3.1. Introduction

Change is the law of life. Banking is no exception. Winds of rapid change have been blowing in the recent past over the banking arena which turns out to be a testing, challenging and exciting period. Change and innovation are two important tools for the development of banking industry. But very often it is found that banks do not act in tune with the challenges posed by the changes. They tackle one issue after the other and by doing so do not adjust properly to the whole lot of changes. All changes interact with each other. In the recent years, Indian banks have been going through various functional and structural changes to keep pace with global changes. In this chapter the researcher has presented the background of the Indian Banking System.

3.2. The Challenges in the Banking Industry

The changes in the global market turn out to be challenges for the banking industry in India. The challenges are to be faced for the very survival and growth of the banking companies. The banks are facing various challenges in the course of its functions. They are

3.2.1. Competition

In the recent years of the banking industry, competition is getting increasingly intensified with the advent of the liberalisation, privatisation and globalisation. New entrants are overflowing into the industry. Globalisation has fiercely aggravated competition environment. More number of foreign banks have found their way in most of the cities and towns of our country. With the setting up of more number of local area banks, the competition in rural area is also expected to gain momentum.
It may be noted that the share of business of public sector bank in recent years as a result, has declined to 78 per cent in the banking system compared to 88 per cent in 1969. With market oriented reforms, the process of disintermediation has also increasingly gained deep roots. This in turn poses risk and challenges for banks. “With every bank drawing up ambitious plans, retail banking is suddenly one of the hottest businesses in towns”.

In order to compete the new entrants effectively, Indian commercial banks need to tackle competition in addition to their existing simple banking business.

3.2.2. Technology

Technology has become one of the biggest drivers of change in the banking system. Information technology has opened new vistas and in turn has brought new possibilities to improve the productivity and performance in all spheres of banking.

The emerging electronic computer technology causes a paradigm shift in the way the business is done. Multi channel delivery strategy would be inevitable for survival and growth with profits. India is expected to become the second largest market in Asia after China in terms of e-commerce in banking industry. The Indian banks need to harness technology more to keep pace in the increasingly competitive financial market place.

Banks find it difficult to adopt the latest information technology for three reasons:

i. High capital outlay for acquisition of infrastructure.
ii. Shortage of skilled manpower.

iii. Lack of adequate orientation.

In this area, private sector banks have a competitive edge over public sector banks. Another important dimension of this sector is that it is better to integrate the technological upgradation in this sector with the brick and mortar industry as well as with conventional bastions of services industry banking.

3.2.3. Innovations

Banks need to be innovative and proactive to find new ways, product and service to count. As the banks’ traditional intermediation role gets slowly eroded, innovative ways are constantly enhanced in redefining their products, creating new markets, reinventing competitive roles and most of all challenging the status quo. Innovation has become the core of its existence and banks are finding it too difficult to come out of its traditional clutches.

3.2.4. Bank Computerisation

The computerisation in banks has proved a boon for achieving cost reduction, productivity improvement and performance enhancement. It lends active support to decision making through ready information and by achieving modern and sophisticated work culture.
3.2.5. Changes in the Customers Attitude

In the emerging scenario with more and more global players operating in India, there has been an urgent need to serve the customers properly. The changing dynamics of the customer expectation, their demand for quality services at a competitive prices and the various options available to them have replaced the banks from sellers market to buyers market.

The future customer of the banks being more educated, well informed, price and quality conscious, expects the duel excellence of services with international standards, along with a personal touch of traditional Indian style.

“We are moving increasingly into a consumerist society where, regulators, judges and legal system continue to move to favour the individual consumers.

“Banking is technically to provide Indian customers with any service they wish, in any part of the country, at any time of the day, through appropriate technology”.

