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THE EFFECT OF BANCASSURANCE PRODUCTS' INCOME ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

The prevalence of Bancassurance is experiencing rapid growth in Kenya. This study aims to examine the effect of Bancassurance products (life and non-life insurance products) on the financial performance of commercial banks in Kenya. Bancassurance has emerged as a strategic revenue stream in the banking sector. However, despite its growing adoption, there is limited empirical evidence on how income from Bancassurance activities influence key financial performance indicators such as Return on Equity (ROE), Returns on Assets (ROA) and the overall profitability among Kenyan commercial banks.The study employed descriptive and correlational research design, utilizing secondary data from published annual reports, the Central Bank of Kenya (CBK) and the Insurance Regulatory Authority (IRA) covering the period 2019-2023. A purposive sampling approach was be used to select the commercial banks actively involved in Bancassurance. Data was be analyzed using descriptive statistics, correlation analysis, and regression models to determine the nature and strength of the relationship between Bancassurance income and financial performance. The findings of this study are expected to offer valuable insights to banking institutions, regulators and policy makers regarding the strategic significance of Bancassurance in enhancing financial performance. Additionally, the study will contribute to the academic literature by addressing the current gap in empirical research on Bancassurance in the Kenyan context.

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INTRODUCTION

The banking sector in Kenya has undergone a significant transformation driven by technological advancements, regulatory reforms, and strategic need to diversify income streams beyond traditional interest-based activities. A key innovation in this evolution is Bancassurance – a strategic collaboration where the banks distribute life and general insurance products through their existing infrastructure, earning commissions recorded as non-interest income (KPMG, 2017; Swiss Re, 2010). Promoted by the Central Bank of Kenya (CBK) and the Insurance Regulatory Authority (IRA), over 30 commercial banks were licensed as Bancassurance Intermediaries by 2023 (IRA, 2023). Following periods of interest rate caps (2016-2019) and ongoing economic shifts, non-funded income has become vital to bank earnings (CBK, 2021, 2022). While international studies in Western Europe and Asia indicate mixed effects on financial performance (Staikouras&Nurullah, 2008; Trujillo-Ponce, 2013), local empirical research remains limited regarding its direct influence on metrics like Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). Consequently, this study evaluates the effects of Bancassurance income on commercial bank performance in Kenya from 2019 to 2023 to guide management, regulators, and policy makers. Bancassurance originated in France and Spain in the late 1970s following financial deregulation, capturing over 60% of the life insurance market share across Western Europe (Gonulal et al., 2012). It later experienced rapid growth across Asia-Pacific markets like China, India, and Malaysia due to middle-class expansion and regulatory reforms (Li et al., 2019). In sub-Saharan Africa, adoption initially lagged due to rigid sector separation, lower penetration, and limited retail networks (Beck &Hoseni, 2014). However, South Africa emerged as a regional pioneer, leveraging deep financial integration and high penetration rates to yield strong cost synergies and risk management (FSCA, 2020; SARB, 2021). East Africa - led by Kenya, Uganda, and Tanzania – subsequently became a major frontier as progressive regulatory harmonization enabled banks to establish specialized intermediary subsidiaries (IRA, 2021)

In Kenya, informal credit-linked insurance distribution eventually led to formal licensing frameworks under the Insurance Act (Cap 487) and the Insurance (Bancassurance) Regulations. Driven by intense competition, narrowing interest margins, and digital adoption, commercial banks have aggressively integrated dedicated Bancassurance outfits to expand non-interest revenue streams. Nevertheless, despite its growing visibility in financial statements, the direct quantitative impact of Bancassurance on profitability metrics within Kenyan context requires deeper empirical exploration.
Financial performance reflects a bank's operational efficiency, portfolio risk management, and overall capacity to generate sustainable earnings (Ongore& Kusa, 2013).

Globally, financial institutions have shifted away from heavy reliance on Net Interest Margins towards fee-based activities and wealth management (Stiroh& Rumble, 2006). Expanding non-interest streams generally optimizes branch network and digital platforms usage without inflating credit risk or risk-weighted assets (Beck et al., 2016). Across Sub-Saharan Africa, macroeconomic volatility, high debt yields, and fluctuating non-performing loans (NPLs) have underlined the risks of interest-dependent banking models, driving institutions towards non-funded income to buffer against credit losses (AfDB, 2022).

