CHAPTER - IV
MARKETING OF BANKING SERVICES

INTRODUCTION

The banking sector is passing through a period of rapid changes in response to the changes in the social, economic, political and culture spheres the world over. Banks are also faced with a major challenge of competition and greater awareness among the customers and their increased demands for special service. At the same time, some of the existing services offered by banks for years have been subjected to closer scrutiny and there is a wider diversification of services to the customers.¹

What is Marketing?

“Marketing” may be defined as a scientific reconciliation of customer needs with the capabilities of the supplier or producer, so that there is mutual satisfaction. Banks make profit from selling competitive services and this must involve the creation of a marketing strategy, which precedes all their other activities.

Concept Marketing implies the following:

- Identifying profitable markets.
- Assessing the existing and future needs of customers.
- Setting business development goals.
- Formulating operational plans to achieve the business goals.
Implementing and reviewing the operational plans.

The marketing function encompasses the planning and operation, the existing as well as potential business.

Emergence in India

Marketing has assumed significance in the context of Indian banking owing to the numerous market-related developments that have taken place in recent years. In the Indian context, the concept of marketing, the banking services began in the early 80s. In the later part of 80s, the concept underwent a significant change, mainly due to the introduction of sophisticated technological services in the banks. Thus, the idea of consumer (customer) satisfaction became an integral part of the bank management in the 90s. A wider choice of investment is now open to the savers. With competition from other institutions intensifying, walk-in business for banks in respect of deposits can no longer be accepted. This is the challenge.

Dynamics of Bank Marketing

Banks are important financial intermediaries, which accept deposits from the public for the purpose of lending and investment. Through this function, they get related business or ancillary services like remittances, demand draft issue, mail transfers, telegraphic transfers, collection of bills, sale and purchase of foreign exchange, safe custody and safe deposit vault, guarantee facilities, sale of travellers’ cheques, trustee and executor services, etc. Apart from these traditional services, others such as merchant banking, portfolio management, leasing, hire
purchase, etc. are services that have been added in recent years. These services are
being rendered by the banks mainly with a view to attracting and retaining
deposits and advances, customers and thus develop their business further. Some of
the services which were earlier the preserve of specialized agencies like
investment further. Some of the services, which were earlier, the preserve of
specialized agencies like investment banks have been taken over by commercial
banks. As a result, the wall separating investment bans and commercial banking
has been cracking.

But then, for commercial banks whose main resources come from deposits
mobilized from the public, there are many competitors. Today deposit
mobilization is not the exclusive preserve of banks. There is intense competition
for deposits not only among banks but also from non-banking institutions. Public
sector as well as private sector companies are collecting large amounts of deposits
directly from the public through various methods. Similarly, the corporate sector
has direct access to the saving and capital markets, and has succeeded in raising
sizeable resources by way of equity shares and debentures in the capital market.
Public sector bodies are allowed to raise funds from the public directly by way of
bonds on attractive terms. A number of Government-sponsored savings schemes
such as PPF, Indira Vikas Patras, NSCs, etc. have mobilized huge amounts of
public savings, thus adversely affecting the banking system in their deposit
mobilization efforts.
The Process of Marketing

The process of marketing in banks comprises three stages;

(a) discover what the consumer wants;
(b) create the product or service, which satisfies him;
(c) then see that the customer gets it by selling to him or her.

Financial Services

The contribution of the services sector, particularly of the financial services, to the total economic pool has been raising rapidly the world over.

Services are distinct from goods. They are the activities, which are not necessarily tried to the sale of a product or another service. They cannot be felt or seen. They can only be realized.

Marketing of services is different from marketing of goods. Its unique features are intangibility, inseparability, heterogeneity and perishability. Lovelock has tried to classify exhaustively the nature of services marketing into four categories:

(a) Those which are tangible to people, like health, transport, restaurant – etc.
(b) Those which are tangible to goods, like airfreight, equipment-repair, laundry, etc.
(c) Those which are intangible to people, like education, information service, broadcasting, etc.
(d) Those, which represent intangible actions directed to intangible assets of people, like banking, insurance, etc.
The financial services fall clearly under the category of a service, which is an intangible action directed towards the intangible assets of people.

The communication technology explosion is steadily converting the globe into a planetary village. Consumer aspirations are grooving. The markets are being steadily globalised.

