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Influence of insurance distribution channels on the financial performance of life insurance firms in Kenya.

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INFLUENCE OF INSURANCE DISTRIBUTION CHANNELS ON THE FINANCIAL PERFORMANCE OF LIFE INSURANCE FIRMS IN KENYA.

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DECLARATION

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

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ABSTRACT

The financial performance of insurance firms has been of interest to researchers however, there has been inconclusive evidence on the effect of distribution channels on the financial performance of life insurance firms in Kenya. The current study sought to solve this problem. To achieve this, the study focused on four specific objectives: to determine the effect of independent agency distribution channel on performance of life insurance firms in Kenya; to find out the effect of bank-led distribution channel on performance of life insurance firms in Kenya; to establish the effect of electronic intermediaries on performance of life insurance firms in Kenya; and to assess the effect of direct distribution channel on performance of life insurance firms in Kenya. The study was based on two theories: Dynamic Capabilities theory, and Dynamic Marketing Capabilities theory. The study adopted descriptive research design. Descriptive research was used to depict the current circumstance. The target population of the study was the 13 life insurance companies based in Nairobi County. The study sought managerial perspectives on insurance distribution channels and the performance of life insurance using a questionnaire from the sampled insurance distribution channels. A five-point Likert scale poll was utilized to collect primary data using a structured questionnaire. To ensure validity and reliability of the research instrument, a pilot study was conducted using a random sample of 10 respondents across the 13 life insurance firms. The collected research data was analyzed using descriptive analysis, correlation analysis and regression analysis. The results of the research were presented using bar graphs, charts and tables. The research was able to obtain a 91% response rate. An analysis of the collected data indicated that the four channels; independent agency, bank-led, electronic channels and direct distribution were positively related to both return on assets and return on equity of life insurance firms. The results of the research indicated that there was a positive effect of distribution channels on the financial performance of life insurance. The research concluded that the distribution channels were integral in determining the financial profitability of the insurance firms. The study recommends that insurance firms should expand their distribution channels to target a broader market segment. This can be achieved through better online presence, training and development of agents, enhanced alliance with banking institutions and increased market presence of the insurance firms. The results are expected to enhance policy, practice and academia fields.

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LIST OF ABBREVIATIONS

ABI	Association of British Insurers
AKI	Association of Kenya Insurers
BM	Bancassurance Model
DMC	Dynamic Marketing Capabilities
EURO	European Monetary Unit
GDP	Gross Domestic Product
GFIA	Global Federation of Insurance Associations
ICT	Information Commutation Technology
IRA	Insurance Regulatory Authority
KSHS	Kenya Shilling
SAIA	South African Insurance Association
UK	United Kingdom
USA	United States of America

DEFINITION OF TERMS

Distribution channel: is a chain of businesses or intermediaries through which a good or service passes until it reaches the end consumer. It can include wholesalers, retailers, distributors, and even the internet (Kagucia, 2016).

Performance of insurance: completion of a task with application of knowledge, skills and abilities (Scovier, 2015).

Gross premium: is the total premium of an insurance contract before brokerage or discounts have been deducted. In reinsurance, the primary insurance company usually pays the reinsurer its proportion of the gross premium it receives on a risk (Webb, 2015).

Whole life insurance: is a cash value type of life insurance policy that provides protection during your entire lifetime and offers two key benefits: a death benefit to be paid to the beneficiary in the event of your death (Gallaugher, 2013).

Consumers of insurance products: An individual who buys products or services for personal use and not for manufacture or resale. A consumer is someone who can make the decision whether or not to purchase an item at the store, and someone who can be influenced by marketing and advertisements (Kumar, 2015).

Insurance agents: is a representative of an insurer who negotiates and sells insurance contracts (Jongeneel, 2013).

Direct distribution: A direct channel of distribution is the means by which a company gets its product straight to the consumer without using any intermediaries (Kantidas, 2014).

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Insurance is a contract involving two parties where one party pays premiums with the expectations that the other will compensate or provide financial support in the event of a loss (Malone, 2015). Life insurance is one of the key aspects of insurance whereby firms provide for protection against loss of income after the death of an insured individual who may have been the breadwinner in a family (Regan, 2014); the individuals named in the insurance policy as the beneficiaries will then receive the proceeds and receives a financial cushion and is protected from financial impacts of the death.

According to Holman (2016), there were 797 life insurers in the United States of America with 27 Canadian life insurers operating in the United States and statistics depicts the payments to life insurance beneficiaries in the United States in 2016 were approximately 6.23 billion U.S. dollars. On the European life insurance market, the aggregate value of all life insurance claims paid in the United Kingdom was the highest with nearly 172 billion euros in 2017 (Association of British Insurers, 2017). In 2016, the life insurers operating in France held the highest investment portfolio at approximately 2.12 billion euros (Fédération Française de l'Assurance, 2016).

South Africa has the most elevated life insurance penetration level in Africa at 14% against a populace of 56 million (South African Insurance Association, 2016). The level of take-up of life insurance in Kenya is 1.03% against a populace of 50 million who are legible to take up life insurance cover (Association of Kenya Insurers, 2016). In addition, life insurance industry in Kenya has 13 players and the gross annual premium is just above Kshs. 10 billion, meaning some life insurance companies have less than Kshs. 1 billion in gross premium (Mwaura, 2015). The growth of life insurance industry in Kenya is lower than the country's average

economic growth. This means that other sectors of the economy are growing faster than life insurance (Koskei, 2015).

Life insurance companies offer different forms of life insurance. According to Sarkar (2015) some life insurance policies involve provision of services at fixed payments and for specific lengths of time as agreed upon during initial stages of policy taking. When this fixed period expires, the beneficiaries cannot receive any reparations. The client has the option to renew their coverage with different terms and conditions. This can be defined as term insurance (Richard, 2014).

Life insurance ensures that the insured receives life-long coverage (Kraft, 2013). Term insurance is cheaper than life insurance because it is not designed to pay out in all scenarios. People prefer fixed-term policies since they are relatively cheap and easy to pay (Smith, 2016). Consumers of insurance products have gradually come to realize the necessity of insurance and that human needs are unending as long as life exists (Engel, 2014). Insurance involves transfer of risks from one party to another (Batra, 2015).

1.1.1 Distribution Channels

A distribution channel is a chain of intermediaries through which a good or service passes before reaching the consumer (Solomon, 2013). Variety of distribution channels are currently used by life insurance companies and most companies combine several channels to reach out to their clients (Alexander, 2014). These include Independent agency distribution channel; bank-led distribution channel; electronic intermediaries direct distribution channel, Internet-led channels, direct distribution channels, bank-led channels, and agent-led channels.

Agents are the intermediaries between members of the public and insurance firms. They are the first contacts between the insurance companies and their clients and their role in distribution and performance of insurance services and products is key to the performance of insurance firms (Luang, 2016). Bank-led distribution channel also called Bancassurance Model (BM),

describes partnerships between banks and insurance companies and involves insurance companies using channels from bank sales to sell insurance products (Ng'aru, 2014). Electronic intermediaries are online organizations which facilitate buyers and sellers to trade on the Interne (Venza, 2013). Direct distribution involves selling products directly to consumers without using any intermediaries (Mayers & Smith, 2014). The popularity and advancements in technology has led to an increase in the number of intermediaries available leading to growth of electronic channels like direct channels (individual company web sites), electronic markets, and other cyberdiaries (Sarkar, 2015).

Before the introduction and use of internet-led intermediaries, most purchasers of life insurance products used traditional agent-led distribution channels such as direct insurance channel or independent agents (Tendai, 2014). However, according to Bacheldor (2015), less than 2% of the volume of insurance sales made in Singapore are credited to online channels. Similarly, since the Financial Modernization Act of 2010 was passed, the US insurance marketplace expects to see an increase in bank-led sales. Additionally, the American Bank Insurance Association survey (2016) reports that insurance forms one of the smallest percentages of total bank revenue. Independent insurance agents are key when selling complex products such as life insurance covers.

Agents market more standardized products which is why they are the primary distribution channel for insurance products. Defenders of the independent agency channel argue that higher expense ratios are attributable to a difference in the level of services offered to consumers (Kiama, 2015). Apart from the higher demand for services in direct distribution channel, and the greater complexity of bank-led channels over direct distribution, results in a greater demand for services provided by the independent agency channel (Barresse, 2015). Multifaceted products ned higher levels of service and the products that offer high value/high prices are ideal for distribution through independent channels (Mayers &Smith, 2016). It is impossible to

determine how long these channels will dominate existing life insurance distribution channels (Drucker, 2015).

According to Hannover Life Reassurance Africa Report (2016), majority of the insurance firms in South Africa have adopted direct distribution of life products. Given the diverse population groups in South Africa, and considering the infrastructure like road networks (Mtongana, 2015), direct offerings have complemented the broker and agency models to a large extent (Mpambwa, 2016). Hannover Life Reassurance Africa Report (2016) notes that direct channels that enable customers who cannot get opportunities to have direct contact with insurance agents to gain access to trained consultants who can educate them and advise them on appropriate insurance-purchasing decisions. Direct channels are concerned with the direct to direct contact between the insurer and the insured (Zieniewicz, 2014).

According to Zieniewicz, (2014) the main insurance distribution channels in Poland are the direct intermediaries, agency channels and modern channels that rely on main technologies. Brophy (2013) in a study in Ireland noted that bancassurance agents and direct channels were the key channels being utilized within the insurance industry. Ombonya (2013) noted that insurance channels in Kenya utilized a number of distribution channels such as bancassurance, direct channels, agency channels and internet-based channels. The study constructs were drawn from the above with Independent agency distribution channel; bank-led distribution channel; electronic intermediaries; and direct distribution channel being examined in the study.

1.1.2 Performance of Life Insurance Firms

According Gavrea, Ilies, and Stegerean (2011), there are two dimensions to measuring performance in organization. This is done by assessing either the financial or the non-financial indicators. Recent years have seen financial enthusiasts, researchers, the general public and corporate managers increasingly gain interest in the financial performance of companies and the factors that improve their performance (Omondi, 2013). In the current study financial

performance was assessed in terms of return on assets (ROA) and Return on Equity(ROE). Kosmidou, Pasiouras, and Tsaklanganos, (2007) points out, the ROA and ROE have emerged as key ratios for the evaluation of efficiency and has become the most common measure of returns in the literature

Overall gross premium globally declined by 0.8% in real terms (Global Federation of Insurance Associations, 2016). Statistics show that Global life insurance premiums shrank by 2.7% in 2011. Advanced markets contracted by 2.3%, with the sharpest decline observed in Western Europe (9.8%). The US market recorded moderate growth of 2.9%. Global non-life insurance premiums rose by 1.9% in 2011 (GFIA, 2016). Premium growth in the industrialized countries was negative 1.1%. Emerging markets had an average growth of 1.3%, (Swiss Re-sigma, 2015). Insurance penetration is a global problem with developed markets like UK at about 11% and USA at about 8.6% (Swiss Re-sigma, 2015).

In developing countries such as Kenya, more than 40% of the population live below the dollar making life insurance policies a luxury that can only be afforded by the rich and more affluent members of the society. According to Association of Kenya Insurers (2016), the number of life insurance policies in the country was less than 400,000, yet the working population is more than 8.5 million (about 4% coverage). The level of performance of life insurance in Kenya is 1.03% against a populace of 50 million who are legible to take up life insurance cover (Association of Kenya Insurers, 2016). This is low contrasted with a nation like South Africa which has the most elevated penetration level in Africa at 14% against a populace of 56 million (South African Insurance Association, SAIA, 2016). Most ordinary life policy holders in the country are individuals on permanent employment jobs such as civil servants and teachers (AKI, 2016). It is evident that since few people in the informal sector hold insurance covers, there is a need for insurance companies to target individuals working in this sector since it

comprises most of the country's population. This will result in an increase in life insurance covers across the country (Kariithe, 2015).

There are numerous changes going on in life insurance policies and this could lead to significant changes on how consumers access insurance products (Koske, 2015). According to Engel (2014), since life insurance is not a basic need, most citizens do not have enough disposable income to take life insurance. In addition, insurance companies carry out their functions in environments which change constantly and they have no control over it (Holman, 2015). Although the aspect of insurance has been around for hundreds of years, the popularity of life insurance is still inadequate, especially in developing countries (Mwaura, 2015).

The insurance industry in Kenya is comprised of various players who include the insurance companies, reinsurance companies, the regulator, self-governing insurance bodies, insurance brokers and other intermediaries (Insurance Regulatory Authority, 2015). Notably, there were 47 licensed insurance companies by 2015 (IRA, 2015). Insurance industry offers a variety of insurance products and services among them is the life insurance policy (Association of Kenya Insurers, 2016). The performance of life insurance products among Kenyans is currently at dismal 1.3% (AKI, 2016). This in comparison to other regional markets such as South Africa at over 14% is quite low. Hence, the current research sought to examine if the distribution channels have an influence on the financial performance of the life insurance firms. This is expected to strengthen the knowledge and practise base.

1.2 Statement of the Problem

Life insurance companies have invested heavily in distribution channels to increase awareness and penetration of life insurance products, but despite these efforts, the performance remains dismally low (Mazviona, Dube, and Sakahuhwa, 2017). To deepen the performance of life insurance products, firms have collaborated with others and run joint marketing or promotional campaigns to drive more foot traffic to the consumers of insurance products (Muasa, 2014).