Every bank needs a thorough lesson in customer relationship management. The only way a bank can increase efficiency is by cashing in on the strong relationship it builds with customers and using data mining to discover hidden patterns in customer behaviour.
3.2.6. Customer Driven Growth

Customer orientation and customer retention are the two important areas of concentration for the banks in future. One of the major threats to the banking industry is “customer defection”. Customer delight and ecstasy are going to be the name of the game in rendering customer services in bank. Door step banking, mobilise banking, and offer of unlimited convenience are fast developing. The banks comes-homes-to you approach is a step further carried in customer focus.

3.2.7. Deregulation

Banks spreads have come under considerable pressure due to increased competition and interest rate deregulation in recent years. Banks would be required to choose appropriate multi faceted activities to attract more customers into the banking system. With deregulation of interest rates, margins have thinned out. As such, profitably is also adversely affected.

3.2.8. Restructuring of Banks

Still global competition, repaid technological changes, volatile interest rate, entry of new private banks, economic and other conditions have created significant pressure on the stability and viability of Indian banks, which have been hitherto experiencing reduction in profitability, declining productivity, deterioration in quality of assets, overstaffing, obsolete technology etc.

Bank restructuring is not an option but an imperative in the changing scenario. Now environmental changers created the compulsion of Indian banks to re-position
themselves so as to become cost effective and market oriented for their survival and growth.

In the backdrop of the transformed phase of financial sector reforms, banks in India spread across the country with cultural diversity and demographic variations, need to have a fresh look at their organisational structure.

In the emerging scenario, with more and more global players operating in India, there has been an urgent need to serve the customers promptly and efficiently. It is incumbent upon the banks to evolve their own structure for efficient delivery of services of their customers. These changes make our banking industry to be one in the race along with the international banking system to meet the challenges of fast growing knowledge economy. Human Resource Development System in banks needs to be given a new trust. Large investment will have to be made both in information technology and human resource development for imparting knowledge and skills, which in turn would reduce response time and accelerate decision making.

3.2.9. Voluntary Retirement Scheme (VRS)

Following the recommendations submitted to the Government of India by the Committee of Human Resource Management in public sector banks, 27 public sector banks having regard to their respective manpower plan implemented VRS.
Banking industry had a good bank record of rewarding its people relatively well. In the backdrop of burgeoning staff cost and overall operational cost, the VRS was to be construed as an opportunity to push through the operational efficiency and profitability. With the implementation of VRS by banks, nearly one lakh employees, around 12 per cent of the total strength of staff in 26 banks left the banks which adversely affected the working of banks.

There was a belief in the industry circle that there existed substantial surplus manpower in banks and a lot of scope for improving staff productivity. In this context, banks in India was permitted to introduce VRS to:

i. Reduce cost and improve profitability

ii. Optimise human relation utilisation.

iii. Achieve a balanced age and skill profile

iv. To increase the scope for higher productivity

v. To enhance organisational efficiency

“As things stand now, it is reported that it is extremely difficult for the banks to respond to existing customers and maintain the level of business, leave alone canvassing for additional business and bringing in new customers”. The commercial banks in India were passing through a very critical state owing to the implementation of VRS.

The negative impacts of VRS were:

i. Loss of skills and talents due to large voluntary exit
ii. Dearth of high skills and talents among the remaining work force.

iii. Psychological insecurity of the remaining work future.

iv. Ambiguity about future prospects in the organisation.

This development which was unprecedented really made the commercial banks move forward a new era. The post VRS situation has thrown a new set of challenges to the banks. And more particularly the manpower management has become a formidable task. The greatest challenge is that those who stay behind would require high motivation, intensive and extensive training, incentives to perform better and a swift career progression.

3.2.10. Constraints

Besides facing strange challenges, banks do also have some other constraints. They are

i. Banks are flushed with high liquidity and there is dearth of quality assets as investment.

ii. Lack of adequate credit appraisal skills resulted in high volume of NPAs.

iii. Margins are thinned out due to the deregulation of interest rates.

iv. The legal framework against defaulters of loan still continues to be inefficient.

v. Large network of major banks makes it impossible to bring them into one network and computerize all branches.
vi. With high level of manpower, the staff cost is much higher.

vii. Existence of under utilised skilled manpower.

viii. Equipping with knowledge and skills for 21st Century banking is the biggest challenge.

