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Moderating Effect of Sales Channels on the Relationship between Bancassurance and Financial Performance of Commercial Banks in Kenya

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Abstract

This study aimed at determining the moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya. The study utilized both primary and secondary data. Primary data was collected by semi-structured questionnaires. Data analysis was performed by descriptive statistics, Data Envelopment Analysis (DEA) and regression analysis. Findings revealed that sales channels had no significant moderating effect on the relationship between bancassurance and financial performance of commercial banks. The study further found out that commercial banks in Kenya employed bancassurance sales with a mean efficiency score of 0.533 implying that they are not cost efficient.

JEL classification numbers: G21, L25
Keywords: Bancassurance, Sales Channels, Moderating Effect, Financial Performance.

1 Introduction

Emerging financial innovations have seen the advent of bancassurance globally and locally. By diversifying into non-banking activities, commercial banks reduce firm level risk and improve financial performance. More so, by utilizing the banks as sales channel of insurance products, insurance companies expand their potential market by tapping into the banks' client base, increase sales by

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exploiting the banks' strong brand image and minimizes dependence on traditional insurance sales channels like agents and brokers that are more costly (Staikouras, 2006; Artikis, Mutenga & Staikouras , 2008; Clipici & Bolovan, 2012). Furthermore the complementary nature of insurance products towards bank advances and ease of access to the bank customers results in cost efficiencies leading to improved financial performance of commercial banks (Trichet, 2005; Mishra, 2012).

Bancassurance is an arrangement where a bank sells insurance products by utilizing their delivery framework or external distribution entities. This arrangement entails combining higher selling expertise of the insurance entities and the strength of banks of being customer focused (Hughes, 1994; Yuan, 2011). Upon banks and insurance companies coming together through bancassurance, diverse alliance arrangements are created. Li (2006); Wu et al. (2008); Teunissen (2008) and Kaushik (2015) described various modes of bancassurance alliance arrangements comprising financial holding company, holding shareholding, joint venture, precompetitive alliance, insurance agency and insurance brokerage firm.

Sales channels are multiple entities that work together in the role of availing goods or services to customers (Gujral, 2014). They are distribution avenues for products which can be classified as agents' sales channel, bank employees/platform bankers' sales channel, corporate agencies and brokerage firms' sales channel, special advisors sales channel and internet sales channel. All the foregoing sales channels specify consumer awareness on how the insurance products operate as a prerequisite while bank employees/platform bankers' sales channel further presupposes training the staff cost effectively. Equally important, the factors influencing the choice of a sales channel comprise the economic criteria whereby a suitable avenue should realize more sales than corresponding costs, it should not pose control problems (control criteria) and one that allows the producer to respond to changing business environment (adaptive criteria) (Kotler, 2000; Gonulal, Goulder & Lester, 2012; Gujral, 2014).

Financial performance dwells on how well a firm is achieving set standards in terms of profitability by assessing how revenues relate to expenses as well as the return on investment of an entity. Financial performance seeks to gauge how well the factors of production which include labour, management and capital are employed by organizations to yield profits (Hersey & Blanchard, 1998; Parker & Bradley, 2000). By measuring the financial performance of bancassurance entities, management is able to determine their efficiency, effectiveness and the amount of savings they have been able to mobilize (Neely & Bourne, 2000).

2 The Research Problem

Bancassurance is an innovation in financial sector that has revolutionalized the selling of insurance products and fulfilled the bundling of financial products. More so, deregulation and liberalization of financial services has yielded convergence of

banks and insurances through bancassurance. At the same time, bancassurance has been noted as increasing insurance sales and improving financial performance of commercial banks (DeYoung & Rice, 2004; Artikis et al., 2008; Hong & Lee, 2012; Mishra, 2012; Chepkoech & Omwenga, 2015). In view of the foregoing, it was important to examine the moderating effect of sales channels on the relationship between bancassurance and financial performance.