This way, insurance firms don't have to shoulder the full marketing costs. Distribution channels have intensified the speed at which insurance firms can distribute their products in large geographic areas (Kariithe, 2016). Insurance players in the country claim that there is a disconnect between the industry players and the general public (IRA, 2014). Despite this, there has been a limited examination of how distribution channels affect the financial performance of insurance firms hence the current research sought to fill this knowledge gap.

In developed countries, performance of life insurance is high due to use of advanced and relatable distribution channels such as aggregator software applications which are easily accessible via mobile phone used by many (Munje, 2013), as well as other relatable distribution channels such as pegging life insurance premium to the price of an item bought for day to day use e.g. airtime, milk, bread (Regan, 2014). Such creative distribution channels have overtaken the traditional models that are still being used in Kenya hence making performance of life insurance better in these developed countries than in Kenya (Mwaura, 2015). Past studies did not provide a strong link between distribution channels and performance of life insurance in Kenya (Barresi, 2017). This represented an empirical gap that the current study sought to examine.

Locally, Odemba (2013) studied the factors affecting performance of life insurance in Kenya. The findings revealed that policy holders preferred paying their premiums via mobile money and were referred by a friend to the company. However, the study did not consider other distribution channels. Similarly, Muriithi (2013) studied the impact of independent agents on penetration of life insurance in Kenya. The findings showed that poor sales agents' integrity was a major challenge affecting penetration of life insurance. The study did not consider other insurance distribution channels. Mburu (2017) did a case study on performance of life insurance among the shopping malls in Nairobi. However, the findings cannot be generalised since this was a case study. However, none of the above studies examined how different

distribution channels influenced the financial performance of life insurance firms. The current study filled this methodological gap by examining how key insurance distribution channels have influenced the financial performance of life insurance in Kenyan.

1.3 Research Objective

1.3.1 General Research Objective

The main objective of this study is to determine the effect of insurance distribution channels on the financial performance of life insurance firms in Kenya.

1.3.2 Specific Research Objectives

The study seeks to address the following specific objectives:

i. To determine the effect of independent agency distribution channel on the financial performance of life insurance firms in Kenya.
ii. To find out the effect of bank-led distribution channel on the financial performance of life insurance firms in Kenya.
iii. To establish the effect of electronic intermediaries on the financial performance of life insurance firms in Kenya.
iv. To assess the effect of direct distribution channel on the financial performance of life insurance firms in Kenya.

1.4 Research Questions

This study seeks to answer the following research questions.

i. What is the effect of independent agency distribution channel on the financial performance of life insurance firms in Kenya?
ii. What is the effect of bank-led distribution channel on the financial performance of life insurance firms in Kenya?
iii. What is the effect of electronic intermediaries on the financial performance of life insurance firms in Kenya?

iv. What is the effect of direct distribution channel on the financial performance of life insurance firms in Kenya?

1.5 Scope of the Study

The study seeks to examine the influence of insurance distribution channels on the performance of life insurance firms in Kenya. The target population constitutes all registered 13 life insurance companies in Kenya. This study focused on the following categories of respondents: insurance agents, insurance managers and principal officers. Descriptive research design was applied in this study.

1.6 Significance of the Study

This study is of benefit to the following groups of people; life insurance companies, Government and life insurance policy makers, consumers of life insurance products and academicians as discussed below:

1.6.1 Life Insurance Companies

The insurance company, the stakeholders, customers, investors and the general public will benefit from the study by understanding the factors that influence customers' decision in accepting life insurance products offered through various life insurance distribution channels. In addition, the top management of the sampled life insurance companies will use the findings to identify the most effective distribution channels to enhance the performance of life insurance products.

1.6.2 Government and Life Insurance Policy Makers

Study findings will also be of immense benefit to the government, especially the ministry of finance, the Insurance Regulatory Authority and Kenya Revenue Authority who will use it to formulate policies that will improve the performance of life insurance in Kenya. The results of the study may enable Kenya government to waiver tax on the premium paid to a life insurance policy which will encourage members of the public to buy life insurance policies. Therefore,

study findings will help the government to make appropriate policies towards promoting and regulating life insurance policies.

1.6.3 Consumers of Life Insurance Products

Study findings will be of value to consumers as they will be educated on matters concerning life insurance products and how they would benefit from the same.

1.6.4 Academicians

The results of the study may form a basis for further research on insurance distribution channels and performance of life insurance policies, whereby the findings of the present study will be used by future researchers to identify more research gaps and address them.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The second chapter of the research presented the review of relevant literature that grounded the research study. The chapter specifically presented the review of theoretical literature and examination of the empirical studies in line with research variables. The chapter further presented the hypothesized interaction of the study variables as depicted in the conceptual framework and an operationalization of the variables.

2.2 Theoretical Literature Review

Dynamic Marketing Capabilities provided a theoretical background for this study as discussed below:

2.2.1 Dynamic Capabilities

Teece (2013) asserts that to succeed in the current global marketplace, companies have to show that they have the ability to innovate their products, have competent management which is effective in coordination and redeployment of internal and external competences. Teece and Munje (2013) argue that the RBV theory is static and as a result cannot explain what companies have to do to remain competitive during rapid environmental changes. As a result, they propose using the dynamic capability framework. They define 'dynamic capabilities' as the ability of the firm to integrate, build, and reconfigure internal and external competences to address rapidly changing environments". Dynamic, in this context refers to the ability of the competencies to match the changing business environments (Davidsson, 2013). All organizations have to become innovative when there are changes in technology, policies, when it is difficult to predict the future nature of competition and when time to-market and timing is critical. According to Zahra (2014), there are three elements; environmental characteristics substantive capabilities, and a higher order dynamic capability to alter capabilities. These three elements mean the presence of rapidly changing problems; the ability to solve a problem; and

the ability to change how a firm solves its problems. It is important to note that DC are different from SC since DC refers to the ability of an organization to change their SC (Zahra, 2014).

Sapienza (2016) states that individuals are unable to distinguish between first and second order capabilities when they put too much emphasis on the external environment. He further emphasizes that changes to the setup of the organization may not necessarily be a response to the firm's external environment, they can be due to internal conditions such as changes in volumes of resources. According to Bowman (2013), DCs include enterprise capabilities which may be difficult to replicate and may require the firm to adopt to changing customer and technological opportunities. Ambrosini (2015) asserts that DCs are processes and not resources and should be treated as such in the RBV sense. He describes DCs as processes meant to increase the efficiency of the resource base.

Martin (2014), extended the research provided by Teece (2013) by focussing on DCs and how changes in the market affect them over time. He was able to find two forms; moderately dynamic and high-velocity markets. In moderately dynamic markets, DCs are close to routine conception, and develop as time passes by. However, in high-velocity markets, DCs are much simpler and are often experiential in nature. Eisenhardt (2013) proposes firms in these markets gain knowledge from prototypes and tests. Pisano (2015) supports this notion by asserting that in rapidly changing markets, it is less risky when learning is by doing. Martin (2014) concludes that DCs are not effective sources of competitive advantage. Competitive advantage arises when dynamic capabilities are used sooner and more astutely than the competition. The dynamic capabilities theory underlined the need for the firm to integrate innovation in their operations as a way of strengthening their competitive edge. The deployment of both the internal and external competencies is also central to better firm performance. The theory will underline how bank-led channels and electronic channels can be leveraged by life insurance firms to support better financial performance.

2.2.2 Dynamic Marketing Capabilities

This term was first used by Bruni (2013) who defined DMCs as processes which are meant to develop, release and integrate knowledge acquired from the markets. They were introduced when the role of marketing functions in the development of DCs were determined. Barrales (2014) defined them as capabilities which employ the use of market knowledge to adapt organizational resources and capabilities. Bruni (2015) states that market knowledge is related to customers and competitors and comprises human and social capital, managers involved in creating, using, and integrating market knowledge and marketing resources that match and create technological and market change (Verona, 2016). They lead to increased innovation in the organization showing the impact of market elements in product and service innovation and how this knowledge can be combined with technical knowledge in different stages of the product development process (Bruni, 2013).

Verona (2016) states that DMCs differ from ordinary marketing capabilities in that they enable a firm to change its capabilities over a period of time and to develop new products. Decisions involving DMCs apply at all levels of management since it is involved in the implementation process for evolution of the firm. Most firms operating in the current market size the importance of market knowledge on decisions regarding product development, creating roles whereby certain employees from the marketing department specialize in and organize the release of market knowledge. These include the market analysts who are in charge of market research, marketing managers and product. These supervise the marketing strategies and manage certain products and brands respectively (Vekele, 2014).

Haruni (2016) affirms that integrative mechanisms can be grouped into structural and flexible micro classes. Structural arrangements are identified as a constant integration between R&D and marketing during routine innovation activities, while the flexible class comprises structured meetings or committees which bring together representatives from different

departments, such as Business Development, R&D and Marketing Department. Several of the sample firms from Haruni's (2016) study had changed the position and role of the central marketing department to create a greater awareness of the market dynamics. Market knowledge has, over the years become an important information source, becoming a key determinant of innovation in many organizations. Managers who are open minded, build stable relationships and have set up proper integration mechanisms have been identified as the most likely to make efficient use of market knowledge for product development.

The annual or bi-annual meeting between field-specific experts and marketing managers is one example of a meeting which allows for information sharing, decision making and uniting different individuals with different views. The market knowledge focus of DMCs are by Baruni (2013) suggests that variance in performance of DMCs can be attributed to the recent focus in DMCs. However, there has been no official support for a relationship between DMCs and performance. Barrales (2014) consider new product development and proactive market orientation to be the most grounded DMCs. Molina (2014) goes ahead to link absorptive capacity and knowledge management to DMCs so as to provide a theoretical explanation of how DMCs work. The main task of the marketing department is to absorb market knowledge, interpret this knowledge, then aid in integrating it into the rest of the organization.

Molina (2014) state that distribution channels, can develop the different components of DMCs in firms. He further state that it is necessary to coordinate these marketing processes for efficient absorption of market knowledge into the rest of the organization. For efficient development of DMCs, it is necessary for insurance managers to implement strategies for absorbing and managing market knowledge. This could involve the use of external networks such as agents and cross-functional processes. This theory was integral in explaining how market knowledge can be utilized by both the independent channels and bank-led channels

leverage the same to enhance their performance. The theory informs the need for marketing capabilities to be utilized in expanding the performance of firms.

2.3 Empirical Review

2.3.1 Independent Agency Channel and Financial Performance of Life Insurance Firms

An agent is the main link between members of the public and the insurance firms (Christensen, 2015). Their direct contact with members of the public makes them critical to attaining organizational goals and improving performance of insurance products. They offer the "last mile" connection with the Policy holders where personalized service come handy when closing Insurance contracts. The concept of differential services is one that can explain why different life insurance distributions channels exist (Waseem-Ul-Hameed, Ali, Nadeem, & Amjad, 2017).

A cross sectional study conducted by Barresi (2017), examined the issue in the property/liability insurance setting in South Africa. The study aimed was to assess the impact of agents on life insurance penetration. The study applied a correlational research design and the findings showed that life insurers using independent agency distribution channels have higher expense ratios than insurers using other distribution systems. The study showed that companies that use more expensive distribution systems expect to lose a percentage of the market share in a competitive market. Further, the study found that independent agents' market share of the life insurance market reduced from 69% in 2013 to 59% in 2017. While market share losses were noted for a more standardized insurance product like auto insurance, the same pattern was not observed in the commercial insurance setting.

Similarly, Odemba (2013), conducted a case study on life insurance products in Kenya aimed to evaluate the effectiveness of engaging independent insurance agents to distribute life insurance policies. Longitudinal data was used and the findings revealed that the performance of life insurance products in Kenya is influenced by certain factors. Among them were the poor

customer service by independent agents and complicated nature of the life insurance products. Further findings showed that poor integrity of the independent agents contributed to poor performance of life insurance products. One of the recommendations of the study was that life insurance companies ought to improve integrity of the independent agents in order to enhance life insurance performance.

In addition, Choudhury (2014), did a random sampling on life insurance consumers in Nigeria to examine the relative advantage of the agent-led channel compared to the Internet-led channel. The study applied descriptive research design and found that relative advantage is a multi-dimensional attribute. In addition to reducing transactional costs, the results showed that the firms also gain trust and knowledge. The findings showed that some consumers have a two-stage purchasing process; the internet provides information on products and services offered and then contacting the agents to make the purchase. This behaviour, according to the study highlights how the internet supports the agent-led distribution channel.

Regan (2015), conducted a cross sectional study to examine life insurance distribution channel preference in Netherlands from a transactions cost perspective. The main objective was to determine the influence of insurance agents on the life insurance firm performance. The study applied causal-comparative design and the study findings showed that independent agents are used more often by insurers that sell more complex insurance products, while exclusive agency insurers use their agents to market more standardized products.

A cross sectional survey by Odemba (2013), aimed to assess the factors that influence the performance of life insurance while focusing on the life insurance companies in Kenya employed descriptive research design. The findings showed that insurance penetration in the country was only 1.3% despite the efforts by Association of Kenya Insurers and Insurance Regulatory Authority to increase penetration. The study noted that life insurance penetration is

dismally low compared to the developed countries. The study observed that the low penetration was as a result of high cost of premiums and the inefficiency of the insurance companies in settling claims. Further findings indicated that the complexity of life insurance products, lack of disposable income and lack of integrity among insurance agents contributed to low performance of insurance products. The study recommended that life insurance companies ought to provide customized products that integrate both the risk coverage and savings element.

