Intervening Effect of Savings Mobilization on the Relationship between Bancassurance and Financial Performance of Commercial Banks in Kenya

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Abstract

This study sought to establish the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya. The study employed both primary and secondary data. Primary data was gathered by semi-structured questionnaires. The respondents were 27 commercial banks undertaking bancassurance. Data analysis was carried out by descriptive statistics and regression analysis by applying the Baron and Kenny (1986) model. Findings indicated that savings mobilization had no significant intervening effect on the relationship between bancassurance and financial performance of commercial banks. This suggests that the customer deposits relating to bancassurance mobilized by commercial banks in Kenya are not significant enough to have positive impact on pre-tax profits, return on assets and the ratio of non-interest income to total income. Managers of commercial banks need to come up with strategies to increase the savings mobilization dimension of bancassurance.

1   Introduction

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Financial innovations have seen the advent of bancassurance globally and locally mainly triggered by the promulgation of the financial holding company law, removal of pre-existing regulatory barriers that prohibited banks from selling insurance products, inter-linkage coupled with globalization of financial markets and diversification into non-financial intermediation roles to reduce company exposure (Staikouras, 2006; Artikis, Mutenga & Staikouras , 2008; Wu, Lin, & Lin, 2008). As a result, life insurance funds, pension funds, unit-linked insurance policies and mutual funds products that are sold by bancassurance entities have significantly contributed to gross financial savings mobilization in various countries. 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; Chari & Jayalakshmi, 2014).

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). Proponents of the concept argue that bancassurance structures inculcates accountability in managers, realizes economies of scale/scope, contributes to stable financial systems, growth of national economy alongside facilitating efficient restructuring (Staikouras , 2006). Savings mobilization involves collecting obligatory and voluntary savings by transferring funds from people and organizations that have surplus of available funds to people and organizations that have a shortage. It is therefore regarded as deposit mobilization (Rose & Kolari, 1995; Alamgir & Dowla, 2003). Saving at the household level achieves the following objectives; retirement and bequests savings, funding big projects in life like house acquisition, to cushion against unanticipated financial loss as well as smoothening the provision of resources to achieve uninterrupted consumption (Seguino & Floro, 2003).

Commercial banks that practice bancassurance in Kenya form the contextual basis of this study. Kenya's insurance reach in 2015 ranked 2.79% against 2.93% in 2014. Penetration in 2014 was influenced by upward rebasing of GDP. Comparatively, insurance penetration in China was 4.4% as at 2015. The low insurance penetration in Kenya is attributed to relying on traditional insurance sales channels with little use of bancassurance sales channels over the years, unexploited insurance business potential in segments such as oil and gas, real estate, infrastructure, micro insurance and agriculture . There are 27 commercial banks practicing bancassurance in Kenya currently. The commercial banks in Kenya fulfill an important function of providing loans to other economic sectors. Gross loans extended by the banking sector in Kenya went up from kshs 2.17 trillion in 2015 to kshs 2.29 trillion in 2016 (Zheng, Liu & Dickinson, 2008; AKI, 2015; CBK, 2015; CBK, 2016).

2   The Research Problem

Bancassurance is a new development in financial system that has re-engineered 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. Equally, bancassurance has been noted as increasing insurance sales, enhancing savings mobilization 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 inter-relationships between bancassurance, savings mobilization and financial performance.

This study sought to address a number of gaps. Firstly, previous studies revealed insignificant or weak relationship between bancassurance, savings mobilization and financial performance. For instance, Voutilainen (2004) found out that banks and insurance companies offer products that are akin to each other hence sharing public savings leading to insignificant effect on savings mobilization. Trichet (2005) conveyed findings indicating weak relationship between savings mobilization and financial performance of bancassurance entities. Further, Ang (2010) documented that insurance is negatively related to private savings, contrary to theoretical principles because the scope of the study covered the private sector of Malaysia only excluding the public sector.