**The Marketing Mix**

In the fast-changing marketing scenario, it is essential to define the target markets and to assess the alternative markets. The marketing mix has to continue to evolve.

“Marketing Mix” is the term used to describe a combination of the seven inputs that constitute the core of the bank’s marketing financial services system. They are popularly known as the Seven P’s.

1) Product variety – range as well as branding.
2) Pricing – customer’s perceived value, quality and price differentiations.
3) Place – location/distribution channels.
4) Promotion – public relations, advertising, publicity, merchandising, etc.
5) People – training, incentives, articulation and work culture.
6) Physical – environment in the various service outposts.
7) Process – policies, procedures etc.
Characteristics of Services

The six features of services marketing are.

i) Intangibility: Financial services are intangible and it is, therefore, necessary that, while drafting the strategies, tangible clues be traced so as to reduce intangibility. Brand positioning can be one of the effective attempts in reducing intangibility. The benefits of a financial instrument rather than its features should be highlighted. The customer must be able to distinguish how the product of a particular kind of financial service is different from others and what unique benefits it will bring to bear. The crucial issue is in managing the atmospherics. Some of the financial institutions in the Indian market have been able to boost up their sales by managing, manoeuvring and manipulating the environmental factors. The word of mouth communication, which can be stimulated by increasing the number of satisfied customers and by developing loyalty clubs, can be of great assistance in reducing much of the intangibility in marketing a service product.

ii) Inseparability: The service cannot be separated form the person who serves. The human element comes foremost. The customer in the case of service products can have access to a facility. Payment is for the use of items. Advantages of non-ownership by the customer, e.g., easier payment through the credit card, have to be stressed.

While on the one hand, reducing the time—lag in rendering services has to be attempted as an on-going process, the capability development and
reinforcement in the human resources have to be constant. The higher the
customer orientation of the human resources, the greater is likely to the success of
marketing endeavours. The process of selection and training has to be well thought-out.

Automatising the routine in the performance to eliminate the drudgery and
boredom of the personnel increases speed and efficiency. A customer satisfaction
monitoring system needs to be established to have regular information and data as
to the success of the endeavours of the marketing team and help in timely
correction.

iii) Heterogeneity: The uniqueness of the individual will insist on the
development of financial products as personalized product innovations. The
developers of the service instrument will have to retain informed of the
environment and of the emerging light on the skyline so as to formulate products
in consonance with the aspirations and preferences of customers. The product
development exercise has to be constant, continuous and coordinated. It has to be
databased. It has to keep in mind the bottom line of the institution. Eventually, the
services must become customized.

iv) Perishability: This feature poses the problem of the short supply as
well as the excess supply syndrome. These are times when the demand is much
more and there are times when it is below the production capacity level. The
financial organizations have to develop flexibility in the movement of personnel
from one service to another, from on kind of job to another. The organizations will
also have to consider keeping a back up of part-time employees to meet a peak
time demand situation.

v) **Specialty:** Here individual services are quite different in style and
content from each other having developed mostly over a long period of time. Note
that the services offered by banks must be marketed differently from, say, those
offered by a marketing consultancy.

vi) **Partiality:** Here there is a special client (as opposed to a simple buyer-
seller) relationship so that the provider of the service is very much in control of the
situation with the client in his hands. This is clear if we think of a doctor-patient
relationship, since the producer of the service is the one with specialist knowledge.

**Market Segmentation**

Market segmentation is the process of dividing the total, heterogeneous
market for a product or service into several markets or segments, each of which
tends to be homogeneous in all significant aspects. Market segmentation is a
customer-oriented philosophy.

Markets can be segmented on demographic bases like regional population
distribution, urban-suburban, rural population, age, sex, family life-cycle,
miscellaneous such as race, religion, nationality, education, occupations, etc.

Market segmentation on the basis of income levels is:

2. Middle Income Group (Higher-middle, Middle-middle, Middle-lower).
3. Lower Income Group (Lower-higher, Lower-middle, Lower-lower).
Market segmentation based on sociological factors such as: (a) cultural group; (b) large social classes; (c) small groups, including the family.

Market segmentation based on psychological factors such as: (a) Personality; (b) Attitudes; (c) Product benefit desired.

