MARKETING OF BANKING & FINANCIAL SERVICES IN INDIA: THE CHALLENGES AHEAD

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ABSTRACT

The marketing of financial services is a unique and highly specialized branch of marketing. The practice of advertising, promoting, and selling financial products and services is in many ways far more complex than the selling of consumer packaged goods, automobiles, electronics, or other forms of goods or services. Financial services marketers are challenged every day by the unique characteristics of the products they market. Furthermore, the relatively unexciting nature of financial services makes the task of attracting consumer attention and inspiring consumer desire a difficult one. However, the study of financial services marketing is in many ways far more fascinating than other areas of marketing. There are many predictable behaviors that consumers often exhibit in their dealings with financial services providers. The
predictability of these behaviors and the abundance of data on existing and potential customers enable a uniquely scientific approach to developing and executing successful strategies for the marketing of financial services, much more so than in other markets. The differentiating aspects of marketing banking and financial services versus other marketing contexts are also highlighted in this paper.

KEYWORDS

Mutual Funds, Liberalization, Paradigm shift, SEBI, Financial Institutions.

FINANCIAL SERVICES IN INDIA- A BRIEF OVERVIEW

These changes have made the customers central point for banks. Today banks are wooing existing customers, prospective customers by offering new facilities, products, and services in order to retain/increase their base in market. The banking sector in India has been widening its scope due to liberalization. Banks today are not mere suppliers of money. They have become providers of services such as selling insurance, mutual funds, investment opportunities, etc. In the past, the banks did not find any attraction in the Indian Economy because of the low level of economic activities and few business prospects.

In a country like India, where the sheer volume of people, the expanse of regions and the diversity of languages exists, this new medium of learning holds immense promise. The banking industry - a vertical segment, where timely adoption of technology plays a critical role in deciding the leader and the laggard. With an employee base from different streams of education and walks of life, it becomes imperative to enhance the awareness and transfer of technology in an easy and efficient manner. While these
have largely met our requirements, the changing face of technology being used in our operations necessitates the need to reflect these changes in our human capital on par. The need to transform into a learning organization is more apparent in today’s dynamic environment.

India’s strong financial fundamentals and so-called conventional financial approach helped the country come strong through the world-wide crisis. Financial services, being the backbone of any economy, entail various segments of the industry in its purview. It includes banking, insurance, broking, mutual funds and stock markets to be named as major sub-segments. How India has fared in each of these sub-segments in the recent past has been discussed hereafter.

**INSURANCE SECTOR**

Indian insurance sector is in top-gear growth wherein the number of life policies in force has increased nearly 12-fold over 2000-2010 and those pertaining to health insurance have increased nearly 25-fold. Data released by the Insurance Regulatory and Development Authority (IRDA) indicates that 23 life insurers mopped US$ 4.1 billion by writing new policies during April-June 2011. For non-life insurers, the gross premium underwritten during April-August 2011 increased by 24 per cent at Rs 23,712 crore (US$ 4.82 billion) as against Rs 19,114 crore (US$ 3.89 billion) in the year-ago period. The total industry premium collection (of both life and non-life companies) for August 2011 grew 34 per cent at Rs 5,065 crore (US$ 1.03 billion) compared with Rs 3,752 crore (US$ 762.73 million) in August 2011, the IRDA said.
BANKING SERVICES

The Indian Banking sector has been successful in maintaining its growth trajectory due to low defaulter ratio, least complicated financial products, regular intervention by central bank and proactive adjustment of monetary policy. According to the Reserve Bank of India (RBI)’s ‘Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks’, March 2011, Nationalized Banks, as a group, accounted for 53.0 per cent of the aggregate deposits, while State Bank of India (SBI) and its associates accounted for 21.6 per cent. The share of New private sector banks, Old private sector banks, Foreign banks and Regional Rural banks in aggregate deposits was 13.4 per cent, 4.6 per cent, 4.4 per cent and 3 per cent respectively.