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. Gujral (2014) analyzed a small sample of eight banks out of fifty seven in the study of bancassurance effect on banking industry in India; Bergendahl (1995) while assessing the profitability of bancassurance examined a sample of two banks. This study filled the gap in the above studies 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. Methodological weaknesses affect the substance and objectiveness of the findings of studies.

Thirdly, the existing empirical studies have not integrated the three variables of bancassurance, 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 and Nurullah and Staikouras (2008) analyzed two variables of risk and profitability. This study addressed the gap by employing an expanded interlinked model of analyzing the relationship between bancassurance, savings mobilization and financial performance.

 Lastly, there are contextual gaps exhibited by prior studies. Empirical studies on

the relationship between bancassurance 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, Fields et al. (2007) assessed in the U.S. the viability of bancassurance mergers between banks and insurance companies, Vennet (2002) analyzed whether financial conglomerates and universal banks that undertake bancassurance earn higher profits than specialized banks that are not engaged in bancassurance in Europe while Bergendahl (1995) examined how bancassurance can be made a profitable strategy for European banks. The findings and conclusions of the foregoing studies apply to contexts of U.S. and Europe respectively and may not automatically be extended to Kenyan context.

3   Objective of the Study

The objective of the study was to determine the intervening effect of savings mobilization 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 intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya.

4   Review of Related Literature

Trichet (2005) investigated how relevant insurance sector is in stabilizing Europe's financial system. The study documented sources of risk together with exposure of the banking and insurance service industries and what that portends for financial stability. Results indicated weak relationship between savings mobilization and financial performance of bancassurance entities. The study provides evidence that savings mobilization has no significant intervening effect on the relationship between bancassurance and financial performance of commercial banks doing bancassurance. More so, the study elaborates the gap of weak relationship between savings mobilization and financial performance of commercial banks transacting bancassurance. However, the study did not conceptualize the variables with dependent variable, independent variable and intervening variable. The current study contributed to knowledge by examining the interrelationships between bancassurance, savings mobilization and financial performance.

Mishra (2012) explored the challenges of bancassurance in India and the strategies and policies of making it beneficial to customers, insurance companies and banks. The study interviewed 350 officials from large public sector banks and insurance companies from Kolkata and its environs in India. Simple convenience random sampling method was applied in selecting the sample. Results indicated that

among the benefits derived from bancassurance by banks is winning new customers and better penetration in existing customer base therefore increasing savings mobilization which in turn increases profitability. The findings therefore evidences that savings mobilization has significant intervening effect on the relationship between bancassurance and financial performance of commercial banks. The current study added value to knowledge by interrogating the intervening effect of savings mobilization on the relationship between bancassurance and financial performance. On the other hand, the study has a weakness of employing convenience sampling method that is not probability driven and unreliable at the same time.

Kumari (2012) conducted a study on bancassurance arrangement models and customer attitudes towards the same in India. A sample of 115 customers for 10 banks was picked from Visakhapatnam town by convenience sampling method. Findings showed that most customers prefer buying insurance products from banks than from insurance agents. Out of 115 respondents 26 (i.e. 23%) stated that they buy pension insurance products from banks while 82 (i.e. 71%) buy unit linked insurance plans. Pension insurance products and unit linked insurance plans are long term savings products and holders of this policies open savings bank accounts with commercial banks undertaking bancassurance therefore enhancing savings mobilization and interest income levied on savings bank account holders. This testifies that bancassurance contributes positively to savings mobilization by commercial banks as well as their profitability. The findings show that savings mobilization has significant intervening effect on the relationship between bancassurance and financial performance of commercial banks. However, the study is deficient in as far as a small sample of 10 banks was examined.