3.2.11. Consumer Satisfaction in Banks

Banking industry being a partner in the economic development process takes its role as a very positive and constructive one. In the Indian context, banking which is essentially a service industry, is becoming more and more competitive. For a commercial bank to be effective, one has to have not only knowledge of banking laws and practices, but also various others skills. Further, one has to have the right approach, attitude and style of functioning.

With the growing diversification of activities in banks and greater involvement of people in banking, banks are called upon to face new challenges and innovation. There calls for developing appropriate programme will ultimately satisfy the needs of the customers.

The problem of commercial bank is low level of customer relation and low level of sympathy. Indifference and rudeness are common in service oriented industry like banking.
Banks have been increasingly internationalised. More foreign banks, financial institutions and private sector banks have found their place in India. Banking is a dynamic activity and new area of diversification in business and need for new technologies are over emerging. The process of consolidation itself is providing a lot of gray areas where customer satisfaction can perhaps, intervene.

3.3. Marketing Strategies of the Banking Industry

Banking industry is one of the most important service industries which touch the lives of millions of people. Its service is unique both in social and economic points of views of a nation. Earlier the attitude of banking service was that it was not professional to sell one’s services and was unnecessary in the sense that traditional relationships and quality of products were sufficient to carry forward the tasks. Before the mid 1950’s the banks had no understanding or regard for marketing. The bank building was created in the image of a Greek Temple to impress the public about the importance of a bank. The interior was austere and the teller rarely smiled. Bankers maintained austere dignity and they hardly maintained friendliness.

It was in the late 1950’s that marketing in banking industry emerged in the west. Its emergence was in the form of advertising and promotion concept. At that time, personal selling could not get a significant place. Gradually, there was a change in the attitude of bankers, probably in time with the attitudinal change in customers. The idea of customer’s satisfaction began in the late 1950’s, flourished in 1960’s and became an integral part of the banking services in the 1970’s. But the same trend could not be applicable, especially in developing countries and to be more specific in India because
of socio economic and political reasons. Soon it was realised that marketing transcended advertising and friendliness. Till 1950 it was recognised that personal selling was not necessary. The bankers went out of their way to avoid being accused of selling. The bankers even eliminated the word ‘selling’ and they called the function of customer contact ‘business development function’. The bankers’ attitudes and comprehensions about marketing changed in the 1960s’. They began to realise that marketing was a lot more than smiling and friendly tellers. The idea of customer convenience beginning the late fifties and it flourished in the 1960’s. Bankers were beginning to understand the concept of market segmentation in the late 1960’s. The bank marketing profession changed dramatically in the 1970s’. Marketing positions in banks were created and marketing was accepted as an organisational imperative.

To understand how banking services can be marketed better, one must examine banking as a service industry, in the content of a swiftly changing environment, redefine marketing to suit a banker’s needs, analyse how the marketing of financial services differs from that of other products, identify the tasks involved there in and set forth a series of steps for effective bank marketing.

When modern managers the world over are busy having their marketing skills, bankers in India can ill-afford to shrug it off and keep away from global changes in banking which are in favour of “optimal satisfaction of customers’ wants and creation of customers for novel products”. As a matter of fact competition was not in existence.

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On the one side of the fence was the State Bank of India alone, which has enjoyed government ownership and on the other side were Private commercial Banks, local by orientation, primarily servicing the interest of the controlling business houses. Therefore neither the State Bank of India nor the others cared much for the public. Furthermore, their service was confined to a limited range of service which included Current Accounts, Team Deposit Account and Savings Bank Accounts in Deposit on Area. In the area of advances, limits were sanctioned on the basis of security of way of lock and key accounts and bills, purchase limits; their miscellaneous services included issuance of drafts, collection of outstation cheques, executing standing instructions and lockers facility at a few centers. It was the phase of class banking and even the communication through the media was looked down upon with contempt as something against the tenets of banking culture. Even the advertisements released till 1966 were very few.76

After nationalisation of 14 major commercial banks in 1969, banking system in India is no longer the exclusive preserve of a few industrial house or business families and has become a very important instrument of socio-economic changes77. Bankers, after nationalisation, woke up from their splendid isolation and found themselves placed in a highly competitive and rapidly changing environment with competition becoming fierce day by day. The traditional description hardly suffices today’s needs. During to

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this, banks’ approaches towards customers and market underwent changes and focus was gradually shifted to marketing their products.

