

## INFLUENCE OF BANCASSURANCE ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NAKURU TOWN, KENYA

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### ABSTRACT

As a result of globalization and competition, many financial institutions are sharing resources in their business conduct in order to gain competitive advantage. One such sharing occurs through bancassurance where banks and insurance organizations partner to enhance their operational capability and to ward off competition. The current study therefore sought to establish the influence of bancassurance on financial performance of commercial Banks in Nakuru Town, Kenya. The study used a descriptive design employing quantitative approaches. The target population of study was all 180 finance-related employees of the eight banks offering bancassurance in Nakuru Town. Primary data was collected using a close-ended questionnaire while secondary data was sourced from the Central Bank of Kenya using financial statements for a period between 2010 and 2014. The Statistical Package for Social Sciences Version 21 was used to analyze the data and the results obtained were presented using tables. The study established that at 5% significance level management quality, asset quality and capital adequacy all had positive influence on financial performance with management quality having the most significant influence. Further, the study established that liquidity had a negative and insignificant influence on financial performance of banks ( $p = 0.076$ ). The study recommends bank management should come up with optimal regulatory policies on capital adequacy, asset quality and liquidity that would not compromise the banks financial performance. Similarly, the banks should recruit the best management talent available and compensate them adequately as they are the people who determine its operation through decisions, ensure the bank's smooth business, handles risks and exercises control and ultimately determine the earnings the bank.

**KEYWORDS:** Bancassurance, Capital Adequacy, Asset Quality, Management Quality

### INTRODUCTION

According to Kasper (2005), bancassurance is on the rise, particularly in emerging markets. Worldwide, insurers have been successfully leveraging bancassurance to gain a foothold in markets with low insurance penetration and a limited variety of distribution channels. Europe has the highest bancassurance penetration rate. In contrast, penetration is lower in North America and Africa, partly reflecting regulatory restrictions. In Asia, however, bancassurance is gaining in popularity, particularly in China, where restrictions have been eased. The outlook for bancassurance remains positive. While development in individual markets will continue to depend heavily on each country's regulatory and business environment, bancassurers could profit from the tendency of governments to privatize health care and pension liabilities. Bancassurance has enjoyed significant success in Europe, but this idea is relatively new in Africa and Kenya to be specific (Juma, 2015). Bancassurance as a way of financial assortment has appealed widespread attention in the world of researchers and business since it offers consumers an instant option for a larger range of fiscal product (Voutilainen, 2006).

As from the 1990s, bancassurance has grown into a major allocation channel in many insurance marketplaces. In this approach, bank employees, rather than an insurance vendor, become the point of sale or point of contact for the customer.

There are several reasons why banks consider bancassurance, the most important of which is increased return on assets (ROA). One of the best ways to increase ROA, assuming a constant asset base, is through fee income which is built through the sale of insurance products. Banks can also leverage their distribution and processing capabilities for profitable operating expense ratios. By leveraging their strengths and finding ways to overcome their weaknesses, banks could change the face of insurance distribution. Sale of personal life insurance products through banks meets an important set of consumer needs. Most large retail banks engender a great deal of trust in broad segments of consumers, which they can leverage in selling them personal life insurance products. In addition, a bank's branch network allows the face to face contact that is so important in the sale of personal insurance. Furthermore, have strong market awareness, established distribution channels and enjoy a wider regional coverage. According to Kumar (2006), the best way to analyze the importance of insurance fee income of a bank is to measure it against the interest margins. For example, insurance on large and complicated projects can fetch a substantial fee income as insurance premiums. As a result, the fee income can be used to partly offset the interest reduction in a competitive lending environment. Bancassurance also enhances a bank's financial statement items through retention of customers. According to Kumar (2006), a bank selling a ten year annual investment ties the customer with the bank for the next ten years. This gives the bank a great opportunity to maximize on potential additional business with the client. The current study therefore sought to establish the influence of bancassurance on financial performance of commercial banks.