The findings by Odemba (2013), are supported by a later study done by Kaguma (2016) which examined customer's perceptions of service quality offered by life insurance agents in Kenya. The study was aimed at assessing the factors affecting life insurance performance in Nairobi. The study applied a causal comparative approach and the findings showed that the major factors affecting penetration of life insurance in Kenya include poor customer service delivery, inadequate information about how the industry works, lack of integrity from agents and lack of disposable income. The study revealed that the high cost of premiums and inefficiency in claims settlement are the major factors hindering the penetration of life insurance in Kenya.

An exploratory study conducted by Kantidas (2014), examined the trends in marketing of new insurance schemes and distribution in Indian life insurance sector. The study noted that life insurance companies globally usually take six to ten years to break even. However, in India, the capital-intensive nature observed in high operating expenses like management costs, salaries, distribution expenses and technology expenses have contributed to delay in break-even process. As a result, it was noted that companies have resorted to outsourcing, computerization in order to reduce operating costs. Further, the study established that clients' satisfaction was based on the premium policies and services provided by the insurance companies. High costs in administration charges and other hidden costs were noted to discourage performance of such policies as unit linked insurance policies in life insurance companies in rural India.

2.3.2 Bank-led Channel and Financial Performance of Life Insurance Firms

Bank-led Channel also regularly known as Bancassurance Model (BM) describes the relationship between the bank and the insurance company. The relationship involves the insurance company using the sales channel of the bank to sell their products and services (Ng'aru, 2014). Bank-led Channels are important in cost reduction since it reduces the number of direct sales teams required since they sell their products through the bank to customers using bank staff (Jongeneel, 2013).

A study conducted by Mwangi (2016), examined Bancassurance as strategy used by life insurance companies to penetrate into the markets. The main objective was to analyse the impact of Bank-led distribution channel on the performance of life insurance products. Phenomenological research approach was applied and the findings showed that lack of disposable income has been one of the factors contributing to low insurance penetration in Kenya. Majority of Kenyans especially low-income earners do not take insurance owing to lack of capital to pay for premiums and view insurance as an expensive deal. The study found that bank- led channel has been a key driver to reaching out to this population by inventing products that they can relate with such as life insurance covers among others and providing convenient methods of premium payment.

A random sampling conducted by Mutenga (2016), to examine Potential Distribution Channels for Insurance Business in Kenya applied a correlation research design and the findings showed that Bank-led channel provides the opportunity to leverage on the diverse occupational sectors of the banks' clients and provide insurance products suitable for them. The study showed that innovations cut across provision of all insurance products. According to the study, life insurance products are tailor made to suit different customers in the different sectors ranging from the low-income earners to high income earners with innovations such as education policies, retirement plans among other endowment plans. Further findings showed that Life

insurance products are the most sold insurance products through Bank-led channel as compared to non-life insurance products. According to the study, reasons behind this include: the complementary nature of life and insurance products, life insurance products are usually long term, meaning that it is necessary for customers to have confidence and trust in the institution where they put their investment in. banks can make use of this information to center their advice towards specific needs.

Similarly, Ngwili (2013), investigated the factors affecting life insurance firm performance in Kenya. The main objective was to evaluate the effectiveness of bancassurance on the penetration of life insurance products. The study applied causal comparative and the findings; customers are a key factor in success of any business. Their interests, desires and wants may change with time and life insurance providers ought to diversify their operations if they are to survive in the ever-competitive market. The study found that with the onset of innovations, Bank-led channel has been able to come up with products that suit the young generation especially life covers that act as saving plans for the future.

Ochieng (2016), conducted a case study to evaluate Bank led channel as a strategy for life insurance penetration in Kenya. Descriptive design was used and the findings showed that costs such as the sales costs would force insurance channels to charge uncompetitive premiums and therefore lose on customers. Further, high product prices and administrative costs of offering life insurance also hindered penetration of life insurance. However, the study found that combining bank-led channel with other business of the insurer can reduce economies of scale in administration costs which in turn enables the insurer to not only increase profitability but also offer competitive prices for the life insurance products. Indeed, the study found that high transaction and administrative costs are some of the cardinal factors that affect life insurance business in Kenya

A cross sectional study done by Mbogo (2014), on expansion and consolidation of bancassurance in the 21st century applied explanatory design and the findings showed that low performance of life insurance among the Kenyans has been partly a result of using inadequate channels to sell insurance products. The study noted that life insurance companies in Kenya rely on brokers and agents to sell life insurance products. The findings showed that for improved penetration, it is necessary to access channels as bancassurance, internet, worksite marketing, telephone marketing, partnering with non-governmental organizations and other community-based organizations, imperceptible insurer and virtual marketing.

Staikouras and Nurullah (2014), did a qualitative research aimed to examine the effect of Bank Mergers and Banking Structure on the penetration of life insurance in the United States. Descriptive design was used and the study findings reported that banking and life insurance bodies are more alike than they are different and this favours collaboration since both of these companies target the same customers, but for different reasons. The study found that bank-led channel reduce cost by reducing the amount of resources required to manage risk. Further results showed that through this bank-led system, the insurance firm manages to extend its client base and reach to customers who had earlier been difficult to reach. This enables the life insurance company to vary its distribution methods, avoiding dependence one type of distribution channel. The findings noted that the life insurance firm benefits from a partnership with the banks due to the fact that the public has a positive view about the nature of banks. Additionally, the reduction in costs of distribution also favours the life insurance firms as opposed to traditional methods.

Kumar (2015), conducted a Meta -analysis of Bank-led channel and its status around the World. The analysis found that the development of Bank-led channel is expected within the context of efforts to promote a well-organized life insurance distribution system in Malaysia by improving the delivery and distribution systems for life insurance services. The study stated that bank-led

channels are used for their ability to achieve cost-effectiveness for delivery of insurance products and services. This increases the effectiveness of life insurance firms enabling ease in management of consumer accounts. The findings showed that bank-led channel is expected to contribute to the more expanded and well-organized life cover distribution.

Jaymit (2014), conducted an assessment of the determinants of growth of bank-led channel in India. The study used correlation design and the findings showed that bank-led channels are more probable to be effective as life insurance distribution channels in India, since there is an already established network which was built over the years. The study noted that it is necessary for life insurance firms to take advantage of the consumers' long-term trust and relationships with banks. According to the study, any partnership between banks and life insurance firms is beneficial to both companies, enabling the bank to widen its product portfolio hence providing more services to their customers. The insurance company, on the other hand is visible in the banking halls and are assured that they will receive premium payments on time.

2.3.3 Electronic Intermediaries and Financial Performance of Life Insurance Firms

Gefen (2014), did an exploratory of channel performance in single vs multiple life insurance distribution channel strategies. The findings found that most life insurance companies sold their products through electronic intermediaries. However, since insurance services are intangible, customers prefer to visit the company and meet the organization's representatives through agency or bancassurance channels. The study showed that the growth of electronic intermediaries has increased speculation surrounding its potential impact on life insurance distribution channels. The study found that the widespread popularity of electronic intermediaries and online auctions shows that consumers have sufficient trust in the channel and can provide personal and financial information through a secure part of the channel.

Kagucia (2016) examined the factors affecting the uptake of insurance products among millennials in Kenya. The research was undertaken across millennials within Nairobi County

and utilized primary data in solving the research problem. The collected research data was analyzed using means, mode, range, standard deviation and variances. The findings of the research indicated that electronic channels enhanced the uptake of insurance products among millennials. The key electronic channels included social media, electronic payment systems and interactive websites which fostered speed, trust and convenience in insurance penetration. The study was only promised on general insurance industry whereas the current study focused on life insurance products.

Gallaugher (2013), performed a cross sectional research to examine the multiple insurance marketing channel conflict with a focus on the Internet. Causal comparative design was applied. The study findings showed that the impact of electronic intermediaries is not as significant to the overall performance of life insurance industry, but its importance will increase in the coming years as more people become familiar with the services offered online. Generations that are already comfortable with making insurance product purchases over the internet take out life insurance in this method.

Similarly, in the experimental research by Webb (2015), found that electronic intermediaries positively influence someone's intentions to purchase a life insurance product. However, the findings showed that the electronic intermediaries influence intention to purchase insurance services indirectly to a greater extent rather than directly. According to the study, this is because increasing electronic intermediaries makes people more familiar with using online services. The study found that electronic intermediaries increases customer trust in the seller and this becomes key to e-commerce when distance becomes a problem for both parties. A case study done by Ring and Van (2013) found that when clients trust the seller, the transaction costs, time and effort are reduced significantly and the parties are able to negotiate more effectively, reach agreements and execute a cooperative inter-organizational relationship.

2.3.4 Direct Insurance Channel and Financial Performance of Life Insurance Firms

Direct marketing entails getting into direct contact with the clients absent of any intermediaries. A cross sectional study conducted by Mayers and Smith (2014) examined the insurer's distribution channel choice and used descriptive design focusing on direct writer and independent agency and the findings showed that life insurance products are more sensitive and services that could generate value to the organization would be distributed effectively by an independent agency channel. More standardized insurance products require lower sensitivity. According to the study, these services and products are best suited for a direct writer channel.

Further findings showed that when direct products are acquired through direct channels, the costs may be lower since the cost of hiring the intermediary is cut. However, in some instances, the costs may be higher than when acquired by intermediaries because the pricing of these products are higher and as a result, the insurer can reject prospective customers after asking a few underwriting questions.

A random sampling done by Scovier (2015), on the effect of direct distribution channel on financial performance of Kenyan insurance companies: a survey of life insurance companies in Nairobi County. The study used correlational design and the findings indicated that life insurance is considered a highly complex service. Due to the complex nature of these services, the type of service required by the customer determines the intermediary. Further, the study stated that services are different from goods in that they are intangible and as a result cannot be compared since it cannot be touched, felt or smelt. Since services are intangible and have no physical substance, customers feel uncomfortable when evaluating the quality of the service offered and as a result will fail to compare it with that of the competition. This is the reason why the consultant develops a relationship with the client.

An exploratory research by Nippani (2014), assessed the effect of separation of banking from insurance on performance of life insurance products in United Kingdom and used causal comparative. The findings indicated that the cost of an insurance transaction would cost half when conducted over the telephone and one tenth when conducted over the Internet. According to the study, it is important for insurance companies to reduce these costs since it increases their chances of survival in a highly competitive global insurance sector.

Kagucia (2016) conducted a case study on factors affecting performance of insurance products among Millennials in Kenya. The study applied descriptive design and the findings showed that customers feel safe and enjoy significant benefits after forming a relationship with the insurer. This relationship is based on trust, integrity and reliability. According to the study, customers will feel safe and will spend less effort on acquiring information when he/she feels like the risks involved their transactions is reduced significantly. The study found that when the customer develops a relationship with the seller, he/she feels comfortable and will not think that the consultant will try to deceive him. The findings showed that a buyer prefers to enter into a relationship with seller because he expects that the relationship will earn him customized services which would suit his personal preferences.

Hogan (2014), did a random sampling on the effect of Direct Insurance Channel on performance of life insurance industry in India. The study used phenomenological approach and found that in direct insurance distribution, the customer is insured by the insurance company as opposed to the agent-led distribution. This, according to the writer is the greatest advantage offered by the direct distribution channel to the insurance company. The study found that brokers have the habit of re-broke their clients regularly to show the insurance company that they add value to the company in order to increase their bargaining power. According to the study, this naturally results in lower customer retention. Further findings showed that direct insurers own and control their customer portfolio.

2.4 Summary of Research Gaps

The literature available does not accurately define the influence of insurance distribution channels on the performance Kenyan of life insurance firms. There is inadequate confirmation to clearly justify that insurance distribution channels have an effect on life insurance firm performance in Kenya. To the best of the researcher's knowledge there has been no proof of research particularly led to establish he relationship between insurance distribution channels and life insurance firm performance among the 13 insurance firms in Kenya. This investigation along these lines seeks to address the gap in understanding the association between insurance distribution channels and the performance of life insurance among the 13 insurance firms in Kenya. The lessons gained from the investigation gives a better understanding and furthermore advise and contribute to the knowledge and practice of life insurance distribution.

2.5 Conceptual Framework

The dependent variable for the study is life insurance firm performance in Kenya which is the main variable of interest. Performance of life insurance is a construct that is hypothesized to be influenced by independent variables such as independent agency channel, bank-led channel, electronic intermediaries and direct distribution among other control variables. The study also includes recommendations for improving insurance distribution channels to enhance performance of life insurance among the 13 life insurance firms in Kenya. These variables are presented in Figure 2.1 in the next page.