Though the above list seems to be comprehensive, it may not suit exactly market segmentation in the banking industry. Bank marketing can be broadly divided into four segments on the basis of the types of customers, i.e., depositors, borrowers, casual customers and other banks.

**Borrowers**

It is often felt by most bankers and academicians concerned with the banking subject that depositors are the pillars of the bank and the bank is virtually dependent on them. Though it is true in nature to a certain extent, it is always doubtful regarding its validity. Though it is accurate in all senses, only a few bankers realize that the borrower is also as important as a depositor. Rarely do the bankers agree that the borrower is their first-rate customers and the depositor a second-rate customer. That is why bankers give VIP treatment to the depositors and treat the borrowers as parasites on the bank. So this is the most unfortunate situation presently existing in almost all the commercial banks. At this juncture, it may be suggested that banks should realize the importance of the role played by the borrower in making a substantial contribution to the bank’s business. The borrower provides employment to the bank’s funds. It is no exaggeration to say that bank employees have been getting their livelihood, and enjoying all the
privileges at the cost of the bank borrower. Hence, a banker should study the case of each borrower separately in order to give due importance to each type of borrower. The following is the market segmentation based on the types of borrowers.

Bank borrowers are broadly divided into two categories: (i) Conventional borrowers; and (ii) Priority sector borrowers.

**Conventional Borrowers:** Working capital requirements of large-scale industries producing different types of products or rendering a variety of services. (Example: common textile industry, jute industry, sugar industry, chemical industry etc.). Bankers should also categorise these borrowers on the basis of region, type of loan like overdrafts, cash credits, bills purchased, bills discounted, credit against security and mortgage of property, etc.

**Medium-Scale Industry:** Bankers may classify this category of industries also as in the case of large-scale industry.

**Small-Scale Industry:** Working capital finance, bridge finance, finance for procurement of raw material, production finance, marketing finance, term loans, etc. Banks should categories the sick units separately in order to rehabilitate and nurse them. Ancillary industrial units and agro-based industries should be given due importance under this category.

**Cottage Industries:** Borrowers can be classified on the basis of period of loan. For example, term loans and working capital requirement of industries
should be classified on the basis of the nature of the industry: (i) Wholesale Trade; (ii) Retail Trade; and (iii) Small and Petty business.

Agricultural Sector: Banks classify agricultural borrowers on the basis of term loans and crop loans. Agricultural advances include crop loans to all types of crops, term loans for minor irrigation schemes, procurement of fertilizers, land leveling, land development, sinking of wells, installation of pump sets, farm mechanical equipments like tractors, installation of gobar gas plants, finance to animal husbandry like dairy, piggery, sheep husbandry, poultry, sericulture, fisheries, goat rearing, etc.

Loans to weaker sections of the society like barbers etc: (1) Educated self-employed; (2) Uneducated self-employed; (3) Technocrats; (4) Road transport operators; (5) Water transport operators; (6) Educational loans; and (7) Loans to professionals.

Depositors

Bank deposits play a significant role in running a banking industry. A bank purchases deposits in order to produce and sell loans. Thus, purchase of deposits is an important activity of bank marketing.

Bank deposits can be divided on the basis of two factors: (1) Time factor; and (2) Customer factor.

1. **Time Factor:** Bank deposits are mainly divided into four categories on the basis of time; (1) Time deposits or Fixed deposits: (2) Savings Accounts; (3) Recurring Deposits; and (4) Current Accounts.
2. Customer Factor: Bank deposits can be divided into 19 categories on the basis of customer segmentation. They are (i) Public limited companies; (ii) Private limited companies; (iii) Partnership firms; (iv) Joint Hindu family firms; (v) Sole proprietary firms; (vi) Social organization; (vii) Religious organizations; (viii) Charitable institutions; (ix) Trusts; (x) Educational institutions; (xi) Hospitals; (xii) Liquidators; (xiii) Governments – State, Central, Local; (xiv) Individuals; (xv) Minors; (xvi) Lunatics; (xvii) Drunkards; (xviii) Married women; and (xix) Joint accounts.

Marketing Service Structure

Marketing service structure and mix include planning and developing the right services needed by customers at the right time and place to be marketed by the bank. The bank should first know the changing customer tastes, preferences and needs and then innovate and develop the services to satisfy the customer. However, with scarce resources and growing concern for social responsibilities, the priority sector and weaker sections of society as well as for environment, service innovation becomes even more important. The new services marketed by a bank are a prime determinant of the bank’s image or goodwill among the public as well as of its growth rate, profits and total marketing programme.