## **STATEMENT OF THE PROBLEM**

Banks in Kenya for a long time have been grappling with the decrease in their interest margins as a result of the rise in competition, changes in technology, deregulation of the financial sector as well as globalization. The major income generated by banks is interest income, however current market conditions have put a strain on the interest income as cost of borrowing funds have substantially risen and lending has become too competitive to provide worthwhile interest income. With the advent of mobile money transfer, banks have noticed a drop in the deposit base of their customers. Additionally, new and innovative products in the telecommunications industry have allowed customers to borrow loans through their mobile phones. Therefore with the need to diversify operations, change in line with the changes in customer needs and venture into new and profitable markets banks have had to venture into bancassurance in order to maintain to maintain their profitability and also survival in the ever-changing business world. Bancassurance has been a successful model in European countries contributing 35% of premium income in the European life insurance market. It contributes over 65% of the life insurance premium income in Spain, 60% in France, 50% in Belgium and Italy. There is great potential for growth of bancassurance in Kenya and despite the many benefits of bancassurance the current uptake of bancassurance is still relatively low. Furthermore, bancassurance would not only stabilize the banking sector with additional revenue streams but would also promote customer retention, enhance outreach and diversify operations. Ultimately, successful implementation would not only be beneficial to commercial banks but the trickle effect will be felt from a customer perspective with lower interest which in turn would foster economic development. Studies previously done in Kenya on the relationship between bancassurance and the financial performance of Kenyan commercial banks have shown varying outcomes. The current study therefore sought to establish the influence of bancassurance on financial performance.

## OBJECTIVES OF THE STUDY

The general objective of the study was to establish the influence of bancassurance on financial performance of commercial banks in Nakuru Town, Kenya. Specifically, the study sought:

- To evaluate the influence of capital adequacy on financial performance of commercial banks.
- To determine the influence of asset quality on financial performance of commercial banks.
- To establish the influence of liquidity on financial performance of commercial banks.
- To determine the influence of management quality on financial performance of commercial banks.

## LITERATURE REVIEW

The empirical studies are analyzed based on the objectives of the study and an attempt is made to link the empirical studies and the concepts under the present study.

### Influence of Capital Adequacy on Financial Performance

According to Olalekan and Adeyinka (2013), adequate capital is regarded as the amount of capital that can effectively discharge the primary capital function of preventing bank failure by absorbing losses. Adequate capital provides the ultimate protection against insolvency and liquidation arising from the risk in banking business. Any bank with inadequate capital faces hidden constraints. Its management time is spent on the defensive, working out how to raise capital or how to guard against takeovers. Due to the debt-like nature of liabilities in banks, they have an incentive to engage in risk-shifting or asset substitution. This means that they will indulge in high risk activities to shift the downside-risk to creditors. To avoid this, regulators require them to hold a minimum ratio of capital to assets to reduce their sensitivity to risk (Kongiri, 2012). In this case, capital adequacy can be measured using ratios such as capital to liabilities and the capital to assets ratio. Earlier studies on capital adequacy as a determinant of profitability of banks revealed that a high capital adequacy ratio should signify a bank that is operating over-cautiously and ignoring potentially profitable trading opportunities (Goddard et al., 2004), which implies a negative relationship between equity to asset ratio and bank performance. Adequate capital for banks is the level at which the deposit insuring agency would breakeven in guaranteeing the deposits of individual banks with premium the banks pay. Various studies suggest that banks with higher levels of capital perform better than their undercapitalized peers. Staikouras and Wood (2003) claimed that there exists a positive link between a greater equity and profitability among EU banks. Goddard et al., (2004) supports the prior finding of positive relationship between capital/asset ratio and bank's earnings. Again the direction of the relationship between bank capital and bank performance cannot be unanimously predicted in advance. It therefore calls for further empirical analysis to ascertain the direction for this relationship. Furthermore from the empirical analysis there is limited or no evidence of critical analysis of this relationship with respect to banks that have ventured into bancassurance. The current study therefore aimed at filling this empirical gap majoring on the Kenyan context.