With respect to gross bank credit also, nationalized banks hold the highest share of 52.8 per cent in the total bank credit, with SBI and its associates at 22.1 per cent and New Private sector banks at 13.2 per cent. Foreign banks, Old private sector banks and Regional Rural banks held relatively lower shares in the total bank credit with 4.9 per cent, 4.6 per cent and 2.4 per cent respectively. The report also found that scheduled commercial bank offices with deposits of INR 10 crore (US$ 2.03 million) or more accounted for 69.1 per cent of the bank offices, 97.3 per cent in terms of aggregate deposits and 95.6 per cent in total bank credit. Due to an increase of US$ 763 million in the foreign currency assets to US$ 276.462 billion, India's foreign exchange reserves swelled by US$ 749 million to US$ 312.231 billion in the week ended October 7, 2011, according to RBI’s Weekly Statistical Supplement.
MUTUAL FUNDS INDUSTRY IN INDIA

The Rs 6.42 trillion (US$ 130.496 billion) Indian mutual funds (MF) industry has 44 asset management companies (AMCs), according to Association of Mutual Fund Industry (AMFI). The industry is poised to grow leaps-n-bounds in the coming years due to lower penetration coupled with soaring assets under management (AUM). Data from AMFI has also revealed that between March and August 2011, the mutual fund industry had introduced 377 new schemes and raised Rs 42,015 crore (US$ 8.54 billion) from investors. For the quarter July-September 2011, average AUM for the industry was worth Rs 712,742 crore (US$ 145 billion).

PRIVATE EQUITY (PE), Mergers & Acquisitions (M&A) IN INDIA

Quenching its thirst for foreign assets, India Inc announced 177 M&A deals worth US$ 26.8 billion in the first nine months of 2011. For the quarter July-September 2011, inbound deals worth US$ 7.32 billion were registered as against the deals worth US$ 2.65 billion in the previous quarter. PE investment in India touched US$ 1.91 billion in July-September 2011 quarter, 18 per cent higher than US$ 1.71 billion struck in the corresponding quarter last year, according to Grant Thornton’s ‘Dealtracker’ report. In terms of number, Q3 2011 witnessed 94 PE deals getting closed as against 58 of them in Q3 2010.

FOREIGN INSTITUTIONAL INVESTORS (FIIs) IN INDIA

Foreign Institutional Investors’ (FII) net investment in India for the month of September 2011 stood at US$ 6.97 million and their injections from January – August
2011 stood at over US$ 2 billion. Moreover, 21 institutions registered as FIIs with Securities and Exchange Board of India (SEBI) in 2011-12 (till September), enhancing the presence of registered FIIs to 1,743. FIIs’ holdings through participatory notes or P-notes have also increased by 1.4 per cent in equities and debt instruments, including the derivatives, in August 2011. FII P-note position was noted at 15.4 per cent in August, as against 14 per cent in July 2011, according to the SEBI data.

BANKING & FINANCIAL SERVICES: GOVERNMENT INITIATIVES

IRDA has recently hinted at mandatory listing of insurance companies. Though the insurance Act doesn’t stipulate companies to go public, the regulator might make amendments to it to facilitate capital rising by the players. Initial Public Offer (IPO) guidelines for the insurance sector are also being worked upon. According to the draft guidelines released, only those players that have 10 years of operational experience and strong financial performance would be allowed access to the capital markets. Meanwhile, the Indian government is contemplating on enabling public sector banks to raise lots of additional capital without the central authority losing control over them. For the purpose, the government is considering to form a single holding company to unite 21 state-run banks a it would provide room for innovation in capital infusion.

The government is also considering allowing foreign individuals or Qualified Foreign Investors (QFIs), to buy equities directly in stock markets, a senior Finance Ministry official has revealed. In an initiative to highlight India as a major investment hub and attract higher foreign equity, the government has already allowed QFIs to invest up to US$ 13 billion in equity and debt schemes of mutual funds in the infrastructure sector.
Paradigm shift in the banking and financial environment of the country has created an emergent need for a new genre of management professionals to meet the emerging challenges in managing Banks, Financial Institutions (FIs), Non-banking Financial Companies (NBFCs) and Corporates. The intense competitive pressure on the financial system has generated a variety of products and services to meet the specialized needs of millions of customers. The impact of these changes in the international financial system was felt in India in the early nineties when she initiated the process of integrating her economy with the global economic order. This ushered in the phase of financial sector reform in our country.