Even the economists view that bankers are creditors of money and not mere purveyors of credit does little justice to the present–day bankers’ pivotal role in our society. Today banks are virtually becoming “Financial Supermarket” for their customers. Banks have been product oriented organisations, placing before the prospective customer their range of services, expecting him to choose, presuming that the customer had the knowledge, tune, interest and skill to pick out the services that would suit him. Along with it, banks also have become conscious of their corporate image and its projections and their introduced the public relations philosophy in banks with the purpose of image projection.

The first major step in the direction of marketing was initiated by the State Bank of India in 1972, when it recognised itself on the basis of major market segments, dividing the customers on the basis of activity and carved out four major market segments. They were commercial and institutional segment, small industries and small business segment, agriculture segment and personal and services banking segment. The new organisational framework embodied the principle that the existence of an organisation primarily depended upon the satisfaction of customer needs. The hallmark of the reorganised setup was customer orientation. It aimed at

i. having a total view of customers’ needs,

ii. Meeting the identified needs in the best possible manner.

iii. Identification of potential customers, and
iv. Conducting activities at the branches on the basis of carved-out market segments instead of job wise.

By 1974, the environment became more demanding with the emphasis on mass banking and canalisation of credit into priority areas and lending at differential rates of interest to the weaker sections of the society. This placed strains on the profitability of banks which led to keen competition, which was detrimental to the banking system in the ultimate analysis. This time even though banks were talking of marketing, they were essentially selling. A notable change during the period was related to two major components, that is product and promotion. The other two “Ps” that is price and place were highly controlled by central banking authority. Banking began to offer profit security regular income, retirement benefits, money for marriage of the daughter, education for growing children and the like.

It was in the early 1980’s that banks realised that marketing was more than that. They started thinking in terms of product development, market penetration and market development. Moreover banks also accelerated the process of equipping their staff with marketing capabilities in terms of both skill and attitude through internal and external training.

The continuous modification and rectification in banking and implementation of financial sector reforms as per the recommendation of the committee on financial system the functioning of banks in India had undergone dramatic changes. Starting from very conservative traditional banking where the service of banks was confined to a few
in the society, now due to liberalisation and privatisation, a ‘U’ turn has taken place in Indian banking. The hallmark of the changed concept aimed at having a full view of customer’s needs. That is, fulfilling the identified needs in the best possible manner by required service. These splendid changes had three phases namely,

i. traditional banking period

ii. development banking period and

iii. bank marketing period

Figure 3.1 presents the evolution of bank marketing in India.
3.3.1. Traditional Banking

This period is also known as pre-nationalisation period. The basic symbol of this period was strong accounting orientation of bankers down the time. In other words, meticulous maintenance of accounts books and an inward-looking approach in transacting business with the customer. Investment of banks funds was based on liquidity principles. In loaning, the quality of security was more important and the requirement of the customer got least importance. The customer was presented with readymade banking products with an option to take it or leave it. Owing to limited banking network then available, the customer had little alternatives. So the banking business kept prospering even with a limited clientele base and a set of inflexible rules and regulations meticulously observed both in letter and spirit. During the period there was strong banker-customer relationship but the customers were selected the few in a society. This period is popularly known as period of class banking.