In Kenya, statutory shifts – such as the enactment and repeal of the Banking (Amendment) Act 2016 – alongside monetary policy changes and elevated sector NPLs have compressed traditional lending yields (CBK, 2022).

Commercial banks have responded by pursuing non-interest channels including transaction fees, forex trading, mobile banking, and Bancassurance commissions. Because Bancassurance offers a low-risk, high margin fee stream that avoids capital tie-ups and default risk, this study assesses bank financial performance using ROA to establish whether Bancassurance income genuinely enhances or merely supplements financial outcomes across Kenyan commercial banks.

Statement of the Problem: Traditionally, commercial banks in Kenya relied heavily on interest income generated from loans and advances as their main source of revenue. However, this model has faced increasing challenges over the past decade. The implementation of the interest rate cap in 2016 severely limited bank's ability to price loans based on credit risk, leading to a decline in the interest income and profitability for many banks (CBK, 2017). Although the gap was repealed in 2019, its impact revealed the critical need for banks to diversify their revenue streams to remain resilient in a dynamic financial environment.

In response, many banks turned to non-interest income, with bancassurance emerging as a promising strategy. However, while the uptake of bancassurance in Kenya has been growing, studies examining it locally are few, fragmented, and often fail to isolate bancassurance income from the sources of non-interest income. Therefore, a research gap exists in evaluating the direct effect of Bancassurance products' income on financial performance. This study seeks to bridge this gap by analyzing the relationship between Bancassurance incomeand ROA, informing bank's management, investors, and regulators about its effectiveness as a sustainable revenue diversification strategy.

The objective of this study was

- To determine the joint effect of life and non-life insurance products' income on financial performance of commercial banks in Kenya.

LITERATURE REVIEW

Empirical Literature Review: Empirical research has increasingly focused on how integrating insurance services allows commercial banks to diversify income sources beyond traditional interest-based revenues. By examining previous studies' objectives, methodologies, and findings, this literature evaluates how Bancassurance influences bank profitability, financial stability, and operational competitiveness. Locally, Waweru (2014) established that Kenyan commercial banks adopting Bancassurance registered greater financial gains and operational efficiencies, while Maina and Mwangi (2014) showed that incorporating insurance services significantly increased non-interest income and ROA. Similarly, Wambua (2017) and Odhiambo and Ouma (2019) demonstrated that insurance product distribution improved bank profitability indicators like NIM, ROE, and cost efficiency through customer retention and product bundling. Internationally, Alhassan and Biekpe (2016) found that insurance income enhanced risk-adjusted returns across Sub-Saharan Africa, and Peng et al. (2015) confirmed that active Bancassurance participation in Taiwan increased commission revenue and overall shareholder value.

Life Insurance Products and Financial Performance of Commercial Banks: When looking at how life insurance impacts financial performance through bancassurance, studies highlight clear advantages for both banks and insurers. Chepkoech and Omwenga (2016) investigated bancassurance in Kenya and found a strong positive link to a bank's customer base, liquidity, and overall profitability, though they noted that broader product scopes and larger sample sizes would improve future research. Building on this, Muriithi and Waweru (2017) demonstrated that life insurance commissions significantly improve Return on Assets (ROA), providing banks with much steadier income flows thanks to regular policy renewals and recurring premiums. This relationship is further reinforced by Wanjiru and Muturi (2018), who noted that offering life insurance boosts non-interest revenue and deepens customer loyalty because clients prefer keeping multiple financial services under one roof. Internationally, Abreu and Mendes (2017) observed similar benefits in Portugal and Spain, where adding life insurance to a bank's service portfolio positively impacted profitability indicators like Return on Equity (ROE) and earnings stability. Meanwhile, shifting focus to the insurer's side, Verhoef (2016) highlighted how product innovation helps South African firms like Sanlam grow and develop. However, the author stopped short of detailing the exact influence on financial performance and noted that findings were restricted to a single insurer, making them non-generalizable to the broader market. Taken together, these studies show that while life insurance integration is a powerful tool, its success depends heavily on proper product design and distribution.

