Retail Banking Marketing Methods – An Overview.
CHAPTER - V

IT in Retail Banking

The growth of Information Technology and its remarkable application to banking and financial sector have helped the public sector banks to reach and serve a large number of customers in the shortest possible time and reduce the cost of banking transactions. This is made possible because of their wide network of physical branches in rural and urban areas. According to ICICI bank officials, a physical transaction costs the bank Rs.30 – 50, a Cheque transaction cost Rs.13 – 17, while a debit transaction costs only Rs.2–5. Therefore, riding on the technological wave, private and foreign banks tried to capture the market in a big way. They have given more stress on virtual banking, have state of art website which provided information to the customers (individual or corporate) about the banking products and services and also helps them to avail themselves of these products through some easy steps. IT has enabled the private and foreign banks to have the integration of ATMs, Internet, phone banking and mobile banking and generally they discourage the customers by charging extra amount for physical branch banking. Major banks have tie-ups with software companies for developing the requisite software.

Public sector banks are slowly moving towards the state of the art virtual banking even though the original brick and mortar structure is intact. Since Indians mostly prefer physical branches, the use of internet
and phone banking is limited to a small sector of educated urban population having access to Internet.

"In their eagerness to grow their home finance portfolios, banks may be taking too much risk".
- Avinash Celestine & Vikas Dhook

In a community centre festooned with advertisements and banners, banks and finance companies vie with each other to offer you a loan, with a few questions asked. This loan mela is more democratic though instead of corrupt industrialists with political connections, banks have young couples who seem to be the main customers. Within the space of a couple of hours customers can walk away with any number of so called ‘spot approvals’ from different banks. Now-a-days it is not difficult to get a loan of Rs.10 Lakhs to 12 Lakhs for your dream home. Based on what you say your income is, banks give you a letter stating that they will give you a home loan at a special discount rate provided you hand in your salary slips and property documents within a due date. And in the case of ICICI Bank, at least if you happen to carry those documents with you, you can even walk away with a cheque then and there.

The number of features and freebies offered to spice up a basic home loan is mind-boggling. ICICI Bank has tied up with a local builder who will pay you last two years’ installments for you. If you refinance your existing home loan with IDBI Bank, it will give you a personal loan of up to 30% of the amount refinanced at the existing home loan rate that is 8.5 – 9%. It also offers a loan of up to 110% of the value of the property. HSBC has tied up with another builder and is offering home
loan at 7.49% for customers on his properties. This is done by increasing the rate per square feet and the builder passes on the excess to HSBC. And if you take a loan from elsewhere and approach for the same property, you get a discount on the property rate. All the above dealings are done by aggressive young guys with commissions to earn and not by conservative grey-haired bankers.

The Skill Gap in Information Technology in Indian Banks

Prof. Sharad M. Padwals in his book “Transformation of Indian Banks with information Technology” has researched the trend from 1969 to 2004 as under.

Four important eras witnessed by Indian banking were Expansion (1970 - 80), consolidation (1980 – 90), Liberalization (1990 – 2000) and from 2000 onwards Globalization. In the current phase, banks, bankers and customers need to have harmony to perform to mutually benefit the bank, the borrower and the economy at large. The mass banking and class banking co-existed requiring varied skills at the same time depending on the place of posting and type of the job expected to be handled by the bankers. The new players brought in systems, procedures, processes, structure, technology which helped them to position competitively in new economy in new ways, the way new group of clients wanted them. This newness everywhere made the older and elder feel more incompetent particularly when it came to new technology.

The age profile of a public sector banker is on the wrong side of 40 and that of top and senior management is 50 years. The VRS
implementation not only brought in financial toll of large order but there are many pockets of mismatches between the position and the incumbent in terms of skills and attitude to learn to bridge the skill gap.

The product profile such as credit and investment products more particularly treasury services, Risk management services, Delivery channels for bank (institutional such as SWIFT, ACH, ATM, Network, payment and settlement gateways, EFT, RTGS etc) and delivery channels for customers (branch, ATM, home and office, Internet, Mobile, TV etc) customer Relations management (CRM) are backed up by Data warehouse products. To deliver the varied products and services and for CRM the type of MIS / DSS which is needed in banks is by and large absent in most of the banks. Thus, it is found that there is a glaring mismatch between the customer / product profile (demand side) of the market and age profile (supply side) of employees in the banks.

