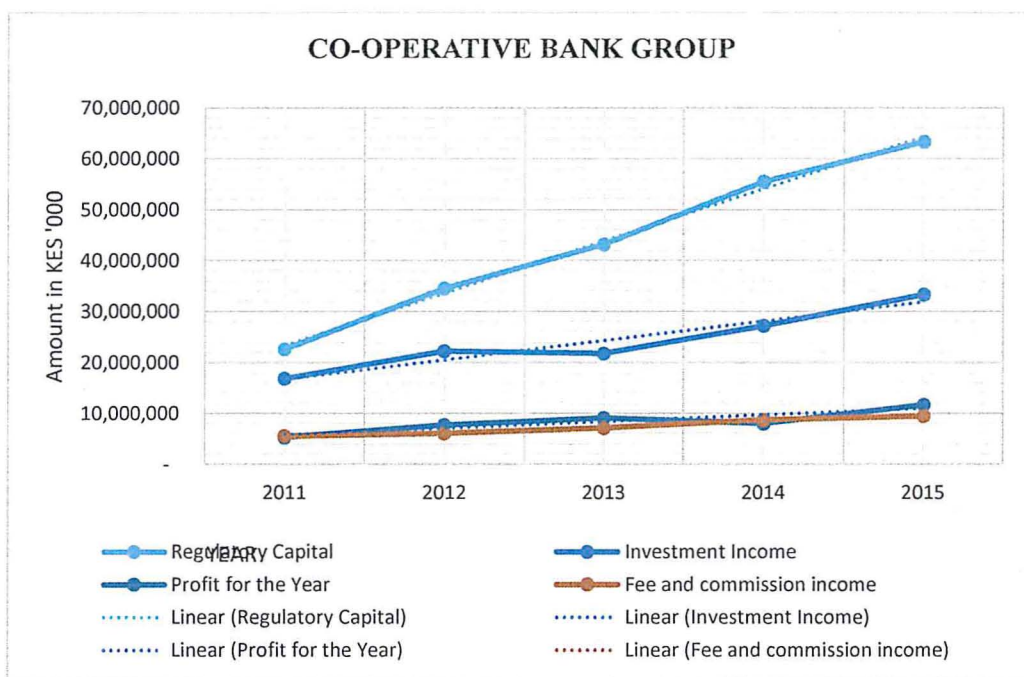


Figure 6: Performance trends of the major financial indicators of Co-operative Bank Group. The indicators have been increasing steadily over the period. Source: Co-operative Bank Group annual reports for each of the years 2011- 2015.