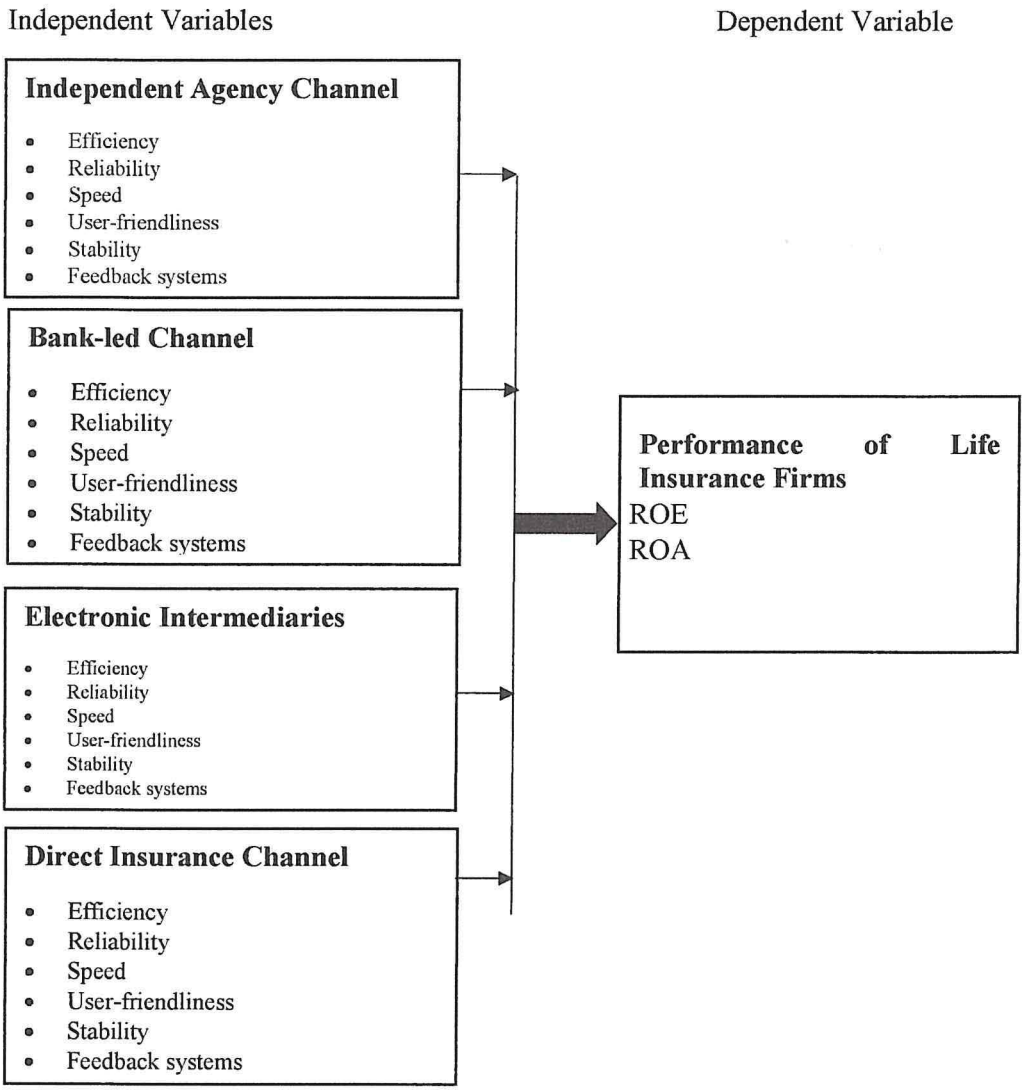

Figure 2.1: Conceptual Framework

The above conceptual framework presented the conceptualization of the research variables. The independent variable of the study the distribution channels was measured by the independent agency channel, bank-led channel, electronic intermediaries' channel and the direct insurance channel. The dependent variable for the study financial performance was measured by the return on assets and the return on equity. The operationalization of the research variables is shown below;

2.6 Operationalization of the Variable

Table 2.1 Operationalization of Variables

Variable	Definition of variable	Indicator	Category of data	Measure
Independent Agency Channel	The interface between insurance industry and the public (Holman, 2015).	• Efficiency • Reliability • Speed • User-friendliness • Stability • Feedback systems	Ordinal	Quantitative Likert scale
Bank-led Channel	Also known as Bancassurance Model. Partnership between a bank and insurance company whereby the insurance company uses the bank sales channel to sell insurance products (Koske, 2015).	• Efficiency • Reliability • Speed • User-friendliness • Stability • Feedback systems	Ordinal	Quantitative Likert scale
Electronic Intermediaries	Online organizations which facilitate buyers and sellers of insurance products to trade on the internet (Batra, 2015).	• Efficiency • Reliability • Speed • User-friendliness • Stability • Feedback systems	Ordinal	Quantitative Likert scale
Direct Insurance Channel	Selling products by dealing directly with consumers rather than through intermediaries (Solomon, 2013).	• Efficiency • Reliability • Speed • User-friendliness • Stability • Feedback systems	Ordinal	Quantitative Likert scale
Financial Performance of Life Insurance	Is the ratio of Gross Direct Premiums to Gross Domestic Product (GDP) (Hoffer, 2013).	• ROE • ROA	Ordinal	Quantitative panel data

2.7 Chapter Summary

The existing literature shows that the initial claim that the internet would become a key insurance marketing channel life insurance firms was not accurate. Additionally, it was predicted that traditional distribution channels like agent-led and independent agency system would cease to be useful but this has not yet materialized. Empirical evidence, however posits that there are increasing experiments being carried out by insurers in attempts to discover the effectiveness of alternative distribution channels. Insurance companies have adopted strategies aimed at utilizing multiple distribution channels to achieve balance between meeting customer demands and using funds effectively while achieving organizational goals. The existing literature has stated that on matters concerning insurance distribution channels, no single channel is reliable.

The empirical evidence suggests that with continued innovation in the insurance industry, there will be some significant changes in how the insurance distribution channels will work. As noted by Rogers (2015), there has been increased diffusion on usage if the internet in the insurance industry, although existing literature has found that different companies have different methods of adoption. Electronic intermediaries are key in data collection in a two-stage process. Consumers use the internet as a source of information on products and services offered by the insurance firms then contact the agents. This highlights the importance of the internet to the agent-led distribution channel. Concerning direct distribution, the empirical evidence posit that it is advantageous since it is less costly. Direct distribution concept has become adopted by most life insurance firms and it has become effective in creating and retaining clients. However, when compared to independent agents, the existing literature has shown that contribution of direct distribution is considerably low.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter was organized under the following sections: research design; population; population and sample; data collection methods; data collection procedure; data processing & analysis; research quality and ethical issues in research. The empirical model to be used in the analyses is also presented.

3.2 Research Design

The study adopted descriptive research design. Descriptive research is be used to depict the current circumstance, what individuals at present accept, what individuals are doing right now et cetera (Collins, Onwuegbuzie and Jiao, 2007). The real reason for descriptive research design is portrayal of the situation as it exists at present (Kothari, 2004). The descriptive research design was selected since it will allow for the use for quantitative data to examine the how and why of the phenomena within the current research context.

3.3 Population and Sampling

Target population comprises all individuals from the population that may be targeted for the study. While a sample is defined as a group of individuals who take part in an examination (Bethwell, 2015).

3.3.1 Population

The target population of the study was the 13 life insurance companies based in Nairobi County. This is the unit of analysis of this study as summarized in table 3.1 below. The unit of the observation for the study was 5-personnel members selected per each insurance firm.

Table 3.1: Registered Life Insurance Companies in Kenya

No.	Company
1.	APA Life Assurance
2.	Britam Life Assurance
3.	Capex Life Assurance
4.	CFC Life Assurance
5.	CIC Life Assurance
6.	ICEA Lion Life Assurance
7.	Jubilee Life Assurance
8.	Kenindia Life Assurance
9.	Kenya Orient Life Assurance
10.	Liberty Life Assurance
11.	Metropolitan Life Assurance
12.	Old Mutual Life Assurance
13.	Pan Africa Life Assurance

Source: AKI (2017)

3.3.2 Sampling Design and Sample Size

Sampling design is the structure or a guide that serves as the roadmap for the determination of a sample size for a study (Derrickson, 2015). Sample size on the other hand is the quantity of subjects incorporated into a sample (Whitney, 2013). The study sampled five respondents per insurance firm. The sample size for the research was 65 respondents drawn from the life-insurance firms. The respondents were selected from bancassurance agents, insurance managers, principal officers, chief insurance officer and the E-channel managers within the life insurance firms.

3.3.2.1 Sampling Frame

Owing to the small number of the life insurance firms, a census of the 13 firms was conducted. The sample size is predictable with Hum (2015) who expressed that, utilizing excessively numerous members in an examination is costly and uncovers number of subjects to the procedure. It is additionally in accordance with Russel (2001) who found that the goals of the research determine the size of the examination. Russel contends that sample size must be

sufficiently enormous that an impact of such greatness as to be of logical essentialness will likewise be factually critical. The census survey of the study considered all the 65-personnel working within the life insurance firms.

3.4 Data Collection Methods

The research relied on both primary and secondary research. Primary data was obtained from questionnaires from the research respondents. This ensured that the responses obtained were relevant in solving the research problem. A five-point Likert scale poll was used to get essential information on the autonomous factors of the examination, that is; independent agency distribution channel, bank-led distribution channel, electronic intermediaries and direct distribution channel. The five-point Likert scale ranges from 1 = Neither agree nor disagree, 2 = Strongly Disagree, 3 = Disagree 4 = Agree and 5 = Strongly Agree. The questionnaire was administered to the participants by use of online google forms between December 2018-March 2019. The research further collected secondary data to assess the trend of the financial performance of life insurance firms for the period 2013-2017. The study utilized annual financial statements from the individual listed firms audit reports and industry reports.

3.5 Research Quality

To ensure that the research instrument was valid and reliable, a pilot study was carried out from a sample of 10 individuals across the 13 life insurance firms. Ten (10) individuals for the pilot test are picked based on a study conducted by Kathuri and Pals (2013) which proposed that this is the most unobtrusive number that yields significant results in data analysis in any research. A pilot test is conducted in order test ensure authenticity and unwavering quality of data collection instruments hence the motivation in conducting a pilot test for this study to figure out the quality of study questions, the clarity of the questions and the consistency in the responses.

3.5.1 Reliability

For purposes of reliability, the results from the pilot study among 10% of the sample respondents who were not involved in the main research study. The research utilized the spilt-half examination framework as shown by Cronbach's formula;

$$\alpha = (N*r/1+ (N-1)*r)$$

Where N = number of items; and r = is the average covariance between item-pairs. Cronbach's alpha provides a good measure of reliability because holding other factors constant the more similar the test content and conditions of administration are, the greater the internal consistency reliability (Peil, 2013). A reliability coefficient of 0.70 and above from the pilot study results was acceptable as appropriate for this study (Milton, 2014).

Table 3.2 Reliability Results

Variable	No of Items	Cronbach Alpha
Independent agency distribution	14	0.843
Bank-led distribution	14	0.796
Electronic intermediary distribution	14	0.865
Direct distribution	14	0.815
Overall reliability statistics	4	0.835

The Cronbach Alpha score for all the study variables was above 0.7 hence the research instrument was utilized in the study. This was deemed excellent in determining internal consistency of the research instrument and applicable to be utilized in the current study.

3.5.2 Validity

For purposes of validity of data, the study applied face validity by asking participants to give their thoughts on the usefulness of the test and opinions on whether the questionnaire lead to credible and relevant data. Content and construct validity were used to evaluate the inferences based on the results from the research instrument. To establish content and construct validity the researcher sought the expert opinion concerning the research instrument from the supervisor at Strathmore Business School (SBS).

3.6 Data Analysis Methods

The study cleaned and edited the collected data using SPSS 24. The study utilized descriptive and inferential statistics in analyzing quantitative research data. For the descriptive analysis the research used means, standard deviation and coefficients of determination. For the inferential statistics the research utilized correlation analysis, regression analysis and ANOVA model. The research adopted the below regression model;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mathcal{E}$$

Where;

Y= the dependent variable (Financial Performance of life insurance firms)

B_0 - Is a constant; the value explaining the firm's financial performance (Y) Y value when all the predictor values (independent variables) (X_1, X_2, X_3, X_4) are held constant r are equal to zero

$\beta_1, \beta_2, \beta_3, \beta_4$ – Are regression coefficients representing the independent variables.

X_1 is independent agency channel

X_2 is bank led channels

X_3 is electronic intermediaries

X_4 is direct insurance channel

$\mathfrak{E}$ is the error term explaining the variability of

The study tested the level of statistical significance of the findings of at 5% using the Analysis of variance technique (ANOVA). A 5% level of significance.

3.6.1 Diagnostic Tests

The research further undertook tests for linear regression assumptions prior to conducting the regression analysis.

The study adopted both autocorrelation and the collinearity statistics in undertaking tests for linear regression assumptions.

3.6.6.1 Autocorrelation

The research adopted autocorrelation analysis. Autocorrelation checks that the residuals of the models were not auto correlated (Checks for independence of error terms, which implies that observations are independent.

Table 3.3 Autocorrelation Test

Model	Std. Error of the Estimate	Durbin-Watson
1	3.37058	1.649

a. Predictors: (Constant), Direct Distribution Channel, Bank-Led Distribution, Electronic Intermediaries Distribution, Independent Agency Distribution

b. Dependent Variable: Financial Performance

The study utilized the Durbin-Watson statistic to measure for autocorrelation. The results indicated no autocorrelation as shown on Table 4.10. As a rule of thumb Durbin-Watson Scores between 1.5 and 2.5 indicate independent observations

3.6.6.2 Collinearity Tests

Multicollinearity tests checks the level interdependency between the study variables. The study utilized both tolerance values and VIF values in examining the collinearity.

Table 3.4 Collinearity Statistics

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Independent Agency Distribution	.641	1.561
	Bank-Led Distribution	.689	1.451
	Electronic Intermediaries Distribution	.794	1.260
	Direct Distribution Channel	.819	1.221

a. Dependent Variable: Financial Performance

Table 3.4 shows that all VIF values are all less than 10 indicating no multicollinearity issues in the variables used when testing the nature of the relationship between dependent and independent variables. The Tolerance value checks on the degree of Collinearity and since all tolerance values were above .1, there was no collinearity problems.