There is a need to reform the banking skills and structure which are very much related particularly when IT is a major strategic variable. The hurdles towards this are size, inefficient reform, political intervention, top management support as they are posted for a limited period only.

DATA WAREHOUSING AND CUSTOMER RELATIONSHIP MANAGEMENT IN BANKING

Customer Relationship Management (CRM) is a business strategy focused on maximizing shareholder value of winning customers. The classification of customer segmentation need to be done on certain
parameters such as economic strata, age profile, gender type, occupation, geographical location such as metros, urban towns, semi-urban and rural areas. This can be better done with the help of IT tools such as Data Warehousing Business (DWH) and Business Intelligence (BI).

Today customer satisfaction is a fast changing concept as so called "customer loyalty" has disappeared. Even the measures of customer satisfaction are undergoing change. Fast, accurate, diligent, cost effective, multi-channel, multi-language, multi-currency, consistent, real time, online, any time, any where and type of products and any services are expected by many customers.

The management needs to have database on "which customers need to be retained" and "which customers need to be let go". For starting a branch in a particular area management needs to assess its business potential in the area.

A 'Data Warehouse' is a collection of non-volatile, subject oriented, time variant, integrated data, stored and maintained for decision support within an organization.

**Need for Core Banking Solution for creation of DHW and CRM**

Today financial services are expected by customers to be available at single window in an efficient manner coupled with a smile. This gives rise to he following requirements within a bank:

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Availability of real time transaction processing through multiple channels.

Security and safety of funds and confidentiality of information.

Efficiency through integration of systems across the locations.

Minimization of transactional costs.

A broader set of financial products such as Internet accesses for bill payment, fund transfers, accounts view and information, provision of statements, request for chequebook, wireless mobile banking and facilities to enable e-commerce.

**CRM**

Deep customer relationships represent a continuing stream of income and a critical platform for new growth. They also represent a powerful and defensible barrier to entry. Someone can copy your business strategy, someone can copy your marketing approach, someone can copy your product, someone can copy your manufacturing capabilities, someone can copy your market access, but no one can copy your knowledge and your relations with your customers which is facilitated by CRM.

**Benefits of CRM are given below:**

- Cost reduction
- Revenue enhancement
- Customer life time value
- Fast response to changes in market
- Customer satisfaction (retention)
• Bank perceived as efficient and sensible to customer’s needs
• Uniform image of the bank
• Nothing is forgotten along the way
• Reduced sales time, higher closure time.

Customer challenges
• It costs six times more to sell to new customers than to sell to existing customers.
• Typical dissatisfied customer will tell 8 – 10 people about his or her experience.
• 70% complaining customers give repeat business if their problem is acknowledged.
• 5% increase in customer retention will boost profit by 85%.

CRM challenges
• 55 – 75% projects fail to meet stated objectives.
• Requires cultural shift
• Banks see CRM as software although it is an enabler.

Phases of CRM
• Acquire new customers
  - Innovation
  - Convenience
• Enhance profitability of existing customers
  - Cross selling
  - Up selling

Retain profitable customers for life
- Deliver what customer wants
- Listen and respond
- Achieve customer lock-on.

Marketing in the context of customer satisfaction now has to address the following questions:

1. What are the emerging changes in political, social, technological, economic factors nationally and internationally and what is the relationship between technology and socio-economic conditions within which organizational marketing strategies are to be formulated?

2. What are the characteristics of technology and innovative activity, which affect the choice of technology and implementation strategies which influence the new development of products and services?

3. How can technological issues be incorporated into strategic marketing, underlying capabilities of the organization and how to translate them into competitive advantage?
### Table 1

**Shifting the focus**

**In corporate Culture**

<table>
<thead>
<tr>
<th>From</th>
<th>To</th>
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<td>Rapid change</td>
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<td>Industry performance</td>
<td>Individual action</td>
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<td>Incremental innovation</td>
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<td>Consolidation</td>
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<td>Technology as a cost</td>
<td>Technology as a necessity</td>
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<tr>
<td>Cost / growth / control</td>
<td>Quality / Innovation / service</td>
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</table>