Non-Life Insurance Product and Financial Performance of Commercial Banks: Non-life or general insurance products play a similarly vital, yet distinct, role in shaping financial

performance across the banking sector. Mwangi (2019) pointed out a concerning drop in non-life insurance penetration and operating profits across Kenyan insurers, noting through panel regression that while liquidity helps financial performance, company size and high loss ratios actually exert a negative effect. On the banking side, however, Kipngetich and Muturi (2017) discovered that selling non-life products - especially motor and property insurance - generates valuable commission income that positively influences a bank's ROE and ROA. Muturi and Omondi (2016) added that offering general insurance opens up great cross-selling opportunities and cuts operational costs through shared staff and infrastructure, translating directly into improved competitiveness. Further expanding on these benefits, Makau and Omindi (2018) found that sales of general insurance products strongly correlate with higher Net Interest Margin (NIM), helping banks offset fluctuations in core banking income. On a broader scale, European research by Ganganis et al. (2014) proved that banks engaging more in non-life bancassurance achieve higher operational efficiency and income diversification. Finally, looking at distribution and consumer behavior, Aliagha et al. (2014) noted that while homeowner insurance purchases in Malaysia depend heavily on risk exposure and perception, alternative distribution channels like bancassurance make it much easier to assess risk using historical financial services data. This capability improves overall market penetration and streamlines the product selection process for customers.

Financial Performance: Financial performance serves as the ultimate yardstick for a commercial bank's stability, profitability, and overall efficiency. It reflects how well a financial institution utilizes its resources to generate earnings and sustain operations over time. Globally, Staikouras and Wood (2011) showed that non-traditional income sources, including insurance services, contribute positively to financial performance across European markets, suggesting that diversification naturally improves financial resilience and income stability. However, diversification is not without its risks or management costs. Stiroh and Rumble (2006) examined financial holding companies in the United States and found a cautionary note: while venturing into non-interest activities offers potential earning gains, extreme diversification can incur higher fixed overhead costs that ultimately offset profits and create operational drag.

At the regional level, empirical literature emphasizes non-interest revenue as a crucial buffer against credit risk and volatile net interest margins. Beck and Hoseini (2014) conducted a multi-country panel analysis across Sub-Saharan Africa and observed that banks with higher ratios of non-interest income to total income exhibited superior earnings resilience and lower insolvency risk. Similarly, South Africa's FSCA (2020) and West African CIMA assessments confirmed that bancassurance commission streams and referral models significantly enhanced managerial efficiency and asset-efficiency ratios. Locally in Kenya, Omondi and Muturi (2016) highlighted ROA and ROE as primary metrics for tracking bank success. Wambua (2017) and Ouma and Munyoki (2014) further underscored that non-interest income from bancassurance cushions Kenyan banks against regulatory interest rate caps and fintech disruptions. In an increasingly competitive and regulated market, bancassurance has firmly established itself as an indispensable strategic tool for maintaining robust financial performance.

METHODOLOGY

This study adopted a descriptive research design to systematically examine the relationship between Bancassurance products income and the financial performance of commercial banks in Kenya without manipulating variables. The target population was a census of all 23 commercial banks actively practicing Bancassurance, with their head offices located in Nairobi County acting as the unit of analysis. A total of 46 respondents across these 23 banks participated, ensuring diverse departmental perspectives were included to comprehensively evaluate the impact of Bancassurance products on financial results. Data analysis focused on income generated from both life and non-life insurance products, processed systematically using SPSS version 24.0. Quantitative primary data was evaluated through descriptive statistics—such as frequencies, means, standard deviations, and percentages—to summarize income trends and distributions. Additionally, inferential statistics, specifically regression analysis, were applied to interpret the data in direct relation to the study's core research objective.

Multiple linear regression analysis was used to operationalize the objectives. The specifications of the regression modelisas outlined below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon \ldots$$

Where: Y = Financial Performance, β_0 = Regression constant, β_1 = Coefficients of the independent variable life insurance products, β_2 = Coefficients of the independent variable non-life insurance products, X_1 = Lifeinsurance products, X_2 = Non-lifeinsurance products, ε = Error term

RESULTS AND DISCUSSION

Descriptive and inferential statistics were used to discuss the findings of the study which targeted all the 23 commercial banks that offered Bancassurance between the 2019 and 2023.