Service innovation by banks is significant as service is a basic factor satisfying customer needs. Service is a basic profit determinant. New services are essential to growth, as customer selectivity has been increasing day by day. Bank management should be careful to developing the new services at each of the six
stages, whether or not to move to the next stage, abandon the service or such additional information. The six stages in service development are: (i) generation of new service ideas, (ii) demand-supply analysis, (ii) screening of idea to determine which ones warrant further study; (iv) service development, (v) rest marketing, and (vi) commercializing the service.

Top management of the bank should be deeply involved in service innovation, and support this activity in a creative fashion. For the success of service development, banks may use the service planning committee or new service department, or service-management system or venture team to make the service development programme a success.

A service mix is a full list of all services offered by a bank. The structure of service mix has dimensions of both breadth and depth. Its breadth is measured by the number of service lines carried, viz., acceptance of deposits, granting of loans, public utility services, merchant banking activities including underwriting, etc. Its depth is measured by the assortment of different types of deposits, loans, public utility services for difference amounts to different types of people, underwriting for different amounts and companies, etc.

It is imperative that bank management selects appropriate strategies for the bank’s service mix. One strategy is simply to expand the existing service mix by increasing the number of lines and/or the depth within a line. An alternative is to prune the service mix by eliminating an entire line or simplifying the assortment within a line. Another strategy is to alter the terms and condition of service.
Service differentiation and market segmentation are two related service strategies. Annuity plans and mobilization of deposits though different schemes from older and employed people and deposit schemes meant for children’s education, daughter’s marriages are examples of service differentiation and market segmentation.

As especially controversial service strategy is that of planned obsolescence built around the concepts of style, fashion and the fashion cycle. Fashion, essentially a sociological and psychological phenomenon, follows a reasonably predictable pattern. Declining demand for the traditional type deposits, increasing demand for newly developed deposits, advances and public utility services like traveller’s cheques, gift cheques, credit cards are example of this concept.

Marketing Research and Customer Analysis

Marketing research systematically develops facts about the existing customers and the potential market opportunities. Plans stating realistic short and long-range market and profit objectives as well as blueprints for attaining these objectives efficiently and economically are based on these facts developed by marketing research. This specific activity in some banks is part of the business development or business promotion department.

Some of the large banks in the United States of America have already begun to use marketing research technique. These banks have found that marketing research provides data on which management can base its decisions. Marketing Research has been called the launching pad for the machinery of
successful marketing function for a bank. A writer commented that marketing research makes it possible to prepare confidently for the retention of the existing customers and the attraction of new ones.

**Customer Analysis:** Customer analysis can help management analyse the present in preparation for the future. The bank management should consider the following questions at the time of customer analysis: (1) Has there been a significant change in the type of business your bank attracts? (2) Are your new customers as profitable as were your close-outs? (3) Are the balances of retainer customers growing, standing still or declining? (4) What are your short and long-range marketing and profit goals? (5) What progress is your bank making against your competitors?

Customer analysis is a beginning area of marketing research. The other areas include research on trading and business areas, residential population, working population, business community, competition analysis, local banking attitudes and habits, deposit potential, business potential etc.

One expression of criticism about bank marketing is that bankers may just be giving lip to service only. There will be no fundamental improvement in the marketing of bank services unless there is a will to market where they are needed. There are no pet solutions to the problems. Change means challenge, and the ability to meet challenge is a sign of good management.

Bank marketing activities cannot, obviously, be carried on successfully without the full support, interest and encouragement of top level bank
management. In its most basic meaning, bank marketing and bank marketing research are an intelligent communication between the bank customer and the bank.

**CUSTOMER SERVICE IN BANKS**

Customer satisfaction is a dominant factor in the success of an enterprise. In the service industry where intangible products are to be marketed, the importance of customer satisfaction is all the more significant. The customer has, therefore, necessarily and consistently to be the focal point in all decision-making relating to the policies, programmes and practices of an organization. While there is a growing need to improve customer service, there is no corresponding motivation at all in those who are required to deliver the service. The motivation will spring only when there is recognition of the worth of the individual, recognition of one’s duty to the organization and above all, a sense of pride in the organization one belongs to.