There are a number of gaps that this study sought to address. Firstly, past studies have given contradicting conclusions on the effect of sales channels and savings mobilization on the relationship between bancassurance and financial performance of commercial banks and no attempts have been made to remedy the contradictions. Clipici and Bolovan (2012) and Chepkoech and Omwenga (2015) documented that bancassurance increases sales of banks and insurance companies as well as profits, contrary to this, Chang et al. (2011) found out that traditional insurance sales channels recorded much higher average efficiency scores than bancassurance sales channels implying that bancassurance sales does not contribute positively to profitability of banks and insurance companies.

Secondly, several methodological gaps were observed in past studies. These gaps are in terms of small sample size, performance measures and indicators covering a narrow time frame and data that is not all-inclusive. Bergendahl (1995) while assessing the profitability of bancassurance examined a sample of two banks. This study filled the gap in the above study by covering a wider sample of twenty seven commercial banks. Vennet (2002) utilized average financial data of a short period between 1995 and 1996 to measure the profitability of financial holding companies, banks that undertake more functions besides financial intermediation and specialized banks. This study addressed this gap by analyzing absolute financial data for five financial years. Chang et al. (2011) utilized data for 21 life insurance companies that practice bancassurance therefore leaving out non-life insurance companies. This study filled the gap by covering a wider scope of both life insurance and non-life insurance in bancassurance context.

Thirdly, the existing empirical studies have not integrated the three variables of bancassurance, sales channels, savings mobilization and financial performance into one conceptual model. Bergendahl (1995) utilized two variables of bancassurance and profitability, Voutilainen (2004) examined two variables of bancassurance arrangements and customer's preferences, Nurullah and Staikouras (2008) analyzed two variables of risk and profitability and Chang et al. (2011) employed two variables of bancassurance sales channels and traditional insurance sales channels. This study addressed the gap by employing an expanded interlinked model of analyzing the relationship between bancassurance, sales channels and financial performance.

Lastly, there are contextual gaps exhibited by prior studies. Empirical studies on the relationship between bancassurance, sales channels and financial performance of commercial banks were carried out in foreign countries whose contextual environments are not similar to Kenya, therefore, their findings and conclusions cannot be extended to Kenya. For instance, Gujral (2014) examined in India,

bancassurance's financial impact on the performance of banks while Chang et al. (2011) compared bancassurance sales channels' efficiency ratings against conventional insurance sales methods in Taiwan. The findings and conclusions of the foregoing studies apply to contexts of India and Taiwan respectively and may not automatically be extended to Kenyan context.

3 Objective of the Study

The objective of the study was to establish the moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya.
The study tested the following null hypothesis;
H1: *There is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya.*

4 Review of Related Literature

Chang et al. (2011) compared bancassurance sales channels' efficiency ratings against conventional insurance sales methods in Taiwan. The sample of the study was twenty one companies undertaking life insurance utilizing sales channels of bancassurance and traditional. Data envelopment analysis technique was employed to determine the efficiency ratings of conventional insurance sales methods and bancassurance sales channels. The study found out that traditional insurance sales channels attained significantly superior efficiency ratings than bancassurance sales channels. Therefore, bancassurance sales channels does not influence profits of banks positively. The study confirms that sales channels have no significant moderating effect on the relationship between bancassurance and financial performance of commercial banks. It is however observed that the study utilized data for life insurance companies only while omitting non-life. The current study enriches the existing body of knowledge by covering both life and non-life insurance transacted within bancassurance paradigm.
Fan and Cheng (2011) carried out a study with the objective of determining the key success factors influencing bancassurance functioning in Taiwan and mainland China, ascertain importance weightage for every critical success factor whereas mapping out the performance gaps measured by subtracting key success factors from performance. Key success factors (KSFs) were identified by applying the modified delphi method. The weights of the key success factors were computed by the analytical hierarchy process (AHP) technique while the discrepancy between KSFs and their performance was determined by the importance performance analysis technique (IPA). The study found out that the KSFs of administration costs per insurance contract that are lower and lower set-up costs for bancassurance subsidiaries were ranked as less important even in