4.2 TREND ANALYSIS OF EACH FINANCIAL INDICATOR

I. CAPITAL ADEQUACY

= Capital/Total Assets

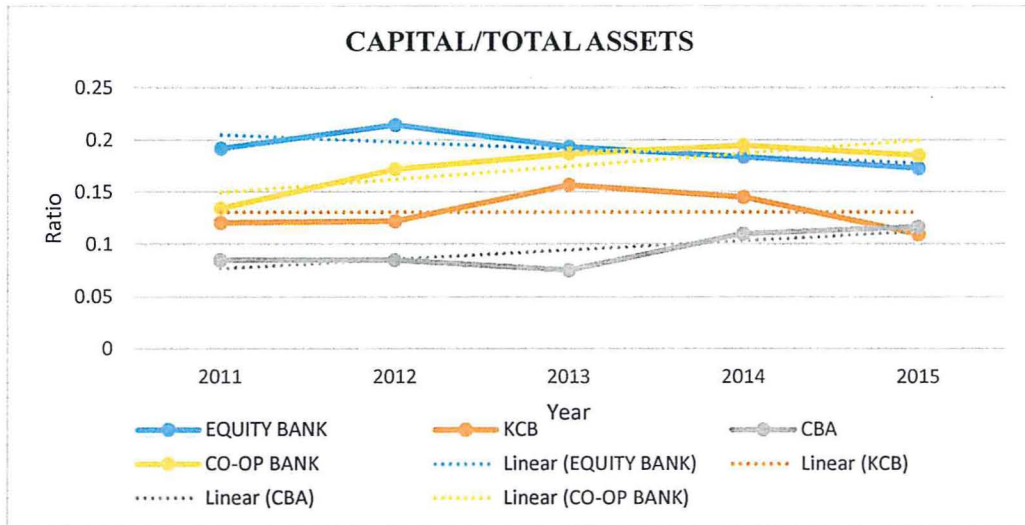


Figure 7: Capital adequacy analysis. The trend varies for each bank for instance, Co-operative bank has an increasing trend while Equity bank had a declining trend. Source: Author's own based on annual reports of the respective banks.

Data for capital and total assets was collected and the graph drawn from the ratio is shown in figure 7. All the four companies have a small ratio of less than 1 thus less capital is employed by the firms and there is a higher chance of solvency. The ratio of Equity Bank was high in 2012 but it started declining gradually over the period till 2015 where it was lowest. The ratio of KCB has been fluctuating over the 5-year period but it was lowest in 2015. CBA Bank had the lowest ratio among the 4 companies. The ratio was lowest in 2013 and afterwards it rose significantly with 2015 recording a higher value as compared to the other years. Co-op Bank had a rising ratio over the years apart from 2015 where it dropped slightly. This shows that the companies even though they increase their capital, the value of total assets is also increased at a higher rate.

II. ASSET QUALITY ANALYSIS

=Equities/Total Assets

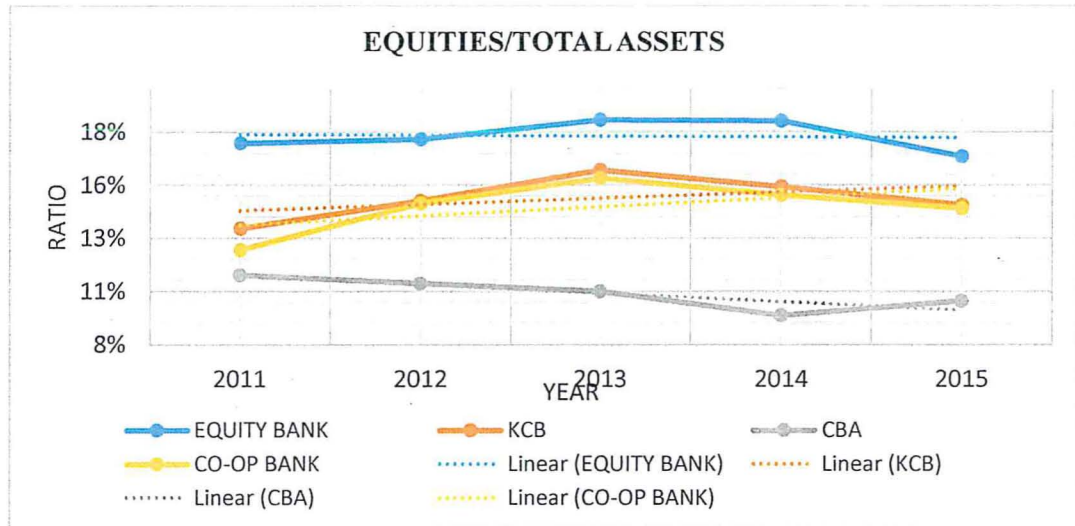


Figure 8: Asset quality analysis. The trend of equities/total assets varied for each bank. KCB and Co-operative Bank have a rising trend while Equity and CBA Bank have a declining trend. Source: Author's own based on annual reports of the respective companies.

Data for equities and total assets was collected and the graph drawn as shown in figure 8 above. The ratio of Equity Bank has been increasing gradually during the 5-year period but declined in 2015 to the lowest value ever attained. KCB and Co-operative Bank had similar graphs with an increasing ratio from 2011-2013 then declined in 2014 and 2015. CBA Bank had a declining ratio from 2011 to 2014 but it rose in 2015.