**Of management**

<p>| Cheer leaders                | Visionaries                 |
| Focus on practices / procedures | Focus on process / strategies |
| Management by control        | Management by commitment    |
| Accepting status quo         | Taking risks                |
| Reacting to change           | Initiating change           |
| Individual work              | Team work                   |</p>
<table>
<thead>
<tr>
<th>Managing today’s crisis today</th>
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<td>Controlling</td>
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<td>Fixing the blame</td>
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<td>Taking credit</td>
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<td>Centralized decision making</td>
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<td>Reward by seniority</td>
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**Of Human Resources**

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<td>Work with hands</td>
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<td>Periodic training</td>
<td>Just in time Training</td>
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<td>Job security</td>
<td>Job adaptability</td>
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</table>

**Of Information Technology**

<table>
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<th>Do it yourself</th>
<th>Outsourcing</th>
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<tr>
<td>Information age</td>
<td>Communication age</td>
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<td>100</td>
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<tr>
<td>Infrastructure</td>
<td>Info structure</td>
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<td>Independence</td>
<td>Interdependence</td>
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<tr>
<td>Sell what you make</td>
<td>Make what sells</td>
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<td>Propriety systems</td>
<td>Open systems</td>
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<tr>
<td>Buy package</td>
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<td>Branch computerization</td>
<td>Bank computerization</td>
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<tr>
<td>Wait for walk in business</td>
<td>Marketing innovations</td>
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In Indian financial sector, the concept of marketing is brought in by new private banks and new insurance companies. Net marketing is defined as marketing undertaken with the help of IT (using internet, CRM, data warehousing, Business object type of products).

Hosting internet site and allowing customers to have a few facilities such as opening an account, requesting a cheque book, enquiring account balance, a statement of the last few transactions, payment of utility bills etc are some of the features already made available by many banks in India.

Traditionally, banks were selling the available products and services with network of branches. Walk in business satisfied the management. The process of liberalization and globalization resulted in the growth of IT savvy competitors on one hand and innovative products and services driven by IT on the other hand. Moreover, the new players enjoyed the benefits of starting on a clean slate without any legacies in systems, processes, structure, staff, pay packages to employees or any restrictions from staff unions.

In such a competitive environment banks, can no longer afford only to depend on the good old customers who were loyal to the bank. The present and certainly the future generation are not only IT Savvy but their expectations are distinctly different.
Profitability

If profits don’t drive your business, you will soon be driven out of business.

“Business has only two basic functions - Marketing and Innovation marketing and innovation produce results. All the rest are costs”.
- Peter Drucker

Innovation is a process that endows resources with a new capacity to create wealth. Successful entrepreneurs try to create value and to make a contribution. To quote Peter Drucker, “Systematic innovation therefore consists in the purposeful and organized search for changes, and is the systematic analysis of the opportunities, such changes might offer for social or economic innovation”.

The practice of innovation and entrepreneurs involves three important elements. First, how and where the entrepreneurs searches for innovative opportunities and develops an innovative idea. Second, is the practice of entrepreneurship itself focusing on the institution that is the carrier of innovation, third is the entrepreneurship strategy, which brings innovation successfully to market? The test of an innovation lies ultimately in the success in the market place and not in its novelty.

The old marketing is giving way to newer marketing. In the old marketing, the following paradigm existed.

- Equating marketing with selling
- Emphasizing customer acquisition rather than customer care
• Focusing on transaction rather than relationship
• Selling the product rather than trying to understand and meet the customers’ real needs.

In the newer marketing, newer ways of thinking, newer ways of innovating are emerging. Companies are finding ways to deliver superior value to their customers, through improving their customer base through improving their customer knowledge, customer connection, technologies and understanding of customer economics. They are inviting customers to co-design their products, utilizing more targeted media, utilizing more technologies such as Internet, video conferencing, sales automation software, to make flexible offerings. Companies are reachable 24 hours a day and see their distribution channels as partners. In short, companies are developing value proposition that deliver superior value to their customers and have realized that the premium will go to those marketing visionary companies that innovate new ways to create, communicate and deliver value to their target markets.

Marketing of Banking Services in India

Even in developing countries like India, the importance of service sector has been rapidly increasing in recent years. The share of the tertiary sector in Net Domestic Product (NDP) was 39.7 percent in 1987 – 1988, which was higher than that not only of the secondary sector (26%) but also of the primary sector. Percentage increase in the share of tertiary sector between 1950-51 and 1987-88 is 49.2%, besides emerging as a leading sector of the economy with both backward and forward linkages. With the primary and secondary sectors to GDP has imparted resilience
to economic activity, particularly in the face of adverse agricultural shocks and industrial slowdown. The growth in the services sector has averaged 8.5 percent during the period 1994-2000; reaching a peak of 10.0 percent during 1995-96. The share of services in GDP moved up to 54.2 percent in 2000-01 from 51.5 percent in 1998-99 and its relative contribution to overall growth increased even more sharply to 76.8 percent in 2000-01 from 61.8 percent in 1998-99.