performance of bancassurance in Taiwan while in mainland China lower administration costs per insurance contract was equally ranked lower in terms of performance and importance. Both administrative costs and bancassurance subsidiary set up costs are critical costs in determining the bancassurance sales channels' efficiency. This findings evidences that the efficiency of sales channels is not important in influencing bancassurance sales and the financial performance of bancassurance entities. This demonstrates that sales channels have no significant moderating effect on the relationship between bancassurance and financial performance of commercial banks. The shortcoming of this study is that the analytical hierarchy process (AHP) technique utilized to analyze data is limiting because it is not applicable in studies with more than seven elements.

Clipici and Bolovan (2012) examined bancassurance as the main insurance distribution and sales channel in Europe in order to establish its efficiency and benefits. In analyzing data, the study applied descriptive statistics method. The study found out that bancassurance sales channel benefits both insurance companies and banks by increasing sales and profits. The study reveals that sales channels have a significant effect on the relationship between bancassurance and financial performance of commercial banks. On the other hand, the study's disadvantage is in terms of a limited scope of two variables of bancassurance and efficiency of sales channels instead of a broader perspective of analyzing the interrelationships between four variables. The current study improves the existing body of knowledge by testing the relationships between bancassurance, sales channels, savings mobilization and financial performance. Kaushik (2015) analyzed the extent of bancassurance sales attained by bank employees in India and how motivated they were to achieve this goal. Descriptive research design was employed while data was collected by questionnaires from a sample of 50 bank employees through convenience sampling technique. The study found out that majority bank employees perceived selling of insurance policies as a secondary product and that successful bancassurance sales channels involves simple design products that do not earn high profit margins to the banks. This attests to the fact that sales channels have no significant effect on the relationship between bancassurance and financial performance of commercial banks. The study is however deficient in view of applying convenience sampling approach that is not probability based. The cited study expounds the gap of methodological weaknesses.

5 Methodology

This study employed descriptive correlational research design. The choice of descriptive plan was deemed suitable for this research because the characteristics, the extent, magnitude, distributions and trends of bancassurance, sales channels and financial performance of commercial banks undertaking bancassurance in Kenya were all described in detail.

The focus population was all the licensed commercial banks practicing bancassurance in Kenya. The list of all commercial banks undertaking bancassurance in Kenya according to Central Bank of Kenya bank supervision annual report of 2016 was twenty seven. Each commercial bank engaged in bancassurance forms the element of the population. The entire 27 commercial banks undertaking bancassurance in Kenya were surveyed. In testing hypothesis, the study utilized both primary and secondary data. Primary data was collected by semi-structured questionnaire containing closed end questions together with likert scale kind of statements in certain cases. Secondary data was obtained from Central Bank of Kenya bank supervision yearly publication of 2016 and published financial statements information of commercial banks.

The study employed diverse statistical techniques to analyze the data collected. This encompassed: (a) descriptive statistical analysis of variables, (b) correlation analysis among variables, (c) internal consistency reliability analysis using Cronbach's alpha (e) simple and multiple linear regression analysis and (f) data envelopment analysis (DEA).

6 Presentation and Analysis of Empirical Results

6.1 Reliability Test

The study employed reliability test tool of Cronbach's alpha to evaluate data gathering instrument.

Table 1: Reliability Statistics

Cronbach's Alpha	Number of Items
0.644	4

Source: Primary Data

Table 1 presents the reliability scores for the extent of insurance policies sold by commercial banks in Kenya with an alpha coefficient of 0.644 for the four scale items used in the questionnaire. The alpha coefficient is slightly lower than ideal standard set at 0.7 although it meets the minimum set threshold of being above 0.5 as advised by George & Mallery (2003). However, this does not necessarily mean that internal consistency of the data was compromised. Low Alpha coefficient may be explained by the small number of scale questions considered in the test (Tavakol, 2011), this study utilized 4 items.

6.2 Average Premiums Realized by Commercial Banks from Selling Insurance Policies

The consideration for insurance policies sold through bancassurance is in terms of premiums paid.