Joint of Life and Non-Life Insurance Products' Income on Financial Performance

Table 7. Model Summary for Joint Influence

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.887[a]	.786	.773	.34292

a. Predictors: (Constant), Life Insurance Income, Non-Life Insurance

Table 8. ANOVA[a] for Combined Influence

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.738	3	6.913	58.785	.000[b]
	Residual	5.644	48	.118		
	Total	26.382	51			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Life Insurance Products' Income, Non-Life Insurance Products' Income

Table 9. Coefficients[a] for Combined Influence

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.331	.613		.541	.591
	Life Insurance Products' Income	-.172	.008	0.132	-21.500	.000
	Non-Life Insurance Products' Income	.034	.113	.021	.298	.767
	a. Dependent Variable: Financial Performance					

The model summary table 7 results show that there is a strong relationship between Bancassurance products' income on financial performance of commercial banks in Kenya (R=0.887). The adjusted R square for the model was 0.773 implying that 77.3% financial performance of commercial banks in Kenya were explained by Life Insurance and Non-Life Insurance Products' Income. The remaining 22.7% of the variations in financial performance were explained by other factors not considered in the study.

The ANOVA results in table 8 show the F-calculated value 58.785>2.798; P=0.000<0.05. These results show that the model was fit to predict the joint effect of Life Insurance and Non-Life Insurance Products' Income on financial performance of commercial banks in Kenya. Further, based on the ANOVA results, the P-value =0.000<0.05 indicating a statistical significant relationship between Life Insurance Products' Income and Non-Life Insurance Products' Income and the financial performance of commercial banks in Kenya County hence the null hypothesis (H01) which states that there is no effect of both life and non-life insurance products' income on the financial performance of commercial banks in Kenya was rejected and the alternative hypothesis which state that there is significant effect of both life and non-life insurance products' income on the financial performance of commercial banks in Kenya was accepted. The regression coefficient results in table 9 indicated that the constant, β=0.331; P=0.591>0.05, coefficient for life insurance products' income, β=-0.172; P=0.000<0.05, coefficient for non-life insurance products' income β=0.034; P=0.767>0.05. Therefore, the multiple regression equation was summarized as follows;

Y= 0.331+0.172X2 + 0.034X3

This implies that if all variables were held constant at zero, the financial performance of commercial banks in Kenya would be 0.331. Also, if all factors were held constant and life insurance products' income increased by one unit, the financial performance of commercial banks in Kenya would increase by 0.172. Similarly, life insurance products' income had a positive coefficient implying that if all factors were held constant and life insurance products' income increased by one unit, the financial performance of commercial banks in Kenya would increase by 0.034. Because joint life and non-life insurance products' income were statistically insignificant in financial performance of commercial banks in Kenya, the null hypothesis (H01) which states that, there is no effect of both life and non-life insurance products' income on the financial performance of commercial banks in Kenya was rejected. From the results it was concluded that joint life and non-life insurance products' income were significant in financial performance of commercial banks in Kenya.

CONCLUSION

The study concluded that life insurance products have significant influence on financial performance of commercial banks in Kenya. The study therefore recommends that the management of commercial banks should consider embracing life insurance products in order to improve the financial performance. Secondly, the study concluded that non-life insurance products have significant influence on financial performance of commercial banks in Kenya. The study therefore recommends that the management of commercial banks should consider embracing life insurance products in order to improve the financial performance.

Further, the study concluded that jointly life and non-life insurance products have a significant positive influence on financial performance of commercial banks in Kenya. Based on these findings, it is recommended that the management of commercial banks in Kenya should seek adoption of Bancassurance, both life and non-life insurance products jointly as opposed to a single strategy to improve on their financial performance. Therefore, the study established that Bancassurance have a positive and significant effect on financial performance of commercial banks in Kenya. Commercial banks should therefore diversify their income sources by adopting or increasing bancassurance activities since this will lead to enhanced financial performance

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