Indian Banking System is passing through a fast moving and competitive environment where changes are taking place at a much fast speed than ever in the history of Indian Banking Sector. Indian banking System has made a remarkable progress since independence. Technology, deregulation and liberalization have reinforced market competition, locally and internationally. Banks now have significant operations beyond their domestic borders and are handling a large amount of business and millions of non-resident clients across the globe. In the process, large, internationally active financial institutions with complex risk profiles have grown in size. Other domestic banks and institutions are also forging stronger cross-border linkages by acquiring customers abroad. Three related changes have also been important.

All these market developments are forcing banks to take a closer look at their risk management systems and procedures as they seek to better manage their business in a changing global banking scenario. What the international standard setters and regulators are trying to do is to devise mechanisms of regulation and oversight that are well adapted to this new environment. As the market and business environment evolves, so also must the international regulatory framework. Domestic institutions must feel some impetus to achieve greater efficiency and new banks should be
allowed to access the market and compete without significant regulatory constraints. The partial privatization of public sector banks in India – involving a substantial injection of private shareholding – has been a notable step forward.

MARKETING APPROACH TO PROMOTING BANKING & FINANCIAL SERVICES

After nationalization, banks in India have largely succeeded in mobilizing surplus funds in the Indian economy. Of late, however, the rate of growth of deposit mobilization has reduced considerably with the emergence of non-banking institutions and growth of competitive financial instruments. Banks have also failed to keep pace with the growth of surplus investible funds. If this present trend continues, banks may find it rather difficult to meet credit obligations. At the same time, usage by customers of non fund based miscellaneous banking services is quite low and has affected the profitability of the banking industry. There is also a sense of dissatisfaction with banking services in general. Being in the buyers' market because of the presence of other agencies, the banking industry has to adopt a marketing approach-towards deposit mobilization and promotion of banking services.

Fig.1: Evidence of Change in Banking and Financial Services Markets
Banking is a personalized service oriented industry and hence should provide services which satisfy the customer's needs. To meet these needs, bankers are expected to provide satisfactory benefits through provision of form, place, time, and ownership utilities. The marketing approach involves anticipating, identifying, reciprocating, and satisfying the customer's needs and wants effectively, efficiently, and profitably. The banking sector seems to have displayed a halfhearted approach towards promotion strategies. There seems to be a lack of commitment to advertising, communication, and personal selling. Customers are not aware of deposit related schemes except savings accounts and usage of other schemes is quite poor.

Among credit-related schemes, loan against deposits, facilities like demand draft, safe deposit lockers, traveler’s cheques, and gift cheques are better known. However, their usage is very low. A good number of services are not at all popular owing to low awareness and usage. Customers can be made aware of these services and their usage improved through meetings, exhibitions, personal contacts, etc. Meetings can be held between bank staff and customers which would help customers become aware of various banking services and motivate to use these services. Bank staff can also identify problems customers face in using these services.

With yields on deposits down, bank customers are going to turn to mutual funds and other high yielding financial services in a big way. The declining quality of customer services has also come in for sharp criticism by the customers and press. This calls for a reorientation towards promoting services and mobilizing deposits. There is a need for professionalism and market oriented banking in our country. Market-oriented banking will require a new culture: a disciplined, professional, and committed manpower; employees trained for specialized services; specialized branches; strong marketing organization in different banks; aggressive selling; meeting new customer's expectations; and cost-effective and efficient services.
BANKING & FINANCIAL SERVICES IN INDIA: THE RECENT DEVELOPMENTS

- India’s second largest public sector lender Punjab National Bank (PNB) is set to form a strategic alliance with insurance firm Metlife for its proposed life insurance business, wherein the bank would buy 30 per cent stake for an undisclosed amount. PNB also agreed to enter into a 10-year distribution tie-up with Metlife India. The deal is expected to close by the end-2011.
- Private sector general insurer HDFC ERGO, in collaboration with Ace Insurance Brokers, will provide insurance cover worth US$ 15 million for the first ever Formula 1 (F1) Grand Prix race to be held in India at the end of October 2011.
- In a bid to consolidate its presence in the gulf region, SBI is all set to launch a range of banking services for non-resident Indians (NRIs) in the UAE, including opening of NRI accounts.
- India’s second largest private lender HDFC Bank has formed a strategic alliance with Diners Club International to offer the latter's premium credit cards in the country.