Among the services, like in other countries, in India also banking industry occupies an important place. Bank deposits as a percentage of National income have increased from 15.5 percent in 1969 to about 49% by March 1990. The industry, moreover, has changed much more with time and continues to change even now in terms of its objectives and goals. The banking industry in India has been undergoing structural changes qualitatively and operationally. After the nationalization of 14 major commercial banks, especially in July 1969 and 6 more banks in April 1980, the commercial banks especially public sector banks have not only extended their branch network to unbanked areas but also diversified their business at a dramatic speed and sub served their operations to the developmental needs and poverty alleviation objectives of the government policy.

As a result of this, vast expansion, tremendous responsibility has been cast on the banking system to meet wide variety of needs of vast and varied clientele. This clientele vary from the smallest and the weakest in society to the corporate giants in the public or private sector or even the government.
Moreover, in India, interest rates on deposits are controlled by RBI, which hardly leaves any flexibility in the hands of individual banks to offer any better rate of return to the depositors. With the transformation of economic environment changing needs, aspirations, preferences, savings behavior of the community and emergence of varied savings instruments with inbuilt tax benefits offered by the non-banking financial intermediates as well as the government such as LIC policy, units, post office savings etc. the task of deposit mobilization by public sector banks has become all the more difficult and complex.

Apart from this; process of disintermediation is now being witnessed in India. With the corporate sector, directly venturing into the market to raise funds thereby progressively affecting loan portfolio of the banking system. Therefore, all over the world external developments like growing disintermediation, greater deregulation and rise of competition from non banks or near bank, are pointing out that the task of deposit mobilization by banking system has become all the more difficult and complex.

Banking is essentially a service industry. With interest rates on deposits and advances administrated by RBI, the thrust of their marketing strategy is on customer satisfaction. In the given environment, what distinguishes one bank from the other is the quality of customer service.
Marketing concept in Banks

The marketing approach involves anticipating identifying, reciprocating (through designing and delivering customer oriented service) and satisfying the customer’s needs and wants effectively, efficiently and profitably. Marketing by bank has become a very complex and yet interesting subject, as it requires the knowledge of economics, sociology, psychology, banking and also core marketing concept.

According to NIBM, Pune, “Bank Marketing is the aggregate of functions directed at providing services to satisfy customers’ financial (and other related) needs and wants, more effectively and efficiently than the competitors, keeping in view the organizational objectives of the bank”.

Each individual working in the bank is a marketing person who contributes to the total satisfaction of customers. Bank marketing deals with providing services to satisfy customer’s financial needs and wants. A bank have to discover / anticipate the financial needs of the customers and offers the services, which can satisfy those needs. The individuals and corporate bodies have certain needs in relation to money as a commodity. To satisfy these financial needs customers want specific services. Different banks offer different benefits by offering various schemes, which can take care of the wants of the customers.

Indian banks have dual organizational objectives:

(i) Commercial objectives to make profit and
(ii) Social objective, which is a developmental role particularly in the rural areas.

Traditionally, people think in terms of what banks can offer and not what customer wants. However, bank-marketing concept requires people to change this orientation and start working out schemes and services keeping customer needs as the target.

The following are some of the peculiar prominent features of bank marketing, viz

a) Bank marketing is like marketing of any other services.
b) It is innovative marketing of financial products.
c) The financial products are intangible in nature.
d) The customer interface process plays a very dominant role.
e) The services are consumed at the same time as they are produced.
f) These services are perishable and heterogeneous in nature.
g) The aim is to satisfy customer needs and wants.
h) The needs and wants are by and large, financial in nature.
i) The competitive element, efficiency and effectiveness are major factors in the process.
j) Organizational objectives are still the driving force.