### Influence of Asset Quality On Financial Performance

Unlike other business organizations such as the manufacturing firms that stock tangible goods as inventory, the stock of the banking industry is money; this means that banks trade on money (Aruwa & Musa, 2014). By its nature banks

face number of challenges within internal and the external business environment. Basically, banks operate with three basic objectives which are profitability, growth of assets and customer base. Asset quality entails the evaluation of firm assets in order to facilitate the measurement of the level and size of credit risk associated with its operation. Sustaining sound assets quality involves careful granting of loans that must be examined and compliance to banking rules. Asset quality is a measure of the probability that the loan will either be paid or not. It is measured using credit risk which is the risk of loss due to non-payment of debtors' loans (Ogilo, 2012). The failure of a debtor to pay a loan enhances the credit risk of a bank and thus reduces its asset quality. Kongiri (2012) noted that asset quality is measured by the ratio of net non-performing loans to the gross loans. Furthermore, Molyneux et al., (2007) noted that the various pointers to the deterioration in the asset value could be through using ratios such as earnings assets to total assets and the provisioning of gross advance ratios. Various studies globally and locally have attempted to explain the relationship between asset quality and bank performance. For example, Abata (2014) examined assets quality and bank performance of six largest banks quoted in Nigeria stock exchange and revealed that assets quality has a statistically relationship and influence on bank performance. Similarly, Vighneswara (2015) examined the determinants of bank asset quality and profitability in India using panel data techniques from the period from 1997 – 2009. The findings reveal that capital adequacy and investment activity significantly affect the profitability of commercial banks. Locally, Musyoki and Kadubo (2011) also found that credit risk management is an important predictor of bank's financial performance; they concluded that banks success depends on credit risk management and therefore focus should be placed on ensuring sound asset quality management. Furthermore, Kithinji (2010) analyzed the effect of credit risk management and found that the bulk of the profits of commercial banks are not influenced by the amount of credit and non performing loans. The implication is that other variables apart from credit and non performing loans impact on banks' profit. It is therefore clear that the relationship between asset quality and financial performance of banks and more so those which have taken up bancassurance is still limited and thus the current study attempted to fill this knowledge gap.

### **Influence of Management Quality on Financial Performance**

Recent studies have claimed that the successful implementation of quality management could generate improved products and services, as well as reduced costs, more satisfied customers and employees, and improved financial performance (Mwaniki & Okibo, 2014). Management quality in commercial banks may not be easily measured using financial ratios as the effects and processes are qualitative (Ogilo, 2012). The role of management in banking institutions ensures the smooth operations of activities, day to day handling of risks and the role of stewardship. The agency problem manifests itself in the managing of financial institutions where managers put their personal goals first rather than maximizing shareholder value. Quality management has become an accepted technique to ensure performance and survival in the modern economies. Deming (1995) had earlier asserted that the success of quality management efforts depended upon the effective integration of various management subsystems. It integrates fundamental management techniques, resources, and its implementation stands as a challenge and support to top management. According to Eriksson and Hansson (2002), the main aim of quality management is to implement a management system and organizational culture that ensures the customer satisfaction since customers who are more sensitive to quality standards improve their expectations continuously. Many studies have proved that the performance of banks is significantly and positively linked with the service quality, and to achieve service quality in the banking sector, the quality management is highly essential. Locally, Awino et al., (2012) in their study on quality management and competitive advantage of horticultural firms noted

the management quality is one of the key components for enhanced competitive advantage. Similarly, Mwaniki and Okibo (2014), in their study on the effect of total quality management on financial performance of commercial banks in Kenya noted that quality management has become an accepted technique to ensure performance and survival in the modern economies. It is therefore prudent to further examine the relationship of management quality and bank performance while focusing on banks that have natured into bancassurance.