**Public Expectations**

Public expectations from the banking system and consequential demand on banks, especially at operating levels, have been growing since Independence. With national energies concentrated on economic resurgence, it is only natural that the role of banker has come into sharper focus. A new edge and a new direction were given to the public expectations when the major commercial banks were nationalized in 1960. As is well known, expectations vary not only over time, but also from one class of customers to another – the underprivileged, the common
man, the agriculturist, the artisan, the professional, the trader, the industrialist, etc; also, as between rural, semi-urban and urban customers.

Understanding and responding to the dynamics of customer expectations, therefore, call for multidisciplinary skills, sensitivity and perspective, supported by perspective research capabilities for assessing customer needs so as to be able to provide appropriate and timely responses. It must, however, be mentioned that not all the public expectations may fall within the banker’s role, and it is also true that the banker is sometimes a recipient of ill-informed criticism. This only highlights the fact that customer education is an essential component of customer service. The public can rightfully demand and would be happy to receive information about the various things a banker is doing or is capable of doing and those he is unable to do, and the whys and wherefores.

Customer service is considerably influenced by the quality and job knowledge and bank personnel. Inexperienced and ill-informed staff tend to postpone decision-making, and their decisions, when taken, might turn out to be unsound. Quite often, their anxiety for playing safe leads them to taking decisions which may not be of much help to customers. The indecision often finds weird expression. Some may indulge in paper-pushing. Some others may take refuge behind excessive paper-work – preferring to deal with papers rather than with people. Yet another set may seek prescriptive solutions for every situation and refuse to go beyond the written word. The spirit of progressive measures, thus, gets killed under the weight of paper. There is need for re-orientation here. But,
because of the massive branch expansion programmes undertaken by banks, the training systems have come under severe strain with inevitable dilution in the quality of training facilities provided, apart from the sheet inadequacy of such facilities.

The totality of customer dissatisfaction can be attributed to –

a) delay and inaccuracy in putting through transactions;

b) delay and inadequacies in correspondence;

c) delayed, faulty and unhelpful decision-making;

d) absence of elementary discipline;

e) undue emphasis of staff on observance of rules and procedures, and generally, lack of organizational support for reasonable and bonafide departments;

f) in regard to credit applications, particularly-

i) scheme-designs lacking the essential adaptability or flexibility to cater to individual customer needs;

ii) questions asked and data required, not always relevant and or available, and, perhaps, expensive to obtain;

iii) all queries not raised at one time;

iv) complicated documents and cumbersome procedures regarding documentation;

v) lack of counseling; and

vi) malafides of the bank staff;
g) lack of uniformity in bank charges – some of these are also perceived by customers to be high;

h) customer being viewed as a ‘faceless’ unit of business – and the resultant absence of any meaningful banker-customer communication; and

(i) general attitude of unconcern and apathy for clients.

**Banks and Customer Service**

Whether for mobilizing deposits or lending money or for providing ancillary services like remittances and collections, commercial banks are primarily service institutions. Speedy, timely and courteous service to customers is the essence of banking business. This aspect has been emphasized by the Serve Bank in several of the circulars addressed to banks from time to time, as well as in the circulars covering the recommendations made by the Working Group on Customer Service in Banks in its report submitted to the Government of India and the findings of reviews made periodically by the small group constituted by Government to oversee and monitor the implementation of recommendations.

Some of the important steps which the banks have to take for maintaining customer-needed services in the most satisfactory manner are indicated here.

**Deposit Accounts**

Pay books or postal identification cards or identity cards of armed forces/police/government departments or passports may be considered sufficient for establishing the identity of persons desiring to open deposit accounts without cheque facility. In other cases, banks may obtain adequate information about the
creditworthiness and reliability of persons. Cheques should be printed in English and Hindi. However, customers may fill in the cheques in regional languages.

It should be clearly mentioned in the savings account passbook that, as far as possible, the depositor has to collect it duly filled up and completed immediately after the transactions on the same day. If a passbook, is tendered for posting after a long interval of time or after many transactions, a printed slip requesting the depositor to tender it periodically must be given. And whenever a passbook is given for posting, a paper token indicating the date of its receipt and the date when it is to be collected may be given to the tenderer. Temporary overdrafts for small amounts may be allowed in savings bank accounts for meeting contingencies like non-receipt of salary advice and delay in crediting the proceeds of some instruments already lodged. Statements of accounts may be sent to current account holders in a staggered manner instead of by a target date every month. Obtaining periodic confirmation of balances in accounts from customers may be dispensed with.