3.7 Ethical Issues in Research

Due care was given to strict adherence of research procedures as the current study involved human subjects. Utmost due care was taken to ensure that participants are not affected negatively in any way and assured that the current research is conducted for academic purposes only and not for personal gain. Acknowledgement of authors whose information and ideas are borrowed was observed. Research permit was sought before the primary study. Approval was sought from SBS. The author further sought the permission from the sampled insurance firms in Nairobi County.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

The research sought to examine the interaction between insurance distribution channels on life insurance firm performance in Kenya. The findings of the research were presented in line with the research objectives. The research adopted descriptive, correlation and regression analysis in examining study results. The research findings were presented using charts, graphs and tables.

4.2 Background Information

4.2.1 Response Rate

The study sought responses from 65 respondents within the life insurance firms in Kenya. Results indicated that 91% of the respondents gave their responses while only 9% of the respondents did not take part in the study as shown below;

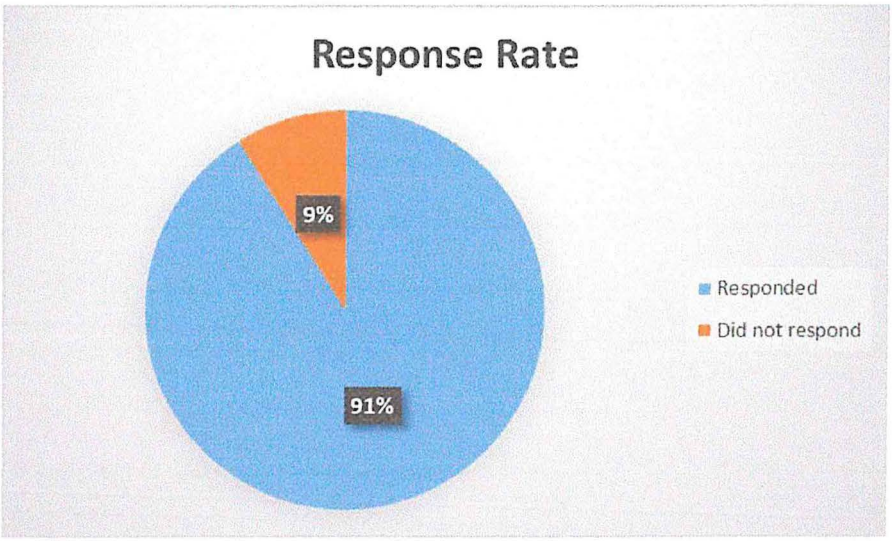

Figure 4.1 Response Rate

4.2.2 Gender of the Respondents

The research further sought to determine the gender distribution among the respondents. The findings of the research indicated that 59% of the respondents were female while only 41% of the respondents were male respondents.

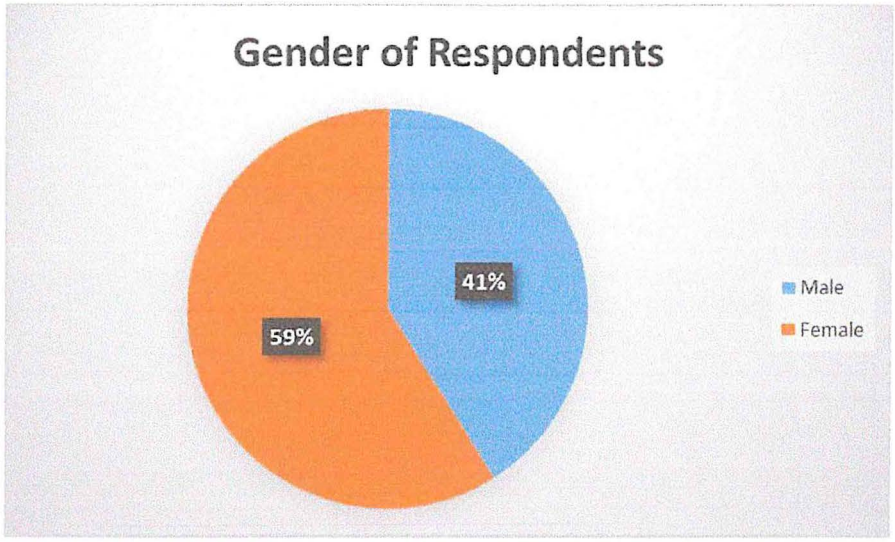

Figure 4.2 Respondents Gender

4.2.3 Age of the Respondents

The research further sought to establish the age distribution among the research respondents. Results are presented on Table 4.1 below;

Table 4.1 Respondents Age

		Frequency	Percent
Valid	20-29 years	10	17.0
	30-39 years	13	22.0
	40-49 years	17	28.8
	Above 50 years	19	32.2
	Total	59	100.0

The results indicated that the majority of the respondents 32% were between the above 50 years, 29% of the respondents were between age 40-49 years, 22% of the respondents were between 30-39 years while only 17% of the respondents were of between 20-29 years of age.

4.2.4 Educational Qualification of Respondents

The study also wanted to determine the level of academic qualification among the study respondents. The findings are as presented below;

Table 4.2 Respondents Educational Qualification

		Frequency	Percent
Valid	Certificate	3	5.1
	Diploma	6	10.2
	Bachelor's degree	30	50.8
	Masters	20	33.9
	Total	59	100.0

The results indicated that 51% of the respondents had attained a Bachelor's degree, 34% had attained a Master's degree, 10% had attained diploma level qualification while only 5% had attained a certificate level qualification.

4.2.5 Years of Experience

The study further sought to determine the length of service among the research respondents.

Table 4.3 Length of Service

		Frequency	Percent
Valid	Less than 5	2	3.4
	5-9 years	14	23.7
	10-15 years	21	35.6
	15 and above	22	37.3
	Total	59	100.0

The results showed that most respondents 37% had served for more than 15 years, 36% had served between 10-15 years, 24% had served for between 5-9 years while only 3.4% of the respondents had served less than 5 years within the industry.

4.2.6 Position Held within the Firm

The study further sought to determine the position held by the majority of the respondents within the insurance industry.

Table 4.4 Respondents Position

		Frequency	Percent
Valid	Bancassurance Agents	10	17.0
	Insurance Manager	13	22.0
	Principal Officer	10	17.0
	Chief Insurance Officer	13	22.0
	E-channel managers	13	22.0
	Total	59	100.0

The results of the research indicated that the majority of the respondents 22% were e-channel managers, insurance managers and chief insurance manager. The results further indicated that 17% of the respondents were bancassurance agents and principal officer.

4.3 Descriptive Analysis

The study employed sum, means and standard deviation in the analysis of the research variables. The study adopted the following key in the interpretation of the study results; 0-1.50 being neither agree nor disagree; 1.51-2.50 being strongly disagree; 2.51-3.50 being disagree; 3.51-4.50 being agree and 4.51-5.00 being strongly agree.

4.3.1 Independent Agency Distribution Channel

The first variable of the study sought to examine the utilization of independent agency distribution channels.

Table 4.5 Independent Agency Distribution

	Mean	Std. Deviation
The channel is cost efficient within the insurance firm	3.3559	1.21432
The channel is reliable to the provision of the firm services	3.4407	1.10284
The channel achieves adequate speed in provision of services	3.4576	1.14954
The channel is user-friendly	3.8644	1.00786
The channel achieves stability in the provision of services	3.4407	1.14878
The channels offer an elaborate feedback system	3.3390	1.13882
The channel offers good customer service in filing claims	3.4237	1.08601
The channel ensures return business in years to follow	3.5932	1.13135
The channel enables payments and minimises bad debt on the insurance company	3.3390	1.30794
The channel enhances the margins to the insurance company	3.3390	1.19785
The channel is ideal for distribution of life insurance	3.4576	1.13445
The channel fits in well with other structures already in place in the insurance companies	3.4407	1.17841
This channel is aligned with the marketing practices by the insurance companies	3.3729	1.15815
This channel is widely used by competitors	3.6949	1.14853

With concern to the channel is cost efficient within the insurance industry, a mean of 3.3559 showed disagreement and a deviation of 1.21432 indicating high variations. The results are consistent with Barresi (2017) who noted that utilization of agents in marketing insurance products was associated with increased efficiency and decrease in expenses. In regard to the channel is reliable, a mean of 3.4407 showwed disagreement. Results indicated disagreement among respondents that the channel achieves adequate speed in provision of services as shown by a mean of 3.4576 and a variation of 1.14954 showing high dispersion in results. With regard to the channel is user-friendly, a mean of 3.8644 showed agreement and a deviation of 1.00766. Choudhury (2014) also indicated that agency relationship fostered speed and was user-friendly. Concerning the channel achieves stability in the provision of services, a mean of 3.4407 and a

deviation of 1.14878 showed disagreement. Findings indicated that respondents disagreed that the channels offer an elaborate feedback system as indicated by a mean of 3.339 and a deviation of 1.13882

Concerning the channel offers good customer service in filing claims the respondents were in disagreement as shown by a mean of 3.4237 and a deviation of 1.08601. Results indicated agreement among respondents that the channel ensures return business in years to follow as shown by a mean of 3.5932 and a deviation of 1.13135. With regard to the channel enables payments and minimises bad debt on the insurance company, a mean of 3.339 showed disagreement. Findings indicated that with regard to the channel enhances the margins to the insurance company, a mean of 3.339 and a deviation of 1.19785 showed disagreement. In regard to the channel is ideal for distribution of life insurance, a mean of 3.4576 showed disagreement. Kaguma (2016) similarly in his study also indicated that agency relationships contributed to complicated nature of life insurance products. Concerning the channel fits in well with other structures already in place in the insurance companies, a mean of 3.4407 and a deviation of 1.17841 showed disagreement. The results were in agreement with Regan (2015), who indicated that independent agents were more suited to firms selling complex products while excusive agents were more suited to firms selling standardized products. In regard to the channel is aligned with the marketing practices by the insurance companies, a mean of 3.3729 showed disagreement. Results indicated agreement among respondents that the channel is widely used by competitors as shown by a mean of 3.6949 and a deviation of 1.14853 denoting high variations in responses. The findings conform to Christensen (2015) who acknowledged that insurance agents are the primary line of operators within the insurance industry who are key to the distribution process.

4.3.2 Bank-Led Distribution Channel

The second variable examined the utilization of bank-led distribution channels within the insurance industry.

Table 4.6 Bank-Led Distribution Channel

	Mean	Std. Deviation
The channel is cost efficient within the insurance firm	3.6780	.87967
The channel is reliable to the provision of the firm services	3.5932	1.05240
The channel achieves adequate speed in provision of services	3.9322	1.63859
The channel is user-friendly	3.6780	.85985
The channel achieves stability in the provision of services	3.7797	1.08386
The channels offer an elaborate feedback system	3.3729	1.06509
The channel offers good customer service in filing claims	3.6441	.90521
The channel ensures return business in years to follow	3.5763	1.08601
The channel enables payments and minimises bad debt on the insurance company	3.7458	1.01018
The channel enhances the margins to the insurance company	3.6102	1.06701
The channel is ideal for distribution of life insurance	3.6949	.91452
The channel fits in well with other structures already in place in the insurance companies	3.5424	1.05572
This channel is aligned with the marketing practices by the insurance companies	3.7288	1.01422
This channel is widely used by competitors	3.7797	1.01824

With concern to the channel is cost efficient within the insurance industry, a mean of 3.678 showed agreement and a deviation of .87967 indicated moderate variations. In regard to the channel is reliable, a mean of 3.5932 and a deviation of 1.0524 showed agreement. Results indicated agreement among respondents that the channel achieves adequate speed in provision of services as shown by a mean of 3.9322 and a variation of 1.63859 showing high dispersion in results. These findings correspond with Mwangi (2016) who indicated that bank-led channels were central to driving insurance distribution and providing an efficient and convenient method for premium payment.

With regard to the channel is user-friendly, a mean of 3.678 showed agreement and a deviation of .85985 indicated moderate dispersion. The results are supported by Mutenga (2016) who indicated that bank-led channels enhanced customer retention and was able to offer custom-tailored products. the Concerning the channel achieves stability in the provision of services, a mean of 3.7797 and a deviation of 1.08386 showed agreement. Findings indicated that respondents disagreed that the channels offer an elaborate feedback system as indicated by a mean of 3.3729 and a deviation of 1.06509.

In regard to the channel offers good customer service in filing claims the respondents were in agreement as shown by a mean of 3.6441 and a deviation of .90521 showing moderate variations. Ngwili (2013) indicated that bancassurance products were more suited to customers by adopting more innovation. Results indicated agreement among respondents that the channel ensures return business in years to follow as shown by a mean of 3.5763 and a deviation of 1.08601. With regard to the channel enables payments and minimises bad debt on the insurance company, a mean of 3.7458 and a variation of 1.010118 showed agreement. Ochieng (2016) also noted that bank-led channels enhanced the economies of scale accruing to insurance firms and fostered the profitability of the firm.

Findings indicated that with regard to the channel enhances the margins to the insurance company, a mean of 3.6102 and a deviation of 1.06701 indicated agreement. Staikouras and Nurullah (2014) also indicated that bank-led channels increased the returns to firms and contributed to lesser cost in the distribution of life insurance products. In regard to the channel is ideal for distribution of life insurance, mean of 3.6949 showed agreement and a variation of .91452 showing moderate variations in results. The findings are in line with Jaymit (2014) who showed that adoption of bank-led channels enhanced the long-term customer trust in the insurance products.