**Financial service products**

The financial service products produced by banking system are of two kinds. First type of product is where finances are generated for the bank by various instruments. The second type consists of selling those
instruments to the customers in the market place. Some of the products are as under:

- Housing loans
- Education loans
- Car loans
- Consumer loans
- Services of saving / current accounts
- Discounting / underwriting of bills
- Corporate banking products specifically designed for each key account
- Credit and debit card instruments
- Find transfer mechanisms
- Investment Advisory services
- Cash management services
- Investment products

The exchange phenomena in the financial market place, are aggressive buying and selling of various niche and innovative financial products.

Bank marketing strategy

While designing the marketing strategy, the marketers take help of various tools and techniques such as market segmentation, market research product positioning etc.
Bank Objectives

Profit maximization does not constitute the primary objective of banks in these days of fierce competition. The bank marketer rather, aims at balancing different goals such as deposit mobilisation, improving customer services, improving bank’s image, increasing customers’ base and its spread and earns marginal profit. The corporate objectives of the banks in India, to some extent are dictated by the policies of the Government and of the RBI.

The competition Environment in Banking

Mature markets, technological developments and deregulation in many countries have led to increased competition. Consequently, banks operating in mass markets will have to concentrate on cost savings in order to stay competitive. These and other factors have encompassed acquisitions and mergers throughout the industry. It has all resulted in major redundancies in the banking industry in terms of employment. Retail banking is a shrinking industry.

Technology impact on product / service scenario

Point of sale terminals and retailers do allow clients to pay with their local bankcards or credit cards instead of cash. Telephone banking, call centres, internet application, direct PC modem connections and other devices of electronic banking are now-a-days an increasing alternative for paying bills by ordinary money transfers or cheques, trading securities, balance checking or information about financial services. Because these
services are very much alike, the focus of retail banks is now on reducing costs in combination with a high degree of automation.

**Changes in distribution plans**

"Brick and mortar" branches are found to be an expensive way of expanding, in developed economics. Established banks have become more vulnerable to leaner and more innovative players. Niche players try to conquer profitable slices of markets when they feel they have competitive advantages over the more traditional retail banks. The universal bank concept, financial supermarket or one stop shopping is only one of their channels.

The outsourcing or contracting out of non-core bank services including security, catering, transport and other facility is the third trend in retail banking. Discussions have started as to whether information systems or parts of it belonging to the core strategic strengths of banks could be contracted out.

**Deregulation**

In India, deregulation allows for the entry of new Private Banks with emphasis on technological advancements. An important aspect of deregulation in India, is the elimination of the administered interest rate regime. The competitive strengths and capabilities of the banks in the areas of resource mobilization and judicious investment / deployment are being put to severe test more than ever.
Privatisation of State banks and banking sector in India has been witnessing radical changes in this context. The restructuring/reorganising plans set afoot by the various public sector banks in India including the dilution of equity of the government, voluntary retirement schemes etc are pointers to the acute awareness of the need for drastic reforms in both direction and implementation.

Globalization is a major trend in retail banking to be mentioned. Outstanding examples of this strategy are American Express and Citi Bank, both operating in many countries. Other global banks only select a few countries where they would like to expand their retail activities.

Banking regulation and its impact on marketing strategies

Banks are normally subject to three types of regulation

(i) Structural regulation
   There are limits to the activities they may pursue.

(ii) Prudential regulation
   There are constraints with regard to their own internal finance, principally in relation to capital adequacy, liquidity and solvency; norms of asset classification and provisioning operate as a control on the operations.

(iii) Investor protection
   These are regulations designed to protect their clients from fraud and dubious practices.
Under selective credit control, RBI can determine in relation to advances, to be followed by banks in general or by any bank in particular issues like the purpose of advances, margins to be maintained, rate of interest and any other terms and conditions.

Bank's major distribution outlets are their branches. The design and developments of the branch network will be affected by:

- Characteristics of the products – importance of service quality, inseparability, intangibility of the product.
Customer needs – convenience, opening hours, and availability of ATM, telephone banking, home banking and so on.

Environmental factors – legislation, development of information technology.

Competitors – if a branch network is efficient and is keeping up to date with changes made by competitors, it will have a competitive advantage.

It is expected that, by the end of this millennium the most important aspects of branch work load will be on ATMs, telebanking and retail counter in that order. Currently the developed countries’ bank branch work load is in reverse order the retail counter demanding the most time and effort from the branch staff and management. In Indian condition, the lion’s share of service is through the retail counter only. The other components in the delivery system have just begun to catch up.

REFERENCE