It is important that the term deposit holders are advised well in time about the maturity of their deposits. Deposit receipts should be transferable between one branch and another branch of a bank. If any customer so desires, he may be supplied with a plain passbook to enable him to keep his own account of the fixed deposits held by him with the bank.

Banks should introduce incentive schemes for branches and outside agencies for the sale of traveller’s cheques. Rupee traveller’s cheques issued by
one public sector bank may be made encashable at any other public sector bank under reciprocal arrangement.

**Loans and Advances**

Banks should take decisions on loan applications as speedily as possible. Delay in the disposal of loan applications can be minimized by the banks by helping borrowers to fill in the necessary forms. The field staff attached to branches may be increased if necessary. In cases where there is lack of response from borrowers or where the borrowers are not interested in getting the credit facility, their applications may be treated as withdrawn, with due notice given to the parties concerned. Priority sector advances must be sanctioned mostly by branch offices to which adequate powers need be delegated. For small loans, security should be secondary to viability of proposals. Loan documents may be obtained in duplicate, one copy being given to borrowers for their record. Loans up to Rs. 500 can be disbursed on the basis of demand promissory note or simple loan agreement. While giving loans to small borrowers, banks should take into account their minimum consumption needs also. Training programmes may be organized by banks for small-scale entrepreneurs; participation in the programmes may be made a pre-condition for grant of loans to them. A more liberal approach may be adopted in sanctioning advances against gold and silver ornaments.

**Ancillary Services**

Payment of drafts should not be refused because of non-receipt of drawing advice. Just one authorized signature on drafts should suffice. The validity period of demand drafts may be clearly indicated on the draft forms. Every case must be
taken to reduce delay in mail transfers. Funds sent through telegraphic transfers (TTs) have to be paid to the parties concerned latest on the third working day from the receipt of instructions from customers. Anticipating their need for funds at another place on future dates, some customers may instruct their banks about such needs well in advance. Banks can meet such requirements by introducing the facility of value date telex / telegraphic transfers of funds on pre-determined dates.

Against outstation cheques lodged for collection, banks can give immediate credit except in cases where they feel that the accounts are unsatisfactory. Special regional collection centers may be set up for outstation cheques / bills. Improvement in cheque / bill collection service can be ensured if work at the realizing bank offices is made easier by preparing the forwarding memos in triplicate for cheques and in quadruplicate for bills. The originals of forwarding memos will serve as vouchers at the realizing office, the duplicates being returned to the remitting offices as payment/non-payment advice. While the triplicates (which can be filed in a bound register) serve as a record at the remitting offices, the additional copies available in respect of bills serve as presentation advice to the drawees. Whether the outstation cheques over Rs.5,000 sent for collection have been cleared or not can be ascertained by telegram at the cost of customers. Banks may consider opening special offices for handling inward bill business at metropolitan and large commercial centers. Bills for collection should be sent direct to the banks concerned at the realizing centers.

Customers should be provided with booklets giving details of the services and facilities available at banks. Complaints should be studied and corrective
action initiated. Pension payments should be promptly credited to the customers’ accounts.

Banks should bring out booklets containing basic exchange control rules to be observed by foreign visitors to India and give them free of charge to visitors at air/sea ports and customs counters. Advisory services will have to be made available to Indians going abroad for various purposes such as business, information tours and study/training. Small exporters deserve special attention. Export advisory cells may be established at major centers to provide a package of services to such exporters.

**Customer Relationship Management**

One of the delicious ironies of customer relationship management (CRM) in the middle of a communications technology revolution is the problem of plenty. So much so that the prints of contract with the customer – the telephone, Web-based chat, e-mails, SMS and Web self-service – almost constitute an embarrassment of riches that becomes difficult to manage. The benefits that come out of implementing CRM are:

1. Greater empowerment for users.
2. Lower cost of service delivery by shifting certain interactions to self-service and chat.
4. Gains in customer communication, accountability and improved organizational efficiency.