Concerning the channel fits in well with other structures already in place in the insurance companies, a mean of 3.5424 and a deviation of 1.05572 showed agreement. The results are also in line with Staikouras and Nurullah (2014) who indicated that insurance firms varied their distribution channels to avoid excessive dependence on one network. In regard to the channel is aligned with the marketing practices by the insurance companies, a mean of 3.7288 and a variation of 1.01422 showed agreement. Results indicated agreement among respondents that the channel is widely used by competitors as shown by a mean of 3.7797 and a deviation of 1.01824 denoting high variations in responses.

4.3.3 Electronic Intermediaries Distribution Channel

The third variables sought to find out the electronic intermediaries' distribution channel.

Table 4.7 Electronic Intermediaries Distribution Channels

	Mean	Std. Deviation
The channel is cost efficient within the insurance firm	3.5254	1.17965
The channel is reliable to the provision of the firm services	3.6441	.86628
The channel achieves adequate speed in provision of services	3.8983	.90392
The channel is user-friendly	3.6441	1.07900
The channel achieves stability in the provision of services	3.5085	1.00641
The channels offer an elaborate feedback system	3.8305	1.06920
The channel offers good customer service in filing claims	3.3390	1.13882
The channel ensures return business in years to follow	3.4746	1.02311
The channel enables payments and minimises bad debt on the insurance company	3.6271	.98082
The channel enhances the margins to the insurance company	3.6441	.94253
The channel is ideal for distribution of life insurance	3.5254	1.02311
The channel is reliable to the provision of the firm services	3.6780	1.07384
This channel is aligned with the marketing practices by the insurance companies	3.5254	1.05628
This channel is widely used by competitors	3.5763	1.11731

Regarding the channel is cost efficient within the insurance industry, a mean of 3.5254 showed agreement and a deviation of 1.17965 indicating high variations. In regard to the channel is reliable, a mean of 3.6441 showed agreement and a deviation of .86628 showed moderate dispersion. Results indicated agreement among respondents that the channel achieves adequate speed in provision of services as shown by a mean of 3.8983 and a variation of .90392 showing moderate dispersion in results. With regard to the channel is user-friendly, a mean of 3.6441 showed agreement and a deviation of 1.079 showing high dispersion in results. Results are supported by Webb (2015) who indicated that electronic intermediaries supported better service provision and enhanced trust between the consumer and the seller of the product.

Concerning the channel achieves stability in the provision of services, a mean of 3.5085 indicated agreement with a deviation of 1.0692. Findings indicated that respondents disagreed that the channels offer an elaborate feedback system as indicated by a mean of 3.339 and a deviation of 1.13882. In regard to the channel offers good customer service in filing claims the respondents were in disagreement as shown by a mean of 3.4746 and a deviation of 1.02311 showing high variations. Results indicated agreement among respondents that the channel ensures return business in years to follow as shown by a mean of 3.6271 and a deviation of .98082. Ring and Van (2013) indicated that electronic intermediaries fostered better transaction times and reduced time and effort in the purchase of insurance products.

With regard to the channel enables payments and minimises bad debt on the insurance company, a mean of 3.6441 and a variation of .94253 showed agreement. Findings indicated that with regard to the channel enhances the margins to the insurance company, a mean of 3.5254 and a deviation of 1.02311 indicated agreement. In regard to the channel is ideal for distribution of life insurance, a mean of 3.678 showed agreement and a variation of 1.07384 showed moderate variations in results. In regard to the channel fits in well with other structures already in place in the insurance companies, a mean of 3.5424 and a deviation of 1.05572

showed agreement. In regard to the channel is aligned with the marketing practices by the insurance companies, a mean of 3.5254 showed agreement and a variation of 1.05628 showed high dispersion in the results. Results indicated agreement among respondents that the channel is widely used by competitors as shown by a mean of 3.5763 and a deviation of 1.11731 denoting high variations in responses. Kagucia (2016) indicated that electronic channels fostered the access to product offering through social media channels, enhanced accessibility to electronic payments which were less costly and fostered the firm performance.

4.3.4 Direct Distribution Channel

The fourth study variable examined the level of direct distribution channel within life insurance firms.

Table 4.8 Direct Distribution Channel

	Mean	Std. Deviation
The channel is cost efficient within the insurance firm	3.3729	1.09699
The channel is reliable to the provision of the firm services	3.5593	1.10284
The channel achieves adequate speed in provision of services	3.4576	1.02254
The channel is user-friendly	3.7458	.95761
The channel achieves stability in the provision of services	3.7966	.86662
The channels offer an elaborate feedback system	3.5763	.96853
The channel offers good customer service in filing claims	3.6271	.96308
The channel ensures return business in years to follow	3.6610	1.04403
The channel enables payments and minimises bad debt on the insurance company	3.4576	1.07193
The channel enhances the margins to the insurance company	3.6102	1.05073
The channel is ideal for distribution of life insurance	3.6610	.97574
The channel is reliable to the provision of the firm services	3.7288	.94377
This channel is aligned with the marketing practices by the insurance companies	3.6610	.80108
This channel is widely used by competitors	3.7966	.78300

Results showed that with concern that the channel is cost efficient within the insurance industry, a mean of 3.3729 showed disagreement with a deviation of 1.09699 indicating high variations. The study findings are in line with Mayers and Smith (2014) who indicated that direct insurance channel lowered the acquisition costs of insurance products. In regard to the channel is reliable, a mean of 3.5593 indicated agreement and a deviation of 1.10284 showing high variations. Results indicated disagreement among respondents that the channel achieves adequate speed in provision of services as shown by a mean of 3.4576 and a variation of 1.02254 showing high dispersion in results. With regard to the channel is user-friendly, a mean of 3.7458 and deviation of .95761 showed agreement in results. The findings of the research are consistent with Scovier (2015) who indicated that direct distribution channels were associated with ease in understandability, trust in products and offers comparability of available products.

Concerning the channel achieves stability in the provision of services, a mean of 3.7966 indicated agreement and a deviation of .86662 denoting moderate variations in the results. Findings indicated that respondents agreed that the channels offer an elaborate feedback system as indicated by a mean of 3.5763 and a deviation of .96853 denoting moderate dispersion.

In regard to the channel offers good customer service in filing claims the respondents were in disagreement as shown by a mean of 3.6271 and a deviation of .96308 showing moderate variations. Results indicated agreement among respondents that the channel ensures return business in years to follow as shown by a mean of 3.6610 and a deviation of 1.04403 indicating high variations in results. With regard to the channel enables payments and minimises bad debt on the insurance company, a mean of 3.4576 and a variation of 1.07193 showed disagreement. Nippani (2014) similarly indicated that direct insurance distribution contributed to positive cost reductions within life insurance firms. Findings indicated that with regard to the channel

enhances the margins to the insurance company a mean of 3.6102 and a deviation of 1.05073 indicated agreement.

In regard to the channel is ideal for distribution of life insurance, a mean of 3.661 showed agreement and a variation of .95574 showing moderate variations in results. In regard to the channel fits in well with other structures already in place in the insurance companies, a mean of 3.7288 and a deviation of .94377 showed agreement. In regard to the channel is aligned with the marketing practices by the insurance companies, a mean of 3.5661 showed agreement and a variation of .80108 showing moderate dispersion in the results. Results indicated agreement among respondents that the channel is widely used by competitors as shown by a mean of 3.7966 and a deviation of .78300 denoting moderate variations in responses. Hogan (2014) pointed out that direct insurance channels enhanced the client-insurer relationship which was a key advantage in the utilization of the channels.

4.3.5 Financial Performance of Life Insurance Firms

The study examined the performance of the life insurance firms by examining the average ROA and ROE between the periods 2010-2017. The return on assets of the firm averaged between 18% to 28% within the time period under review with the lowest rate being recorded in the year 2010. The firms return on equity averaged between 24% to 31% under the period in review. The highest level of ROE was recorded in the financial year 2017 at 31%.

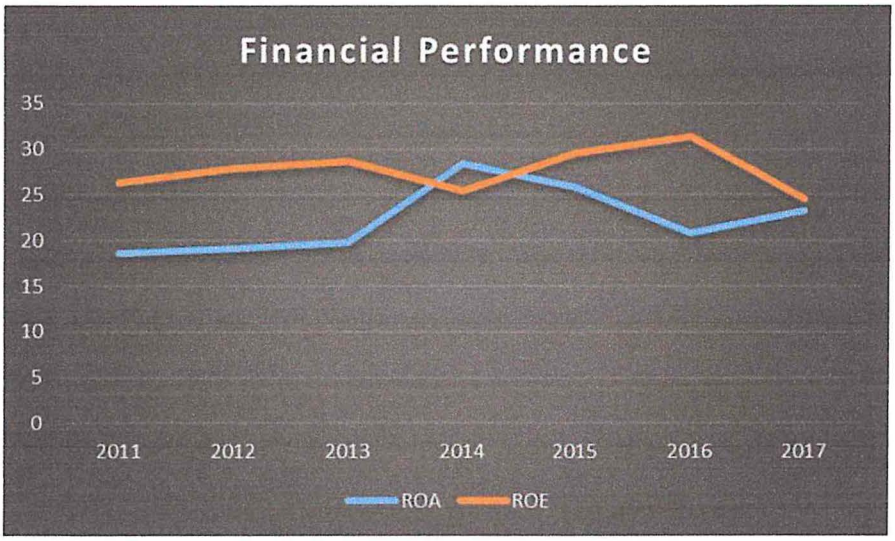

Figure 4.3 Financial Performance

4.4 Inferential Analysis

The study applied four main set of analysis in estimating the effect of the distribution channels on the performance of the life insurance firms. The study relied on correlation analysis, regression analysis, tests of model significance and the regression coefficients.

4.4.1 Correlation Analysis

The research utilized the Pearson correlation analysis. The results of the test are presented below. The correlation analysis was conducted between the distribution channels and the ROA and ROE for the Year Ending December 2018.

Table 4.9 Correlation Matrix

		Return on Assets	Return on Equity
Independent Agency Distribution	Pearson Correlation	.569	.115
	Sig. (2-tailed)	.006	.384
	N	59	59
Bank-Led Distribution	Pearson Correlation	.193	-.175
	Sig. (2-tailed)	.004	.006
	N	59	59
Electronic Intermediaries Distribution	Pearson Correlation	.225	-.041
	Sig. (2-tailed)	.087	.000
	N	59	59
Direct Distribution Channel	Pearson Correlation	-.013	-.047
	Sig. (2-tailed)	.003	.006
	N	59	59

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

**. Correlation is significant at the 0.01 level (2-tailed).

The first objective of the study sought to how independent agency distribution channels influence financial performance of life insurance firms. The results showed a positive association between the independent agency distribution and ROA as indicated by *P-value = .569 sig-value=.006<.05*; and a positive insignificant association with ROE *P-value = .115, sig-value= .384>.05*. Regan (2015) similarly indicated that distribution channels positively affected performance of life insurance firms.

The second objective of the study sought to find out how bank-led distribution channel affect performance of life insurance firms. Study findings that bank-led distribution had a positive relationship with ROA and negative effect on ROE respectively as indicated by *P-value = .193 sig-value=.004<.05; P-value = -.175, sig-value= .006<.05.* Results are in line with Ngwili (2013) who concluded that bancassurance positively affected performance of life insurance products.

The third objective examined the effect of electronic intermediaries on the financial performance of life insurance firms. The results showed a positive insignificant effect of the electronic intermediary distribution on ROA as indicated by *P-value = .225 sig-value=.087>.05*; and negative significant effect on ROE *P-value = -.041, sig-value= .000<.05.* The results are in line with Webb (2015) who indicated that electronic intermediaries enhanced the purchase intentions and firm value.

The fourth objective examined the effect of direct distribution channel on the financial performance of life insurance firms. The results showed a negative effect of the direct distribution channel on ROA and ROE respectively as indicated by *P-value = -.013 sig-value=.003<.05; P-value = -.047, sig-value= .006<.05.* Scovier (2015) also acknowledged that direct distribution channels positively affected financial performance of insurance firms.

4.4.2 Regression Analysis

The research sought to examine the influence of insurance distribution channels on life insurance firm performance in Kenya. The magnitude of association was examined using regression analysis.

4.4.2.1 Effect of Independent Agency on Financial Performance

The first objective of the study sought to examine the effect of independent agency distribution channels on the financial performance of life insurance firms in Kenya.

Table 4.10 Regression of Independent Agency and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.148[a]	.022	.005	15.86052

a. Predictors: (Constant), Independent Agency Distribution

The results of the regression analysis indicated that 2.2% (R^2=.022) of the variations in the financial performance of life insurance firms was dependent on the independent agency distribution channels.

Table 4.11 ANOVA for Independent Agency Distribution Channel

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	318.985	1	318.985	3.268	.005[b]
	Residual	14338.695	57	251.556		
	Total	14657.679	58			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Independent Agency Distribution

The researcher analysed significance of the regression model and found that the sig-*value* = *.005<.05* which is less than the critical *sig value 0.05* testing at 95% confidence interval. An *F-value of 3.268* was also generated. This is higher than the critical value of 2.76, ascertaining that the research model was significant in determining the relationship between the research variables.

Table 4.12 Regression Coefficients for Independent Agency Distribution Channel

Model			Unstandardized Coefficients		Standardized Coefficients		
			B	Std. Error	Beta	t	Sig.
1	(Constant)		36.188	9.190		3.938	.000
	Independent Distribution	Agency	.208	.184	.148	1.126	.005

a. Dependent Variable: Financial Performance

The beta value *(β) = 36.188* is significantly different from 0 since the p-value *.000<.05.* This indicates that there is a statistically significant positive effect of independency agency distribution on financial performance of life insurance firm performance. A unit change in independency agency distribution will result in a .208-unit change in life insurance firm performance. The results are consistent with Kaguri (2012) who indicated that agency marketing positively affected the performance of life insurance companies.