### **Influence of Liquidity on Financial Performance**

The Central Bank of Kenya (2012) defines liquidity as “the ability of financial institutions to fund increases in asset holdings and meet obligations as they fall due”. One key purpose of bank managers is the management of liquidity risk which can result from a mismatch in the maturities of assets and the ‘obligations due’ in these case withdrawable deposits, and whose occurrence in one institution can have systemic effects on the whole industry. With this in view bank regulators attempt to manage bank liquidity risk by imposing minimum liquidity ratios and also by using monetary policy. In the Kenyan case, the statutory minimum liquidity ratio is 20%. Banks have however managed to maintain a liquidity ratio well in excess of the minimum set by the regulatory authorities but as Kamau (2011) argues that there is an opportunity cost in holding high liquidity, which is characterized by loss of an opportunity to hold onto high interest generating investments. Some studies have found a positive relationship; some found a negative relationship while others found both results and a few found no relationship at all. For example, Kosmidou et al., (2005) found that the ratio of liquid assets to customer and short term funding is positively related to ROA and statistically significant. Recently, Olagunju et al., (2012) found out that there is a positive significant relationship between liquidity and profitability. Some authors found mixed results of both negative and positive relationship. Shen et al., (2010) assert that in market-based financial system liquidity risk is positively related to net interest margin an indication that banks with high levels of illiquid assets receive higher interest income. They pointed out that banks incurred higher funding cost in the market if they have illiquid assets as they had to raise the money in the market to meet the funding gap. Demirgüç-Kunt and Huizinga (1999) found inconclusive results; they found a positive relationship between loans to total assets and the net interest margins. They also established an inverse relationship between the net interest margin and before tax profits. Significantly, bancassurance has been found to increase bank liquidity and therefore conclusions about the influence of banks’ liquidity on their profitability remain ambiguous and further research is required.

### **RESEARCH METHODOLOGY**

The study used a descriptive design while employing quantitative approaches. According to Mugenda and Mugenda (2003), descriptive studies are usually the best methods for collecting information that demonstrate relationships and describe the world as it exists. In Kenya, there is a case by case exemption assessed by the Insurance Regulatory Authority in conjunction with Central Bank of Kenya of commercial banks that offers bancassurance. In this case, the population of study was the eight (8) banks offering bancassurance in Nakuru Town. The target population was therefore 180 finance-related employees of these banks. From the target population of 180 employees, a sample which is a true representative of the population was tabulated using statistical formulae and allocated proportionately amongst the commercial banks. Simple random sampling technique was used in collecting data since that the sample was representative, reliable, flexible and efficient. Data was collected using a close-ended questionnaire. The questionnaire is seen as appropriate; it allows data to be collected in a quick and efficient manner (Saunders & Lewis, 2009). Secondary

data for the study was collected from the Central Bank of Kenya and from annual bank publications. The primary data was sourced from the answers the participants gave during the survey process. The Statistical Package for Social Sciences (SPSS) Version 21 was used to analyze the data and the results obtained were presented using tables. For the purpose of analyzing the relationships of each of the independent variable on the dependent variable, the study used regression analysis to test the hypothesis. In measuring the financial performance of banks the study used Return on Asset (ROA) as measures of performance. The study hypothesized the following model:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where:  $Y$  = Financial Performance of Commercial Banks,  $X_1$  = Capital Adequacy,  $X_2$  = Asset Quality,  $X_3$  = Liquidity,  $X_4$  = Management Quality,  $\beta_0, \beta_1, \beta_2, \beta_3$  and  $\beta_4$  = Beta Coefficients  $\varepsilon$  = Error Term. In each bank, the researcher sought and worked with contact persons to enable easier issuance and clarification on the issues that were unclear. Out of 125 questionnaires that were issued to the sampled respondents, 112 of them were filled and returned. Of these, 9 were incorrectly filled and thus were not used in the final analysis. Therefore, 103 questionnaires were correctly filled and hence were used for analysis representing a response rate of 82.4%.