Chari and Jayalakshmi (2014) examined the perception of insurance policy holders about bancassurance and their market related attitude towards the same phenomenon in India. A sample of 10 banks that transacted bancassurance were covered while SPSS and Chi-Square technique were applied in data analysis. Findings revealed that bancassurance has grown to become an important channel of tapping household financial savings and bank clients are contented with obtaining insurance policies from banks. Life insurance funds component in total household savings in India grew from 22.3% in 2010-2011 to 23.1% in 2011-2012 whereas pension funds component increased from 14% in 2010-2011 to 15.6% in 2011-2012. Therefore, bancassurance has a significant effect on savings mobilization which in turn enhances profitability because the savings related bank accounts realize interest income. This outcome discloses that savings mobilization has a significant intervening effect on the relationship between bancassurance and financial performance of commercial banks. On the other hand, it is observed that the study has a shortcoming of covering a small sample of ten banks. The studies reviewed above explain the methodological gaps expressed in the research problem.

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, savings mobilization and financial performance of commercial banks undertaking bancassurance in Kenya were all described in detail.

The focus population was all 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 and (e) simple and multiple linear regression analysis.

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 Amount of Premiums Realized from Selling Insurance Products

This study applied four indicators to measure bancassurance. This comprised of general insurance policies' premiums, ordinary life insurance policies' premiums, credit life insurance policies' premiums and other insurance policies' premiums. The amounts generated by each commercial bank is reported in table 2 below;

Table 2: Average Premiums Generated (kshs Millions)

Bank #	Type of Insurance Policy				Cumulative
	General	Ordinary Life	Credit Life	Other	
Bank 1	55	0	10	0	65
Bank 2	104.365	0	96.1375	72.2825	272.785
Bank 3	276	0	27	0	303
Bank 4	498	34	246	0	778
Bank 5	2.54	17.42	0	0	19.96
Bank 6	10	0	109	7	126
Bank 7	124.5	0	111	0	235.5
Bank 8	405	97.5	288.333	0	790.833
Bank 9	10	0	2	0	12
Bank 10	7.316667	0	0.27	0.09	7.676667
Bank 11	11	0	3	0	14
Bank 12	11	0	3	0	14
Bank 13	2208.16	0	690.45	237.542	3136.152
Bank 14	2.202	0	990.628	237.542	1230.372
Bank 15	53.425	0	0	0	53.425
Bank 16	53.425	0	0	0	53.425
Bank 17	150	20	15	0	185
Bank 18	150	20	15	0	185
Bank 19	334.268	1.588	70.524	0	406.38
Bank 20	334.268	1.588	70.524	0	406.38
Bank 21	40	5	10	0	55
Bank 22	40	5	10	0	55
Bank 23	10	15.03	344.57	6.4	376
Bank 24	10	15.03	344.57	6.4	376
Grand Total					9156.888667

Source: Primary Data

6.3 Savings Related to Bancassurance Mobilized by Commercial Banks

Managers completing the questionnaires were asked to state the amount of customer deposits relating to bancassurance that was made into their commercial banks. The outcome of the responses is contained in table 3 below.

Table 3: Savings Related to Bancassurance Mobilized by Commercial Banks

Savings related to bancassurance mobilized by commercial banks (Kshs millions)	Distribution		Rank
	Frequency	Percentage	
2 - 125	9	37.5	
126 - 249	5	20.8	Majority
> 622	5	20.8	
250 - 373	3	12.5	Moderate
374 - 497	2	8.4	Few
498 - 621	0	0	None
TOTAL	24	100	
Arithmetic mean	249.9		

Source: Primary Data

The outcome presented in table 3 above shows that majority commercial banks (58.3%) mobilized average savings related to bancassurance up to a maximum of kshs 249 million during the study period, moderate percentage of commercial banks (33.3%) mobilized average savings ranging from kshs 250 million upto kshs 373 million and above kshs 622 million while few commercial banks (8.4%) mobilized savings averaging between kshs 374 million and kshs 497 million. This manifests that commercial banks mobilize savings through bancassurance though not substantially with an average of kshs 249.9 million per bank over the five years period.

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 Intervening Effect of Savings Mobilization on the Relationship Between Bancassurance and Financial performance

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

H1: There is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya.