4.4.2.2 Effect of Bank-Led Distribution on Financial Performance

The second objective of the study sought to examine the effect of bank-led distribution channels on the financial performance of life insurance firms in Kenya.

Table 4.13 Regression of Bank-Led Distribution and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.18[a]	.0324	.017	16.03337

a. Predictors: (Constant), Bank-Led Distribution

The results of the regression analysis indicated that 3.24% (R^2=*.0324*) of the variations in the financial performance of life insurance firms was dependent on the bank-led distribution channels.

Table 4.14 ANOVA for Bank-Led Distribution Channel and Financial Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.742	1	4.742	5.018	.002[b]
	Residual	14652.937	57	257.069		
	Total	14657.679	58			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Bank-Led Distribution

The researcher analysed significance of the regression model and found that the sig-*value* = *.002<.05* which is less than the critical *sig value 0.05* testing at 95% confidence interval. An *F-value of 5.018* was also generated. This is higher than the critical value of 2.76, ascertaining that the research model was significant in determining the relationship between the research variables.

Table 4.15 Regression Coefficients for Bank-Led Distribution Channel

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	44.551	12.844		3.469	.001
	Bank-Led Distribution	.034	.247	.018	.136	.002

a. Dependent Variable: Financial Performance

The test results in table 4.15 indicate a beta value *(β) = 44.551* is significantly different from 0 since the p-value *.001<.05.* This indicates that there is a statistically significant positive effect of bank-led distribution on life insurance firm performance. A unit change in bank-led distribution will result in a .034-unit change in life insurance firm performance. Ombonya (2013) similarly indicated that bancassurance channels positively affected penetration level and general insurance performance of Kenyan insurance firms.

4.4.2.3 Effect of Electronic Intermediaries Distribution Channel and Financial Performance

The third objective of the study sought to examine the effect of electronic intermediary's distribution channels on the financial performance of life insurance firms in Kenya.

Table 4.16 Regression of Electronic Intermediary Distribution and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.146[a]	.021	.004	15.86473

a. Predictors: (Constant), Electronic Intermediaries Distribution

The results of the regression analysis indicated that 2.1% (R^2=*.021*) of the variations in the financial performance of life insurance firms was dependent on the electronic intermediary distribution channels.

Table 4.17 ANOVA for Electronic Intermediary Channel and Financial Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	311.375	1	311.375	3.237	.001[b]
	Residual	14346.305	57	251.690		
	Total	14657.679	58			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Electronic Intermediaries Distribution

The researcher analysed significance of the regression model and found that the sig-*value* = *.001<.05* which is less than the critical *sig value 0.05* testing at 95% confidence interval. An *F-value of 3.237* was also generated. This is higher than the critical value of 2.76, ascertaining that the research model was significant in determining the relationship between the research variables.

Table 4.18 Regression Coefficients for Electronic Intermediary Channel

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	33.013	12.098		2.729	.008
	Electronic Intermediaries Distribution	.263	.236	.146	1.112	.001

a. Dependent Variable: Financial Performance

The test results in table 4.18 indicate a beta value *(β) = 33.013* is significantly different from 0 since the p-value *.008<.05.* This indicates that there is a statistically significant positive effect of electronic intermediaries' distribution on life insurance firm performance. A unit change in electronic intermediaries' distribution will result in a .263-unit change in life insurance firm performance. Gefen (2014) indicated that electronic intermediaries enhanced the uptake levels and trust of insurance products due to their convenience in the product provision.

4.4.2.4 Effect of Direct Distribution Channel on Financial Performance

The fourth objective of the study sought to examine the effect of direct distribution channels on the financial performance of life insurance firms in Kenya.

Table 4.19 Regression of Direct Channel Distribution and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.46[a]	.212	.015	16.01921

a. Predictors: (Constant), Direct Distribution Channel

The results of the regression analysis indicated that 21.12% ($R^2=.212$) of the variations in the financial performance of life insurance firms was dependent on the direct distribution channels.

Table 4.20 ANOVA for Direct Distribution Channel and Financial Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.620	1	30.620	5.119	.001[b]
	Residual	14627.060	57	256.615		
	Total	14657.679	58			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Direct Distribution Channel

The research analysed significance of the regression model and found that the sig-*value* = *.001<.05* which is less than the critical *sig value 0.05* testing at 95% confidence interval. An *F-value of 5.119* was also generated. This is higher than the critical value of 2.76, ascertaining that the research model was significant in determining the relationship between the research variables.

Table 4.21 Regression Coefficients of Direct Channel Distribution

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	50.673	12.909		3.925	.000
	Direct Distribution Channel	.087	.251	.046	.345	.001

a. Dependent Variable: Financial Performance

The test results in table 4.21 indicate a beta value *(β) = 50.673* is significantly different from 0 since the p-value *.000<.05.* This indicates that there is a statistically significant positive effect of direct distribution on life insurance firm performance. A unit change in direct distribution will result in a .087-unit change in life insurance financial performance. Scovier (2015)

findings also indicated that direct distribution channel positively affected financial performance of insurance firms.

4.4.3 Overall Regression Summary

The general objective of the research is to determine the influence of insurance distribution channels on the financial performance of life insurance firms in Kenya.

Table 4.22 Overall Regression Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.254[a]	.064	-.005	15.93713

a. Predictors: (Constant), Direct Distribution Channel, Independent Agency Distribution, Electronic Intermediaries Distribution, Bank-Led Distribution

The regression analysis sought to examine the relationship between insurance distribution channels and life insurance firm performance in Kenya. Study findings indicated that 6.4% variations within the life insurance firm's performance was attributed to the distribution channels as indicated by $R^2=.064$. Muriira (2014) also concluded that increased distribution channels positively affected performance of Kenyan insurance firms. Muia (2017) also indicated that adoption of broad product distribution channels was positively related with increased insurance firm performance.

Table 4.23 Overall ANOVA Summary

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	942.103	4	235.526	7.927	.004[b]
	Residual	13715.576	54	253.992		
	Total	14657.679	58			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Direct Distribution Channel, Independent Agency Distribution, Electronic Intermediaries Distribution, Bank-Led Distribution

The researcher analysed significance of the regression model and found that the sig-*value* = *.004<.05* which is less than the critical *sig value 0.05* testing at 95% confidence interval. An *F-value of 7.927* was also generated. This is higher than the critical value of 2.76, ascertaining that the research model was significant in determining the relationship between the research variables.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The fifth chapter of the research presented the discussion, conclusions and recommendations of the research. The chapter was arranged in line with the research variables. The chapter further presented the suggestions for further research.

5.2 Discussion

The study sought to determine the extent to which distribution channels affect financial performance of Kenyan life insurance firms. The research was premised on the dynamic capability theories and the dynamic marketing capabilities theories. The research was premised on a descriptive research design and focused on the 13 registered life insurance firms in Kenya. The sample population of the research focused on 5-group of individuals within the research.

The study was able to obtain a 91% response rate from the sampled respondents. The majority of the respondents were female personnel working within the insurance industry. Results indicated that the majority of the respondents had attained above a Bachelor's degree qualification indicating high formal education attainment among the research respondents. The findings of the research indicated that more majority of the respondents had worked for more than 5-years within the insurance industry.

5.2.1 Independent Agency Distribution and Financial Performance

The first objective of the study examined the independent agency distribution channels. Results indicated that the channel fostered cost-efficiency, was user friendly and ensured better returns to the insurance firms. Results further indicated that independent agency channels were associated with reliability in service provision, ensured stability in the service provision, the channel is ideal for distribution of life insurance and is widely used by competitors within the firm. The findings of the study showed a positive association between the independent agency

distribution and ROA and ROE. The results are consistent with Bawa and Chattha (2013) who indicated that enhanced and wide independent distribution network within life insurance firms in India was positively related to financial performance of insurance firms. Regan (2015) was of the view that independent agencies enhanced the distribution of complex products among insurance firms and fostered the general performance of the firms.

5.2.2 Bank-Led Distribution and Financial Performance

The second objective of the study examined the bank-led distribution channels within life insurance firms. Results indicated that respondents agreed that there was cost-efficient within the firms, the channel enhances speed in provision of services, there is reliability in provision of services, there is user-friendliness in service provision and offered an elaborate feedback system. Study findings indicated that the channel enhanced margins to the insurance firms, was aligned with marketing practices and was widely used by competitors in the industry. Study findings showed a positive association between the bank-led distribution and ROA and ROE respectively. The findings of the research are in line with Kumari, and Dorothy (2014) who similarly concluded that bancassurance distribution was positively associated with the financial performance of life insurance firms. Jongeneel (2013) noted that bank-led channels were more cost-efficient thus supporting better insurance performance. Mwangi (2016) further pointed out that bank-led channels were key drivers of insurance penetration which is a predictor of insurance performance.

5.2.3 Electronic Intermediaries Distribution and Financial Performance

The study sought to establish the electronic intermediaries on distribution channels. Results indicated that there was adequate speed in service provision through the channel, it enhanced the feedback system and was reliable in-service provision. The results are consistent with Gefen (2014) who indicated that consumers had enhanced trust and reliability with electronic-led channels. The findings further indicated that electronic-led channels enabled payments and minimized bad debts, was reliable in-service provision, was ideal for distribution and was

aligned with the marketing practices of the firm. The findings are consistent with Kagucia (2016) who found out that electronic-led channel enhanced the uptake of the insurance products. Study findings showed a positive effect of the electronic intermediary distribution on ROA and ROE respectively. The results of the study are in line with (2015) who indicated that electronic intermediaries enhanced the purchasing decisions..

5.2.4 Direct Distribution and Financial Performance

The fourth variable of the research examined the utilization of direct distribution channels within the life insurance industry. The findings indicated that the channel was considered user friendly, it achieved stability in the service provision, offered good customer service, ensured returns to the insurance firm, was ideal for distribution of life insurance, was reliable in-service provision and was widely used within the insurance industry. Study findings showed a positive effect of the direct distribution channel on ROA and ROE respectively. The findings of the results are in line with Mayers and Smith (2014) who indicated that direct insurance channels were positively related with the value of the life insurance firms. Hogan (2014) concluded that direct insurance channel had a positive effect on the performance of life insurance firms

5.3 Conclusions

The research sought to find out how distribution channels affect performance of life insurance firms. Results indicated that the distribution channels were critical in enhancing the financial performance of life insurance firms. Study findings indicated that 74.8% variations within the life insurance firm's financial performance was attributed to the insurancedistribution channels.

5.3.1 Independent Agency Distribution Channel

The research concludes that independent agency distribution is critical to enhancing the service reliability to customers and offers a cost-efficient distribution channel. The study further concludes that the channel is user-friendly to new and existing customers and offers and

effective feedback system. The research also concludes that a unit change in independency agency distribution will result in a .048-unit change in life insurance firm performance.

5.3.2 Bank-Led Distribution Channel

The research concludes that bank-led distribution is an important channel that has attained reliability and stability in the service provision. By utilizing banking institutions, the channel is able to foster reliance among the customers and enhance their overall experience. Further the channel enhances the speed in service provision, trust and cost-efficiency in provision of insurance products. The research further concludes that the channel enhances accessibility to both low to high-income earners to customer-centric insurance products. The study concludes that a unit change in bank-led distribution will result in a .596-unit change in life insurance firm performance.

5.3.3 Electronic Intermediaries Distribution Channel

The research concludes that electronic intermediary channels enhance the scope and speed of service provision of the distribution services using emerging technologies. The channel also fosters an instant feedback channel which is key to enhancing customer experience. Further the study concludes that electronic distribution channels enhance cost-efficiency and returns to the firm. The channels also enhance payment of premiums and policy charges. The research concludes that a unit change in electronic intermediaries' distribution will result in a .197-unit change in life insurance firm performance.

5.3.4 Direct Distribution Channel

The research concludes that direct distribution channels enhance the retention of insurance clients. Further the channel offers stability and reliability in the provision of insurance products. The research further concludes that in maintaining control over the client the channels minimizes the cost accruing to the firms thus expanding the firm profits. The study also

concludes that the uniformity in the adoption of the channel in all insurance classes enhances its user-friendliness and customer feedback effectiveness. A unit change in direct distribution will result in a .293-unit change in life insurance firm performance.

5.4 Recommendations

The research recommends that insurance firms should enhance the training and professional development of their agents. This will ensure that agents uphold integrity and professionalism in the distribution of insurance product. The study further recommends that insurance firms should enhance their alliances with commercial banks and expand the provision of bancassurance products. In a country where there is low-to-marginal uptake of life insurance policies commercial banks could be critical in expanding accessibility to the product and fostering the growth of the insurance class.

The study recommends that insurance firms should leverage on the commercial banks infrastructure to foster claims disbursement and minimize costs in distribution of insurance products through utilizing bank-led marketing strategies. The research recommends that life insurance firms should expand their online presence through leveraging on social media networks to foster insurance uptake among millennials who are among the highly uninsured portion of the population.

The study further recommends that life insurance firms should invest in new core systems and state-of-the-art technological infrastructure that will support the deployment of a robust electronic distribution platform. This can be linked to digital mobile applications and interactive websites. The study further concludes that life insurance firms should expand their direct distribution channels by expanding their geographical accessibility to low- and middle-income neighborhoods. This will help in collecting customer feedback which can be key to new product development and enhancing user-friendliness in the distribution channel.