## RESEARCH FINDINGS AND DISCUSSIONS

The researcher sought to find out the distribution of the respondents according to their gender, age bracket, education level and working experience. The aim was to deduce any trend from the respondent's profile that was directly linked to the variables of the study. According to the findings, majority of employees were male (55.3%) while female were 44.7%. The researcher attributed this trend to the existing gender gap in employment in most sectors in Kenya today. Majority of employees in most banks were of the age group 31 – 40 years (38.8%) while the least age group is below 21 years (1%). The researcher attributed this to the low employment opportunities provided by private sector organizations in Kenya in the past decade. The study established that more than 91% of the respondents had an undergraduate degree or a master degree level of education which was attributed to the higher entry qualification levels in the banking sector in Kenya. Further, only 8.7% of the respondents had a diploma level of education further indicating higher educational requirements needed to join the banking sector in Kenya. Lastly, majority of the respondents (40.8%) had worked for between 5 to 10 years in their respective banks. Cumulatively, more than 65% had more than 5 years of experience while only 6.8% had less than 1 year of working experience. This trend was attributed to the fact that most the Kenyan economy has not been creating enough job opportunities to increase absorption of new employees. Further, the longer experience implied that most employees clearly know the workings of their banks and thus their responses would be valid and important.

### Influence of Capital Adequacy on Financial Performance

The study sought to establish the influence of capital adequacy on financial performance of banks and the results of the analysis are shown in Table 1.



**Table 1: Influence of Capital Adequacy on Financial Performance**

	N	Min	Max	Mean	Std. Dev.
Our bank has had a high capital adequacy ratio for the last 5 years	103	2	5	3.49	.790
Our bank ventured into bancassurance because it was inadequately capitalized and it thus sought capital infusion from bancassurance	103	2	5	3.50	.969
We ventured into bancassurance because banks with higher levels of capital tend to perform better than their undercapitalized peers	103	2	5	3.76	.902
Our bank took up bancassurance since adequate capital provides the ultimate protection against insolvency and liquidation arising from the risk in banking business	103	2	5	3.89	.740
Higher capital levels arising from bancassurance has enhanced our risk mitigation process	103	2	5	3.96	.766
Higher capital levels arising from bancassurance has enhanced our customer product portfolio	103	1	5	3.99	.693
The higher levels of capital arising from bancassurance has enhanced our level of financial performance	103	3	5	3.97	.296

Majority of the respondents agreed that there the banks ventured into bancassurance because they were inadequately capitalized and they thus sought capital infusion from bancassurance (3.50), that the banks took up bancassurance since adequate capital provided the ultimate protection against insolvency and liquidation arising from the risk in banking business (3.89), that they ventured into bancassurance because banks with higher levels of capital tend to perform better than their undercapitalized peers (3.76), that higher capital levels arising from bancassurance had enhanced our risk mitigation process (3.96), that higher capital levels arising from bancassurance had enhanced their customer product portfolio (3.99) and that the higher levels of capital arising from bancassurance had enhanced their level of financial performance (3.97). The respondents were however unsure whether the banks have had a high capital adequacy ratio for the last 5 years (3.49). Furthermore, higher variations in the responses as shown by the standard deviation values were seen when the respondents were asked issues dealing with inadequately capitalization (0.969) and banks with higher levels of capital tend to perform better than their undercapitalized peers (0.902).

#### **Influence of Asset Quality on Financial Performance**

The study further sought to establish the influence of asset quality on the financial performance in line with the second study objective. Table 2 shows the findings related to asset quality and financial performance. The respondents, on average, agreed that the banks grant loans that must be well examined and in compliance to existing banking rules (3.52), that they ventured into bancassurance because their banks had a sound credit culture that is trusted by their customers (3.72), that the bank's credit policies were integrated with performance objectives and thus bancassurance played a critical role (3.86), that the bank's credit management system involves all departments that handle customers thereby minimizing the negative effects of bad debts (4.02), that higher asset quality levels arising from bancassurance in their bank had enhanced their customer product portfolio (4.01) and that the higher levels of asset quality arising from bancassurance had enhanced their level of financial performance (3.96). The respondents were however unsure as to whether the bank's ratio of net non-performing loans to the gross loans for the last 5 years had been low (3.16). Furthermore, higher variations in the responses as shown by the standard deviation values were seen when the respondents were asked whether the bank had a sound credit culture that is trusted by our customers (0.984).