III. EARNINGS AND PROFITABILITY ANALYSIS

$$= \text{Investment Income} / \text{Investment Assets}$$

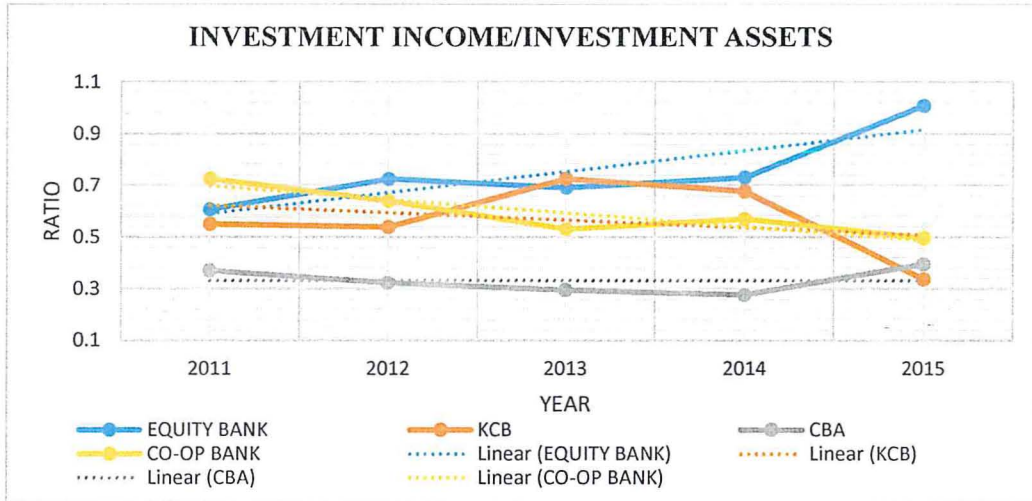


Figure 9: Trend of Earnings Analysis - Investment Income/Investment Asset. The trend in Equity bank is rising while the other banks have a declining trend. Source: Author's own based on annual reports of the respective banks.

Data for investment income and investment assets was obtained from the respective banks' annual reports and the graph drawn as shown in figure 9 above. Investment income to investment assets shows how efficiently the firm is earning from its investment portfolio as a result of its total investable assets. Equity bank had an increasing ratio over the period apart from 2013 when the ratio declined. The calculated ratio of KCB bank has been fluctuating. It declined in 2012 then rose tremendously in 2013 and then dropped again in 2014. The ratio was lower in 2015 than 2014. CBA Bank had a declining ratio over the period till 2014. The ratio was higher in 2015 compared to 2014. Co-operative Bank had a fall in the ratio until 2013. It then rose slightly in 2014 before falling again.

Return on Equity

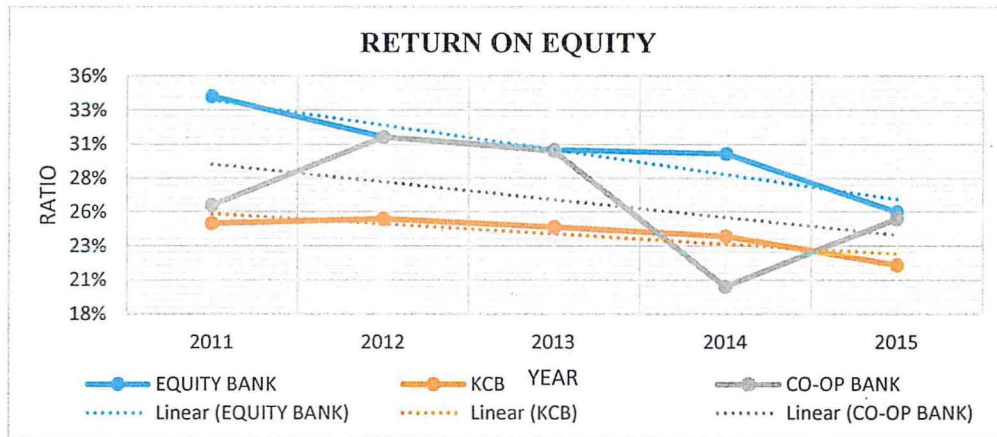


Figure 10: Profitability Analysis. Trend of return on equity for the banks is declining over the years. Source: Author's own based on annual reports of the respective banks.