3.3.2. Development Banking Period

It is otherwise known as post-nationalisation period. There was dramatic change with the nationalisation of 14 major commercial banks in 1969. Inspired by the well-known socio-economic objective of nationalisation he banks went in for phenomenal branch expansion during the seventies to cover every nook and corner of the country. Financial assistance on a very large scale was made available to the economically weaker sections of the society. The sheer magnitude of development banking effort undertaken by public sector banks during this period remained unmatched by the

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79 Ibid. p.4
banking industry anywhere else in the world. As far as the evolution of bank marketing was concerned, the bankers came out of their ivory towers and reached out to the masses. A large number of deposit and loan schemes were developed during their period according to the requirements of different sections of society as per the national priorities. Even though bankers reached out to the masses, orientation and mind set still did not evolve much beyond the take it or leave it syndrome of the pre-nationalisation era. The basic reason was that the bankers were still operating seller’s market. The inference of this scenario suggested that the bankers of this period never found it necessary to ascertain what the customer actually wanted. What the banker did was to present few products to the customers and push hard enough amongst the customers in order to achieve the predetermined levels of deposits and advances fixed by the bank. In other words, the bank adopted a selling stance. The discipline of bank marketing did travel some distance in as much as marketing tools like market segmentation, product diversification and expansion were experimented with. For instance, the State Bank came out with its market segmentation scheme and innovative loan products like IRDP Differential Interest Rate Scheme and Crop loans were extensively marketed. But the basic content of marketing had yet to be absorbed by the bankers at large.

3.3.3. Bank Marketing Period

It is also known as modern period. The frantic pace of branch expansion and credit disbursement during the development banking period has direct impact on the
health of public sector banks. The real outcome was the proliferation of loss-making branches. The problem of communication and transport network in the countryside, rising customer dissatisfaction with banking services, and resultant apathy of bank staff towards developmental work are the basic reasons for this. The RBI has urged commercial banks to take stock of the state of affairs, to consolidate their gains and go slow on branch expansion, thus ushering in the period of consolidation. The bank visualises the risk inherent in continuing to do business as before. So there is a growing awareness that marketing is an essential tool in the hands of the banker, an inescapable necessity without which perhaps survival itself might become difficult in future.

The most important factors which have given a momentum to the bank marketing in the country are Financial Disintermediation. The basic job of a banker is to accept deposits from investors or depositors and after providing funds for statutory obligation like SLR and CRR, bank extends loan to borrowers. The difference between deposit interest rate and the loan interest rate is the banker’s ‘spread’. Thus the bank acts as an interlinking factor and this is called financial intermediation\(^8\).

**DEPOSITOR → BANKER → BORROWER**

In another angle, the banker brings together those who have surplus fund and those who are in need of it. This has been the process for the last few decades in India. Now due to the opening of new avenues for both deployment of surplus fund and also

\(^8\) Ibid. p.8
for securing funds, meeting of depositor and borrower via banks are now meeting without the mediation of bank. There are a number of non-banking alternatives for the depositor like share market, post-office saving, UTI, mutual funds and company fixed deposit. All these are investment avenues and many other similar ones have flooded into the Indian financial market. Furthermore, it is an unavoidable process of rapid economic growth. The outcome of these processes is undermining the traditional banking function of intermediary between investors and borrowers. This is known as the process of financial disintermediation which is depicted.

The basic outcome is that the process of financial disintermediation cuts the roof of traditional banking. On the one side, deposit mobilisation is threatened because of alternative lucrative investment avenues are available to depositors. Similar is the case of lending aspect also because borrowers can now access cheaper and less cumbersome avenues for raising resources. In a nutshell, financial disintermediation has created a serious threat to the very survival and growth of basic banking activities.

In such a situation, banks have been frantically looking for alternative to survive and thrive. It is here that bank marketing has come to their rescue. With its emphasis on the centrality of the customer to entire banking operations, the bank marketing concept has provided a way out in the form of a host of new banking services and instruments.

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83 Ibid. p.9
Bank marketing has emerged as the principal survival strategy for banks confronted with an accelerating pace of disintermediation.