The null hypothesis was tested by employing the following four step regression analysis stipulated by Baron and Kenny (1986):

$$Y_1 = a + \beta_* X_1 + \varepsilon_i................................i$$
$$Y_2 = a + \beta_* X_2 + \varepsilon_i.........................ii$$
$$Y_3 = a + \beta_* X_3 + \varepsilon_i ....iii$$
$$Y_4 = a + \beta_1 X_{4\_1} + \beta_2 X_{4\_2} + \varepsilon_i ....iv$$

Results of regression analysis are presented in table 5 below.

Table 5. Regression Results of Bancassurance, Savings Mobilization and
Financial Performance

	BA & FPa	BA & SMb	SM & FPc	SM,BA & FPd
Bancassurance	0.566(0.004)	0.23(0.279)		0.581(0.005)
Savings mobilization			0.067(0.756)	-0.067(0.72)
Adjusted R^2	0.29	0.01	-0.041	0.26
F	10.372(0.004)	1.231(0.279)	0.099(0.756)	5.048(0.016)

P-value in parenthesis
a-Dependent: Financial performance
b-Dependent: Savings mobilization
c-Dependent: Financial performance
d-Dependent: Financial performance
Source: Primary Data

According to Baron and Kenny (1986), intervention is realized in this study if bancassurance predicts financial performance, bancassurance predicts savings mobilization, savings mobilization predicts financial performance and at the same time bancassurance predicts financial performance when savings mobilization is existing in the model. Results of the above regression analysis exhibit that bancassurance did not predict savings mobilization in step two and savings mobilization did not predict financial performance in step three. In totality therefore, savings mobilization has no significant intervening effect on the relationship between bancassurance and financial performance of commercial banks in Kenya. The findings support the null hypothesis that there is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya.

7   Discussion of the Findings

The objective of this study investigated the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya. Savings mobilization was measured by the amount of customer deposits relating to bancassurance.
The null hypothesis predicted that there is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya. Results conveyed in table 5 shows that bancassurance did not predict savings mobilization in model 2 and savings mobilization did not predict financial performance in model 3. This evidences that there is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks. The findings support the null hypothesis.

This finding is in agreement with Trichet (2005) study that discovered negligible inter-linkages between savings mobilization and financial performance of commercial banks undertaking bancassurance, while Ang (2010) documented that the association between insurance and private savings is negative. The findings are contrary to Mishra (2012) findings that bancassurance brings in new customers, increases customer penetration for banks therefore enhancing savings mobilization that further increases the profitability of banks. Further to this, the findings are interpreted to signify that customer deposits relating to bancassurance are not substantial enough to influence positively the relationship between bancassurance and financial performance.

8   Recommendations

Findings of the study supported the second null hypothesis culminating in the conclusion that there is no significant intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya. This suggests that the customer deposits relating to bancassurance mobilized by commercial banks in Kenya are not significant enough to have positive impact on pre-tax profits, return on assets and the ratio of non-interest income to total income. Managers of commercial banks need to come up with strategies to increase the savings mobilization dimension of bancassurance.
 Reckoning that the study found that savings mobilization has no significant intervening effect on the relationship between bancassurance and financial performance, bank managers will be enlightened not to target the savings aspects of insurance products but rather the credit life insurance policies that found favourable backing by the results of this study. The research findings can further be utilized by the Government as pillars in enacting financial conglomerates laws as well as taxation laws that will create a conducive environment for bancassurance to thrive .

9   Suggestions for Further Research

Economic development of any country is fundamentally driven by banking and insurance sectors. Future research would therefore examine the influence of bancassurance on the economic development of Kenya with financial performance of commercial banks fashioned as the intervening variable. In this case, economic development will be measured by Gross Development Product (GDP) of Kenya.
This study analyzed the intervening effect of savings mobilization on the relationship between bancassurance and financial performance of commercial banks in Kenya. Findings indicated that savings mobilization has no significant intervening effect in the relationship between the two variables. It is recommended that future research considers the intervening effect of size of commercial banks in the relationship between bancassurance and financial growth of commercial banks.

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