5.5 Suggestions for Further Research

The study suggest that further research should be undertaken to examine how the firm-specific factors have affected the financial performance of the insurance industry in Kenya.

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APPENDICES

Appendix I: Letter of Introduction

09 January 2019

GERALDINE M. WANDUTO

P. O. BOX, 28529- 00100,

NAIROBI,

RE: REQUEST FOR PARTICIPATION IN A RESEARCH STUDY

Dear Participant

My name is Geraldine Wanduto and I am a final year Master of Business Administration student at Strathmore Business School (SBS). I am currently undertaking a research titled "The influence of Insurance Distribution Channels on the Performance of Life Insurance Firms in Kenya." I am requesting for your input on this study. All information given during this survey will be treated with utmost confidentiality and only used for academic purpose.

I will appreciative on the off chance that you could save at some point from your bustling timetable and fill in the questionnaire. All the information given will be simply used for scholastic purposes and your character will be treated with most extreme classification.

Yours sincerely

Geraldine Wanduto

Tel. +254721565070

Nairobi, Kenya

Appendix II: Questionnaire

TOPIC: THE INFLUENCE OF INSURANCE DISTRIBUTION CHANNELS ON THE PERFORMANCE OF LIFE INSURANCE FIRMS IN KENYA.

This questionnaire is administered on Bancassurance Agents; Insurance Managers; Chief insurance officers; and E-channel managers. The information to be given in this questionnaire will be confidential and purely for academic purposes.

The Questionnaire aims to: - **to determine the effect of** *independent agency distribution channel on the performance of life insurance firms in Kenya*; **to find out the effect of** *bank-led distribution channel on the performance of life insurance firms in Kenya*; **to establish the effect** of *electronic intermediaries on the performance of life insurance firms in Kenya*; and **to assess the** effect of *direct distribution channel on the performance of life insurance firms in Kenya.*

SECTION A: RESPONDENTS DEMOGRAPHICS

(Fill in the blank spaces and tick once in the below given choices of all questions)

1. Name *(optional):* .....

2. Please indicate your age.
   20-29 years [ ]
   30-39 years [ ]
   40-49 years [ ]
   Above 50 years [ ]

3. Gender: Male [ ]
   Female [ ]

4. Educational qualification:

   Masters [ ] Certificate [ ]

   Bachelor's degree [ ] Others (specify).....

   Diploma [ ]

5. Years of experience in insurance sector? .....
6. Position held in the organization

Bancassurance Agents [ ] Insurance Manager [ ] Principal Officer [ ] Chief Insurance Officer [ ] E-channel managers

SECTION B: INDEPENDENT AGENCY DISTRIBUTION CHANNEL AND THE PERFORMANCE OF LIFE INSURANCE FIRMS

7. What is your level of agreement/disagreement concerning independent agency distribution channel on a scale of 1-5: (5- Strongly agree; 4-Agree; 3-Neutral; 2-disagree; 1- strongly disagree).

No.	*Indicator*	*1*	*2*	*3*	*4*	*5*
a)	The channel is cost efficient within the insurance firm					
b)	The channel is reliable to the provision of the firm services					
c)	The channel achieves adequate speed in provision of services					
d)	The channel is user-friendly					
e)	The channel achieves stability in the provision of services					
f)	The channels offer an elaborate feedback system					
g)	The channel offers good customer service in filing claims					
h)	The channel ensures return business in years to follow					
i)	The channel enables payments and minimises bad debt on the insurance company					
j)	The channel enhances the margins to the insurance company					
k)	The channel is ideal for distribution of life insurance					
l)	The channel fits in well with other structures already in place in the insurance companies					
m)	This channel is aligned with the marketing practices by the insurance companies					
n)	This channel is widely used by competitors					

ECTION C: BANK-LED DISTRIBUTION CHANNEL AND THE PERFORMANCE)F LIFE INSURANCE FIRMS

8. What is your level of agreement/disagreement concerning bank-led distribution channel on a scale of 1-5: (5- Strongly agree; 4-Agree; 3-Neutral; 2- disagree; 1-strongly disagree).

No.	*Indicator*	*1*	*2*	*3*	*4*	*5*

a)	The channel is cost efficient within the insurance firm					
b)	The channel is reliable to the provision of the firm services					
c)	The channel achieves adequate speed in provision of services					
d)	The channel is user-friendly					
e)	The channel achieves stability in the provision of services					
f)	The channels offer an elaborate feedback system					
g)	The channel offers good customer service in filing claims					
h)	The channel ensures return business in years to follow					
i)	The channel enables payments and minimises bad debt on the insurance company					
j)	The channel enhances the margins to the insurance company					
k)	The channel is ideal for distribution of life insurance					
l)	The channel fits in well with other structures already in place in the insurance companies					
m)	This channel is aligned with the marketing practices by the insurance companies					
n)	This channel is widely used by competitors					

SECTION D: ELECTRONIC INTERMEDIARIES AND THE PERFORMANCE OF LIFE INSURANCE FIRMS

9. What is your level of agreement/disagreement concerning electronic intermediaries on a scale of 1-5: (5- Strongly agree; 4-Agree; 3-Neutral; 2- disagree; 1- strongly disagree).

No.	*Indicator*	*1*	*2*	*3*	*4*	*5*
a)	The channel is cost efficient within the insurance firm					
b)	The channel is reliable to the provision of the firm services					
c)	The channel achieves adequate speed in provision of services					
d)	The channel is user-friendly					
e)	The channel achieves stability in the provision of services					
f)	The channels offer an elaborate feedback system					
g)	The channel offers good customer service in filing claims					
h)	The channel ensures return business in years to follow					

i)	The channel enables payments and minimises bad debt on the insurance company					
j)	The channel enhances the margins to the insurance company					
k)	The channel is ideal for distribution of life insurance					
l)	The channel fits in well with other structures already in place in the insurance companies					
m)	This channel is aligned with the marketing practices by the insurance companies					
n)	This channel is widely used by competitors					

SECTION E: DIRECT DISTRIBUTION CHANNEL AND THE PERFORMANCE OF LIFE INSURANCE FIRMS

10. What is your level of agreement/disagreement concerning direct distribution channel on a scale of 1-5: (5- Strongly agree; 4-Agree; 3-Neutral; 2- disagree; 1-strongly disagree).

No.	*Indicator*	*1*	*2*	*3*	*4*	*5*
a)	The channel is cost efficient within the insurance firm					
b)	The channel is reliable to the provision of the firm services					
c)	The channel achieves adequate speed in provision of services					
d)	The channel is user-friendly					
e)	The channel achieves stability in the provision of services					
f)	The channels offer an elaborate feedback system					
g)	The channel offers good customer service in filing claims					
h)	The channel ensures return business in years to follow					
i)	The channel enables payments and minimises bad debt on the insurance company					
j)	The channel enhances the margins to the insurance company					
k)	The channel is ideal for distribution of life insurance					
l)	The channel fits in well with other structures already in place in the insurance companies					
m)	This channel is aligned with the marketing practices by the insurance companies					
n)	This channel is widely used by competitors					

11. Which of the following distribution channels is widely utilized within your firm?

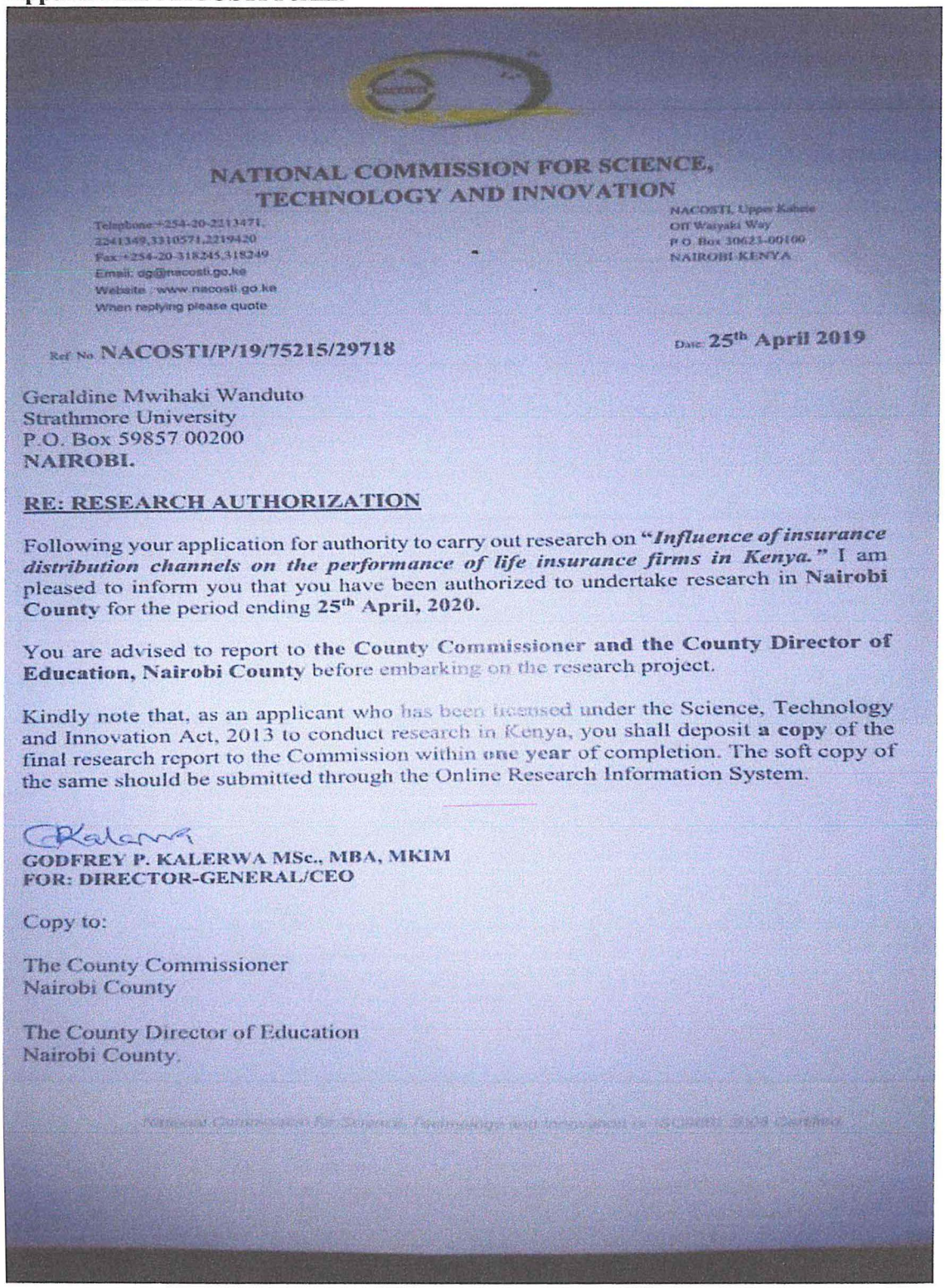
a) Independent agency distribution ( )
b) Bank-Led distribution ( )
c) Electronic Intermediaries distribution ( )
d) Direct distribution channel ( )

SECTION F: PERFORMANCE OF LIFE INSURANCE FIRMS

Class of Insurance .....

Year	*ROA*	*ROE*	*Financial Performance*
2013			
2014			
2015			
2016			
2017			

Appendix III: NACOSTI Permit



NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

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Website : www.nacosti.go.ke
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Off Waiyaki Way
P.O. Box 30623-00100
NAIROBI-KENYA

Ref No. NACOSTI/P/19/75215/29718

Date: 25th April 2019

Geraldine Mwihaki Wanduto
Strathmore University
P.O. Box 59857 00200
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"Influence of insurance distribution channels on the performance of life insurance firms in Kenya."*** I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **25th April, 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.

Appendix IV: Ethics Review Certificate

Strathmore UNIVERSITY

12th April 2019

Geraldine Mwihaki Wanduto
P.O. BOX 8716- 00300,
Nairobi.
geraldine.mwihaki@gmail.com

Dear Geraldine,

REF **Protocol ID**: SU-IERC0372/19 **Student Number**: 99210

INFLUENCE OF INSURANCE DISTRIBUTION CHANNELS ON THE PERFORMANCE OF LIFE INSURANCE FIRMS IN KENYA

We acknowledge receipt of your application documents to the Strathmore University Institutional Ethics Review Committee (SU-IERC) which includes:

1. Study Protocol submitted 26 March 2019
2. Cover letter listing all submitted documents 26 March 2019
3. Proposal declaration page signed by supervisors 26 March 2019

The committee has reviewed your application, and your study *"Influence of insurance distribution channels on the performance of life insurance firms in kenya"* has been granted **approval**.

This approval is valid for one year beginning ***12th April 2019*** until ***12th April 2020***

In case the study extends beyond one year, you are required to seek an extension of the Ethics approval prior to its expiry. You are required to submit any proposed changes to this proposal to SU-IERC for review and approval prior to implementation of any change.

SU-IERC should be notified when your study is complete.

STRATHMORE UNIVERSITY INSTITUTIONAL ETHICS REVIEW COMMITTEE (SU-IERC) 12 APR 2019 TEL: +254 (0)703 034 000 P. O. Box 59857 - 00200 NAIROBI - KENYA

Thank you

Sincerely,

Prof. Florence Oloo
Secretary
Strathmore University Institutional Ethics Review Committee