Data for return on equity is obtained and the graph drawn is shown in figure 10 above. The ratio for Equity Group and KCB Group have been falling over the five-year period. However, for KCB, the return on equity was 25% in both 2011 and 2012 while 2013 and 2014 had a return of 24%. The return on equity was lowest in 2015. Co-operative bank had a fluctuating return. 2012 had the highest return compared to the other years while it was lowest in 2014.

IV. LIQUIDITY ANALYSIS

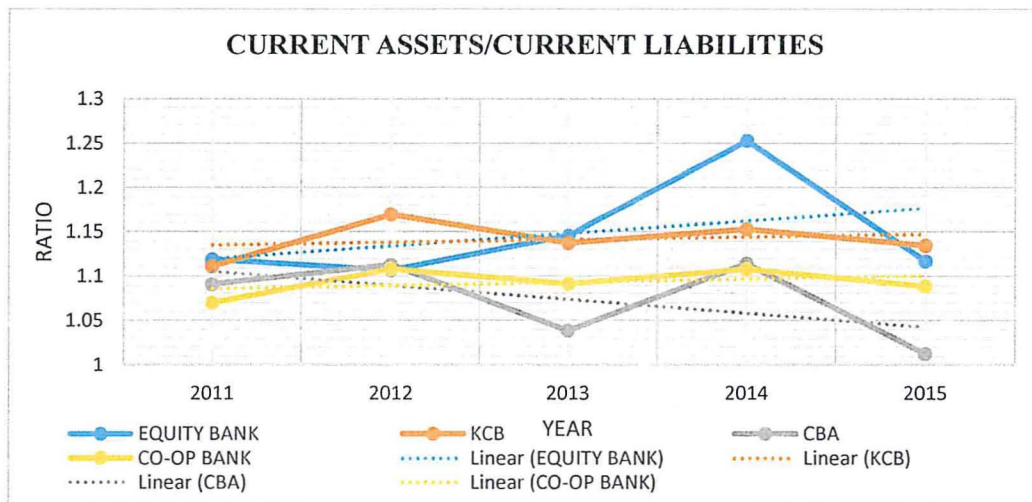


Figure 11: Liquidity analysis. Trend of current assets to current liabilities varies for each of the banks e.g. the trend in Equity bank and KCB is increasing while CBA and Co-operative bank is declining. Source: Author's own based on annual reports of the respective banks.

Data for current assets and current liabilities is obtained from the annual reports and the graph drawn as shown in figure 11 above. The Banks have a fluctuating ratio however the trend of Equity Bank is increasing over the years, the trend of KCB is slightly increasing while CBA and Co-operative Bank have a decreasing trend.

4.3 FINDINGS

Capital/Total assets

The ratio shows whether capital increases as total assets increase. The ratio of all the 4 banks under study are less than 1. The total assets were increased over the period but the regulatory capital was not increased at the same ratio. This shows that the banks maintained the solvency margin well. According to Ghimire (2014), higher capital to total asset ratio means more capital employed by the firm and less chance of solvency. The banks also observed the minimum regulatory capital of KES. 1 billion as set by the Central Bank of Kenya. Therefore, their level of solvency is good.