EMERGING CHALLENGES IN BANKING & FINANCIAL SERVICES MARKETS

The manifestation of the changes outlined above can be attributed to specific factors that have transformed the competitive landscape in the financial services arena. Four factors account for most of the changes that the industry has witnessed in recent years and what it is likely to experience in the near future. One such factor is the deregulation of the industry which has resulted in the removal of barriers that had for decades insulated financial services providers from directly competing with each other. Deregulation has also enabled the entrance of new players into the industry.
Furthermore, the changing economic landscape and the introduction of technological innovations to financial services markets will have a dramatic impact on the successful implementation of marketing strategies for years to come.

Fig.2: Sources of Change in banking and Financial Services Markets

REGULATIONS

In 1999, the U.S. financial services industry was deregulated, thus allowing financial institutions from a variety of backgrounds to participate in markets they had not traditionally been active in. Industry deregulation was partially motivated by the argument that allowing financial services organizations to operate on a larger scale would result in numerous cost efficiencies that could then be passed on to the consumer in the form of lower prices. In other words, the ability to serve a larger customer base with a wider array of products would lead to lower cost structures due to more efficient operating infrastructures.
CONSUMER LOYALTY

It has been well established that in the majority of financial services categories, customer defection rates are significantly lower than they are in most other markets. The tendency of customers to remain with their current financial services provider has traditionally been quite strong. It is important to note though that defection patterns vary significantly by the financial service category. For example, life insurance policyholders have an intrinsic interest in staying with the same insurance provider, since changing insurance carriers may result in the reassessment of the application, a need for new health exams, and possible higher rates and lower coverage levels. On the other hand, credit cards accountholders may feel less obligated to stay with the same company because the negative impact of switching is limited, and changing credit card companies may in fact considerably lower borrowing costs due to intense competition within this category. The incentives offered by competitors in the credit card markets often outweigh any potential switching costs, resulting in lower rates of customer retention.

ECONOMIC FORCES

One of the factors that make the marketing of financial services unique is the fact that most financial services have to be judged by consumers within the context of the current economic environment in which they are offered. The attractiveness of a savings product, for example, might be a function of the interest rates and expected rates of inflation. Similarly, investment options may largely relate to one’s expectations of how the stock market might behave in the near and distant future. Other factors, such as the cost of energy, expectations of unemployment, exchange
rate fluctuations, and general trends in the economy might encourage or discourage consumers from purchasing particular financial products and services. The overwhelming influence that economic forces have on the attractiveness of financial products and services greatly impacts their marketing.

TECHNOLOGY

The nature of how financial services are marketed is rapidly changing due to the emergence of revolutionary data-exchange technologies. This is due to the fact that financial services are largely information based. For example, rarely does a consumer come in contact with the actual currency that represents his or her financial assets. These assets are in fact stored in the form of data in a bank's customer files. Therefore, the functioning of many financial services can often be best characterized as bits and bites of data transformed on electronic networks of data exchange, rather than physical currency or paper contracts stored in bank vaults and filing cabinets. As a result, technologies that facilitate information flow will undoubtedly shape the future of financial services. The accelerated shift towards technology has already begun, evident in the increased use of both credit cards and debit cards in consumer purchases, the explosive growth of online banking, and the use of online securities trading web sites by the masses.

CONCLUSIONS

Indian Financial Services industry is a promising one and holds potential for massive growth in future. Be it in banking, insurance or foreign investments, the country is
making its mark in every sub-segment, nationally as well as internationally. For instance, a report by Boston Consulting Group (BCG), an industrial body and Indian Banks Associations (IBA), anticipates that Indian banking industry would stand as the third largest in the world by 2025 wherein its assets size is poised to mark US$ 28,500 billion by 2025 from the asset size of US$ 1,350 billion in 2010. Hence, it is quite reasonable for the industry analysts to believe that strong domestic consumption-driven growth in India would lure significant positive cash inflow in near future from domestic and foreign players. The financial services provider plays in securing the financial well-being of the customer, quality assessments by the customer may be driven by highly subjective aspects of the service experience such as the friendliness of the service providers or perceptions of the level of expertise portrayed in the service process.

REFERENCES