Table 2: Average Premiums Realized by Commercial Banks from Selling Insurance Policies

Average premiums realized by commercial banks from selling insurance policies (Kshs millions)	Distribution		**Rank**
	Frequency	Percentage	
7 - 528	20	83.4	Majority
529 - 1,050	2	8.4	Few
1,051 - 1,572	1	4.1	
>2,617	1	4.1	
1,573 - 2,094	0	0	None
2,095 - 2,616	0	0	
TOTAL	24	100	
Arithmetic mean	381.57		

Source: Primary data

End results in Table 2 above reveals that majority commercial banks (83.4%) realized average premiums from selling insurance policies in the five years period up to a maximum of kshs 528 million, few commercial banks (16.6%) realized between kshs 529 million and more than kshs 2,617 million average premiums while no commercial bank generated between kshs 1,573 million and kshs 2,616 million average premiums. This means that bancassurance has not been fully embraced by Kenyans with an average premium realized per bank in five years of kshs 381.57 million.

6.3 Bancassurance Sales Channels Efficiency Score

The Data Envelopment Analysis (DEA) technique was applied in measuring the efficiency of bancassurance sales channels utilized by the 24 commercial banks. The DEA model that was applied computed the efficiency scores of sales channels by taking outputs and dividing them by inputs. The outputs are the amounts of premiums realized by sales channels while inputs are the amounts of expenses incurred to operate the sales channels.

Table 3: Bancassurance Sales Channels Efficiency Score

Bancassurance sales channels efficiency score	Distribution		Rank
	Frequency	Percentage	
0.286 - 0.481	8	33.33	Majority
0.09 - 0.285	5	20.83	
0.678 - 0.873	5	20.83	
0.482 - 0.677	3	12.50	Moderate
0.874 - 1.069	2	8.34	
1.070 - 1.265	1	4.17	Few
Total	24	100	
Arithmetic Mean	0.533		

Source: Primary Data

A bancassurance sales channel efficiency score of 1 implies that the sales channel is efficient, a score closer to 1 is regarded as near efficient while a score far below 1 is classified as inefficient. The findings conveyed in table 3 above reveal that majority commercial banks (74.99%) employed bancassurance sales channels with efficiency scores ranging between 0.09 and 0.481 and from 0.678 up to 0.873. Moderate percentage commercial banks (20.84%) utilized bancassurance sales channels with efficiency scores ranging between 0.482 and 0.677 and from 0.874 up to 1.069 while few commercial banks (4.17%) applied bancassurance sales channels with efficiency scores stretching from 1.070 up to 1.265. This shows that a majority of commercial banks operated moderately efficient bancassurance sales channels as supported by a mean efficiency score of 0.533.

6.4 Composite Financial Performance Index

Secondary data was collected for each commercial bank covering the period 2011-2015 on pre-tax profits, total net assets value, non-interest income and total income. Return on assets measure was computed by the formula;

$$\frac{Pre-tax\ profits}{Total\ net\ assets} *100$$

Non-interest income ratio was computed by the formula;