Equities/Total assets

The ratio determines the financial health of the companies. The ratios of the banks are less than 1 over the whole 5-year period. The total assets were increased over the years but the increase in equities was lower. Lower amount of equity means the firm has a strong credit policy and the debt is kept low. The solvency position is strengthened and the financial position is thus made stronger.

Investment income/Investment assets

The ratio shows how efficiently the firm is earning from its investment portfolio as a result of its total investable assets. The ratios of the banks are less than 1. Equity bank has an average of 75% return over the 5-year period although in 2015, it made a return of 101% from its invested assets. The bancassurance business contributed greatly since the income from sale of the policies was increased. KCB had an average return of 57%. The return made in 2014 and 2015 were 68% and 34%. The reduction dropped as the investment assets were increased at a higher rate due to the opening of the doors for the bancassurance business. The average return for CBA Group was 33%. CBA needs to match its assets with the liabilities in order to increase their investment return.

The average return for Co-operative Bank Group was 59%. The ratio was fair since it shows that the bank had a return of more than half its assets invested.

Return on Equity

The ratio shows how effectively the management of the firms have been using the shareholder's funds. The Equity and KCB ROE have been decreasing over the period but it was lowest in 2015. Co-operative bank had a fluctuating ROE but it was lowest in 2014 and 2015 with 20% and 25% respectively. This means investment in the insurance sector is not good compared to other sectors that the banks focus on.

Current assets/Current liabilities

The ratio shows the liquidity of the banks. Adequate liquidity has to be maintained in order to meet the expected and unexpected cash needs. The banks had a good ratio. The value of 2015 was however lower compared to the year 2014 and the average value of all the 5 years. Liquidity and profitability measures are always conflicting since holding more liquid assets reduces on the profitability of the bank but it increases on the confidence and solvency of the banks. The banks have however managed to balance both liquidity and profitability.

CHAPTER 5: DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

The aim of the study was to analyse the growing role of bancassurance in the banking sector by determining the recent trends in bancassurance and the financial performance of banks practising bancassurance. The banks covered are tier 1 local bank which include: KCB Bank, Equity Bank, CBA Bank and Co-operative Bank.

The methodology used in this study analyses bancassurance performance using CAMEL parameters. This is because the trends in the banking sector are captured well by the capital adequacy ratios, asset quality ratios, management efficiency ratios, earnings and profitability ratios and the liquidity analysis ratios.

The period under study is the years 2011 – 2015. The study adopted a descriptive research design. The study found out that there is a positive trend in the banking sector after adoption of bancassurance.

Limitations of the study

Some ratios have been excluded from the study since the required data is not available. For instance, the net premiums and gross premiums are not available for banks.

5.2 DISCUSSION

Major Trends of Bancassurance

This study supports the hypothesis that there is a positive trend in banks following the adoption of bancassurance although some trends have a negative trend.

Capital adequacy analysis showed a positive trend for the banks as the ratio has been declining. This is similar to the findings of Reddy (2012) and Kumari and Dorthy (2014). There is growth in the assets of the company and the capital has been efficiently invested to create assets.

The asset quality analysis and the earnings and profitability analysis results reflect the findings by Ghimire (2014). KCB and Co-op bank had an increasing trend while Equity and CBA bank had a declining trend. The asset quality is good since when bancassurance product started to be actively sold in the banks in 2012, the ratio declined due to a higher increase in total assets compared to the increase in equities. They

reduced their debts and built a strong credit policy. The asset quality has since been improving. The higher asset quality levels also reflect the findings by Kiptis and Wanyoike (2016) as it enhances customer product portfolio which in turn boost the financial performance.

The declining trend in the banks apart from Equity bank shows that the investment in the bancassurance business has not stabilized well to generate huge returns. Reddy (2012) had a good earnings ratio for the best performing banks however the worst performing banks had a low earnings quality. The findings contradict what Ghimire (2014) found out. Despite this, the long term trend is likely to be in favour of the bancassurance business in Kenya. The return on equity is still low although there is a possibility that the bancassurance sector will eventually generate high returns after insurance is widely adopted in the country.