**Table 2: Influence of Asset Quality on Financial Performance**

	N	Min	Max	Mean	Std. Dev.
Our bank's ratio of net non-performing loans to the gross loans for the last 5 years has been low	103	2	5	3.16	.711
Our bank grants loans that must be well examined and in compliance to existing banking rules	103	2	5	3.52	.884
We ventured into bancassurance because our bank has a sound credit culture that is trusted by our customers	103	1	5	3.72	.984
Our bank's credit policies are integrated with performance objectives and thus bancassurance plays a critical role	103	1	5	3.86	.817
The bank credit management system involves all departments that handle customers thereby minimizing the negative effects of bad debts	103	1	5	4.02	.779
Higher asset quality levels arising from bancassurance in our bank has enhanced our customer product portfolio	103	3	5	4.01	.649
The higher levels of asset quality arising from bancassurance has enhanced our level of financial performance	103	3	5	3.96	.311

**Influence of Liquidity on Financial Performance**

The study then sought to establish the influence of liquidity on financial performance of banks in Nakuru Town, Kenya. Majority of the respondents agreed that the bank's liquidity ratio for the past 5 years had been above the recommended ratio of 20% (3.56), that the banks often met their short term obligations due to increased liquidity arising from bancassurance (3.85), that they ventured into bancassurance in order to raise their liquidity holdings and reduce liquidity risks (4.05), that the bank's credit policies were integrated with performance objectives and thus bancassurance played a critical role (4.10), that the bank's increased liquidity arising from bancassurance had enhanced their loan disbursement to customers (4.08), that higher liquidity levels arising from bancassurance in their banks had enhanced their customer product portfolio(4.10) and that higher levels of liquidity arising from bancassurance had enhanced their level of financial performance (3.99).

**Table 3: Influence of Liquidity on Financial Performance**

	N	Min	Max	Mean	Std. Dev.
Our bank's liquidity ratio for the past 5 years has been above the recommended ratio of 20%	103	2	5	3.56	.788
Our bank often meets its short term obligations due to increased liquidity arising from bancassurance	103	2	5	3.85	.890
We ventured into bancassurance in order to raise our liquidity holdings and reduce liquidity risks	103	2	5	4.05	.784
Our bank's credit policies are integrated with performance objectives and thus bancassurance plays a critical role	103	2	5	4.10	.786
The bank's increased liquidity arising from bancassurance has enhanced our loan disbursement to customers	103	2	5	4.08	.637
Higher liquidity levels arising from bancassurance in our bank has enhanced our customer product portfolio	103	3	5	4.10	.679
Higher levels of liquidity arising from bancassurance has enhanced our level of financial performance	103	3	5	3.99	.475



### Influence of Management Quality on Financial Performance

The study lastly sought to establish the influence of management quality on financial performance of banks. The findings are depicted in Table 4.

**Table 4: Influence of Management Quality on Financial Performance**

	n	Min	Max	Mean	Std. Dev.
Our bank's venturing into bancassurance has reduced risks in our operations in the last 5 years	103	2	5	3.74	.896
Our bank often offers other auxiliary services to our customers since venturing into bancassurance	103	1	5	3.83	.909
Despite venturing into bancassurance our management has been able to minimize operating expenses	103	2	5	3.98	.874
Our bank's management ensures smooth day to day operations, handling of risks and provision of stewardship in bancassurance activities	103	1	5	4.08	.776
The bank's management objective is to maximize shareholder value through bancassurance	103	2	5	4.13	.737
Higher levels of management quality arising from bancassurance in our bank has enhanced our customer product portfolio	103	3	5	4.19	.611
The higher levels of management quality arising from bancassurance has enhanced our level of financial performance	103	3	5	3.93	.350