$$\frac{Non-interest\ income}{Total\ income} *100$$

Table 4: Composite Financial Performance

Bank #	Year					TOTAL
	2011	2012	2013	2014	2015	
Bank 1	359.9067	386.6745	630.4328	765.2925	863.5281	3005.835
Bank 2	-218.439	50.66272	-153.46	-218.098	-103.111	-642.445
Bank 3	1081.795	1555.169	1853.541	2100.289	2349.37	8940.164
Bank 4	813.896	382.0405	592.4986	776.6354	-560.71	2004.361
Bank 5	82.19714	58.67224	-47.2356	-91.1863	16.43047	18.87796
Bank 6	1041.851	1569.239	2332.857	2461.383	2356.803	9762.132
Bank 7	325.0438	300.3904	403.9553	427.951	578.4715	2035.812
Bank 8	2053.948	3188.237	3564.87	4167.596	4686.4	17661.05
Bank 9	85.33187	101.9679	185.5675	242.844	173.2328	788.944
Bank 10	51.78964	124.6027	144.5864	204.8583	364.0686	889.9056
Bank 11	40.55922	-510.657	-409.865	-166.077	31.04903	-1014.99
Bank 12	40.55922	-510.657	-409.865	-166.077	31.04903	-1014.99
Bank 13	4030.605	5348.09	6071.714	6697.398	7455.339	29603.15
Bank 14	4030.605	5348.09	6071.714	6697.398	7455.339	29603.15
Bank 15	4689.364	5246.837	5909.516	7446.653	7807.274	31099.64
Bank 16	4689.364	5246.837	5909.516	7446.653	7807.274	31099.64
Bank 17	1484.374	1572.764	2018.329	2580.503	2786.279	10442.25
Bank 18	1484.374	1572.764	2018.329	2580.503	2786.279	10442.25
Bank 19	174.1097	280.8036	585.5114	871.896	960.1238	2872.444
Bank 20	174.1097	280.8036	585.5114	871.896	960.1238	2872.444
Bank 21	993.921	1331.43	1486.616	1505.927	2073.647	7391.542
Bank 22	1342.14	1893.037	2657.639	3249.719	3993.895	13136.43
Bank 23	4000.312	4335.785	3969.812	4094.018	4020.753	20420.68
Bank 24	4000.312	4335.785	3969.812	4094.018	4020.753	20420.68
TOTAL						262332.2

Source: Primary Data

6.5 Moderating Effect of Sales Channels on the Relationship Between Bancassurance and Financial performance

The objective was examined by testing the null hypothesis expressed below;

H1: *There is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya.*

Expressed below is the multiple regression equation that was employed in testing the hypothesis;

$$F_t = a + \beta_{3,} BA_t + \beta_{4,} SC_t + \beta_{5,} (BA_t * SC_t) + \varepsilon_i$$

Where:
F= Dependent variable - Financial performance of commercial banks (pre-tax profits, return on assets, non-interest income as a percentage of total income).
a = Intercept.
B_3..... β_5 = Standardized regression coefficient
BA = Independent variable - Bancassurance (amount of premiums realized from selling insurance products).
SC = Moderating variable - Sales channels (efficiency score of sales channels).
t = Time period (year 1 to year 5).
ε_i = Error term.

Baron and Kenny (1986) regression model was adopted in analyzing the moderating effect. According to their model, the relationship between predictor variable and dependent variable is influenced by the moderator variable if the interaction (product) term regression coefficient is significant. This is not withstanding the significant relationship between the predictor variable and moderator variable on the dependent variable while excluding the product aspect, because this is not ideally anchored towards testing the moderator hypothesis.
The regression analysis procedure comprised examining the effects of bancassurance (independent variable), sales channels (moderating variable) and the product term between bancassurance and sales channels (bancassurance * sales channels) on financial performance (dependent variable).

Table 5: Regression Results of Bancassurance, Sales Channels and Financial Performance

	Model 1	**Model 2**
(Constant)	11385.648(0.007)	13482.344 (0.005)
Bancassurance	0.624 (0.002)	0.263 (0.506)
Sales channels	-0.255 (0.162)	-0.411(0.090)
Bancassurance*Sales channels		0.461 (0.310)
Adjusted R^2	0.323	0.326
F	6.495 (0.006)	4.71(0.012)

P-value in parenthesis
1-Predictors: (Constant), Bancassurance, Sales channels
2- Predictors: (Constant), Bancassurance, Sales channels, Bancassurance * Sales channel
Source: Primary Data

Table 5 above conveys outcome of hierarchical multiple statistical assessment. The first process outcome contained in model 1 revealed that bancassurance and sales channels explained 32.3% (adjusted R^2 = 0.323) variations in financial

performance without the product term (bancassurance * sales channels). The F value obtained was 6.495 while the P value was 0.006. The P value that is below 0.05 (P< 0.05) signifies that the relationship between bancassurance (predictor variable), sales channels (moderating variable) and financial performance (dependent variable) is statistically significant.