There is a split in the liquidity of the banks. Equity and KCB bank have a rising trend while CBA and Co-op bank have a declining trend. Reddy (2012) had similar results as the best performing banks had a good liquidity. Kumari and Dorthy (2014) had a declining trend in the ratio. The liquidity analysis based on Ghimire (2014) was good as the firms analysed had a positive trend.

Effect of the Level of Bancassurance on the Insurance Industry

The commission from the sale of bancassurance products shows a positive trend in each of the tier 1 local banks under study. This means the insurance agencies are making positive contributions to the group's profits. Jongeneel (2011) found out that increasing the earnings of the bank boosts profits. Alavudeen and Rosa (2015) also made similar findings in their research and the Equity Bank annual report of 2014 and 2015 also support this assertion. This shows that there is a growing role of bancassurance in the banking sector.

The increase in the levels of bancassurance has also impacted the insurance sector positively. This is because the increase in premiums received from bancassurance goes to the insurance company and the banks receives commission. As the bank sell more policies, it remits more premiums to the insurance company. This observation was made in line with Hana, Lib, Moshirian and Tian (2010).

The asset quality shows good bancassurance levels which impact the insurance sector as the banks expand their asset base of the insurance agency. The expansion shows that the banks are profiting from the bancassurance business which in turn translates to the performance of the insurance industry.

5.3 CONCLUSIONS

From the above discussions, the findings support the hypothesis in part. The financial health of banks has been on the rise after the adoption of bancassurance. Although some ratios such as the earnings and profitability ratios contradict these, they show a declining trend of the performance. This is because the banks have invested in the subsidiary i.e. their insurance agency but the income from it is still low. The earnings and profitability ratio measure the operational and non-operational performance of the bank which is quite low for the banks.

Capital adequacy analysis shows that the banks are efficient and stable financially thus the bancassurance business will grow steadily as it has a strong foundation from the group. The overall financial health of the banks is good as shown by the asset quality analysis. The liquidity analysis of the banks is good as the assets can adequately cover the liabilities as they arise. The liabilities for the bancassurers will be the claims expected from policyholders. Generally, there is a positive trend in the bancassurance. The long term trend is highly likely to be in favour of the bancassurance business.

The banks are gaining additional market share through the constant increase in the fees and commissions and influencing the public to take up insurance policies. The banks are succeeding in selling the insurance thus they are likely to strive a long relationship with its customers just like the ordinary bank products like loans and deposits. Since the banks also have all financial information about their customers, they can easily identify their transaction patterns. They therefore can offer suitable products to their customers and they are likely to connect with the individual needs of its customer base.

Insurance has not been widely accepted by the public. As the bancassurers are carving their path into the market, they need to change the perception of the public on the importance that they will get from purchasing these products. Bancassurers thus have to increase their marketing strategy.

With the increase in the levels of bancassurance, the banking sector and the insurance industry are affected positively. There is therefore a growing role of bancassurance in the banking sector.

5.4 RECOMMENDATIONS

The public needs to be sensitized on the various insurance products that meet their needs. This will increase the insurance uptake and the penetration rate in Kenya is likely to rise.

The bank employees need to undergo a training programme in order to get a clear understanding of the insurance products. This will enhance the services offered to their clients as they can advise well on the available products and how they will be useful to them.

The banks can increase the range of products offered to clients so that each individual in various classes of living standards can have relevant products that suit their needs.

5.4.1 Suggestions for further research

Further studies can be done on the impact of the regulation on bancassurance products. The restrictions imposed on the sale of bancassurance products is limiting the bancassurers on making profits. They should be able to underwrite the risks in order to design them based on the customers need.

Researchers and insurers can also analyze the possibility of bancassurance business being a threat to the insurance companies. Another research area can be on the possibility of the finance sector merging with the insurance sector to offer insurance services as well as financial services.

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