Majority of the respondents were in agreement that the bank's venturing into bancassurance had reduced risks in their operations in the last 5 years (3.74), that the banks often offered other auxiliary services to their customers since venturing into bancassurance (3.83), that despite venturing into bancassurance their management had been able to minimize operating expenses (3.98), that the bank's management ensured smooth day to day operations, handling of risks and provision of stewardship in bancassurance activities (4.08), that the bank's management objective was to maximize shareholder value through bancassurance (4.13), that higher levels of management quality arising from bancassurance in their banks had enhanced their customer product portfolio (4.19) and that the higher levels of management quality arising from bancassurance had enhanced their level of financial performance (3.93). The study carried out a regression analysis to test the significance of the influence of the independent variables on financial performance (ROA). The model summary is depicted in Table 5.

**Table 5: Regression Model Summary**

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std Error Of The Estimate
ROA	0.7851	0.6163	0.6178	0.4247

The R<sup>2</sup> value of 0.6163 implies that 61.6% of the variations in the financial performance of banks in Nakuru Town can be explained by the variations in independent variables. This therefore means that other factors not studied in this study contribute 39.4 % of financial performance of banks in Nakuru Town, Kenya. The corresponding coefficients are presented in Table 6.

**Table 6: Multiple Regression Analysis for Return on Assets**

Model		Unstandardized Coefficients		Standardized Coefficients	T	P
		B	SE	B		
1	Constant	1.562	1.244		2.773	0.271
	Capital Adequacy	0.378	0.142	0.304	3.432	0.001
	Asset Quality	0.792	0.128	0.491	3.220	0.012
	Liquidity	-0.097	0.044	0.039	1.902	0.076
	Management Quality	5.192	0.144	0.153	2.732	0.004

From the multiple regression model, holding capital adequacy, asset quality, liquidity and management quality constant, financial performance of banks would increase by 1.562. It was established that a unit increase in capital adequacy would cause an increase in financial performance by a factor of 0.378, a unit increase in asset quality would cause an increase in financial performance by a factor of 0.792, a unit increase in liquidity would cause a decrease in financial performance by a factor of 0.097 and a unit increase in management quality would cause an increase in financial performance by a factor of 5.192. The un-standardized beta coefficients were then used to obtain the overall relationship and the model was formulated as:

$$Y = 1.562 + 0.378X_1 + 0.792X_2 - 0.097X_3 + 5.192X_4$$

Where Y = Financial Performance (ROA),  $X_1$  = Capital Adequacy,  $X_2$  = Asset Quality,  $X_3$  = Liquidity,  $X_4$  = Management Quality. From the model capital adequacy is positively related and statistically significant to ROA. Asset Quality showed a positive effect to ROA of 0.792. Management Quality was the variable found to have the greatest positive effect (5.192) on financial performance. The implication was that the highly performing banks have the best caliber of management staff and pay their employees well relative to lowly performing banks. Lastly it was found that liquidity had a negative effect of -0.097 though it was statistically insignificant. These can be explained by the fact that the opportunity cost of holding high liquidity which is characterized by loss of an opportunity to hold onto high interest generating investments would indicate that there is an optimal point beyond which high liquidity has no gainful effects.

## CONCLUSIONS

The concluded that banks ventured into bancassurance because they were inadequately capitalized and took up bancassurance since adequate capital provided the ultimate protection against insolvency and liquidation arising from the risk in banking business. Similarly, It was concluded that higher asset quality levels had enhanced their customer product portfolio and thus enhanced their level of financial performance. The study concluded that liquidity significantly influenced financial performance of banks though the influence was negative in nature. Lastly it was concluded that management quality played a key role in enhancing financial performance of banks since they ensure smooth day to day operations, handling of risks and provision of stewardship.

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