In the second process of hierarchical multiple regression analysis involving the product between bancassurance and sales channels (model 2), the outcome obtained had adjusted R^2 = 0.326, F = 4.71 and P = 0.012. Therefore, bancassurance, sales channels and bancassurance * sales channels explained 32.6% variations in financial performance. This signifies that the relationship between bancassurance and sales channels and financial performance upon inclusion of the product term of bancassurance * sales channels is significant because the P value was lower than 0.05 (P< 0.05). Further tests of the slope were undertaken after accepting model 1 and model 2 in the preceding stage. Results contained in table 5 above shows that model 2 regression coefficient of bancassurance was 0.263 with a P value of 0.506, sales channels had -0.411 and 0.090 while that of the product term of bancassurance * sales channels was 0.461 and 0.310 respectively. The foregoing results reveal that upon integrating the product term in the regression analysis, the changes in financial performance that are explained by bancassurance and sales channels increased by 0.3% (I.e 32.6% - 32.3%). But since the P value of the product term of 0.310 is greater than 0.05 (P> 0.05) it implies that sales channels have no significant moderating effect on the relationship between bancassurance and financial performance of commercial banks. The null hypothesis was upheld by the findings that there is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya.

7 Discussion of the Findings

The study objective was formulated to establish the effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya. In analyzing the relationship between the three variables, bancassurance was defined as the independent variable, sales channels the moderating variable and financial performance the dependent variable. The indicator of sales channels was efficiency score of the following sales channels: agents sales channel, bank employees/platform bankers, corporate agencies & brokerage firms, special advisors and internet.

The null hypothesis suggested that there is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya. As reported in table 5, the P value of the interaction term (bancassurance * sales channels) was higher than 0.05 (P > 0.05) signifying that there is no statistically significant moderating effect of sales channels on the relationship between bancassurance and financial performance of

commercial banks in Kenya. The null hypothesis was therefore accepted.
This finding is in conformity with Chang et al. (2011) study findings that conventional insurance sales channels' mean efficiency ratings are notably superior compared to those of bancassurance sales channels indicating that bancassurance sales channels have no positive impact on the connection between bancassurance and financial health. However, the finding is contrary to Clipici and Bolovan (2012) evidence that sales channels increase sales and profitability of banks. The finding is also in line with Kaushik (2015) conclusion that bancassurance sales channels that distribute simple design insurance products do not generate high profit margins. Most commercial banks in this study were selling simple credit life insurance policies. This findings signify that commercial banks employ bancassurance sales channels that consume more in terms of expenditure than the income they are able to realize based on the Data Envelopment analysis technique that relates the output (income) to input (expenses) to compute efficiency scores of sales channels.

8 Recommendations

The null hypothesis was upheld by findings therefore arriving at the conclusion that there is no significant moderating effect of sales channels on the relationship between bancassurance and financial performance of commercial banks in Kenya. The relationship is negative but insignificant because the efficiency scores of sales channels is computed by cost benefit analysis between premiums generated and the costs incurred in realizing the same. As costs increase, financial performance decreases. The findings signify that the bancassurance sales channels employed by commercial banks are not profitable. It is therefore imperative that managers of commercial banks employ cost efficient bancassurance sales channels to maximize financial performance. The application of the Data Envelopment Analysis (DEA) technique that was employed by this study will be useful to bank managers and managers of insurance companies to determine the sales channels with high efficiency scores to utilize. National Bank of Kenya whose bancassurance sales channels attained the highest efficiency score of 1.2 utilized agent sales channel and bank employees sales channel.

9 Suggestions for Further Research

This study examined the moderating effect of sales channels in the relationship between bancassurance and financial performance of commercial banks in Kenya. Findings revealed that sales channels have no moderating effect between the two variables. Future research would therefore test the moderating effect of the number of insurance policies sold via bancassurance in the association between bancassurance and financial improvement of commercial banks.

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