Another face of the growth of Indian economy in recent years has been the fantastic increase in needs and expectation of banking customers. Important factors for this change are

i. The spread of Television, including access to international channels.

ii. Rise of Indian middle-class with considerable financial resources and furthermore a higher propensity towards consumption.

iii. Entry of foreign and private sector banks in India.

iv. Break-up of the joint family system in urban India, and

v. Government intervention for protecting the interest of consumers.

All these and similar other developments have combined to produce a typical bank customer who is no longer prepared to accept things lying down. He has started harbouring higher –expectations from banks to fulfil his newfound needs and has become quite articulate about them\(^{84}\). Now due to the change in the attitude of customers, banks cannot continue with their “take it or leave it” attitudes. If they do so, they will lose their customers because customers have a number of other options. So

\(^{84}\) Ibid. p.11.
banks must be closer to the customer in order to satisfy them. In other words, this is exactly what bank marketing is.

An offshoot of economic liberalisation is the phenomenal growth in competition in the banking industry. A number of private sector banks with considerable financial might and expertise have already made an entry. In addition to this, foreign banks have also made their presence in the country. Besides, a large number of non-banking Finance Companies as well as recently proposed local area banks are competing to get the maximum share of the market. So for the first time, bank customers in India are going to have a choice. This situation brings ‘bank marketing’ to increase business and profit.

A popular definition of bank marketing is given by S.Kuppuswami in the following words, “Creation and delivery of financial services suitable to meet the customer’s need at a profit to the bank”\(^85\). This definition recognises the imperative need to satisfy customers, the significance of both the creation and delivery aspects of bank services and underlying profit motive.

The most comprehensive definition of bank marketing is given by Deryk Weyer of Barclays bank. He calls it as, “Consisting of identifying the most profitable markets now and future, assessing the present and future needs of customers, setting business development goals, making plans to meet them and managing the various services and

\(^85\) Kuppuswami S. The Banker, November 1986, p.20.
promoting them to achieve the plans—all in the context of changing environment in the market\textsuperscript{86}.

Hartley prefers to call bank marketing as responsive marketing which suggests an attuning or responding to the changing needs of customers’ society and environment\textsuperscript{87}. Gists looks at the social dimensions from a different angle. He says that because marketing activities lead to the creation of new products and services, because marketing activities promote new ideas to the society which is being served and because marketing involves an important persuasive role in the formation of public opinion, marketing is unavoidably a social concern\textsuperscript{88}.

Rajeev K. Seth defines marketing orientation in such a way that, marketing orientation is basically an attitudinal disposition of a banker which enables him to anticipate customer needs and also inspires him to satisfy that need\textsuperscript{89}. Two ingredients of marketing orientation are

- an ability to anticipate customer needs and
- willingness to satisfy them

Figure 3.2 shows the Concept of Marketing Orientation in Banking.

\textbf{Figure 3.2}

\textsuperscript{86} Sanjeev Bhalt, Bank Marketing, The Economic Times, Setember1, 1980.
\textsuperscript{87} Jha, S. M., Service Marketing, Himalaya Publishing House, Mumbai, 2000, p.49.
\textsuperscript{88} Ibid.
\textsuperscript{89} Rajeev K. Seth, Marketing of Banking Services, Macmillan India Ltd, New Delhi, 1997, p.25.
The customer of a bank today is most discerning. With banks operating in a buyer’s market, the customer looks for a bank which can meet all his present and future requirements at an affordable competitive cost. He is also increasingly quality-conscious. Almost everyone would appreciate that no two classes of customers are alike. Therefore in any environment relating to a bank’s branch or region, the potential clientele can always be classified into different homogeneous relating to a bank’s branch or region, the potential clientele can always be classified into different homogeneous segments and distinct 4Ps package judiciously offered to each segment.

As Alan Roberts observes, “Marketing segmentation is the strategy of dividing markets in order to conquer them, a continuous policy of looking for differences, geographical or otherwise in the total market and the continuous exploitation of these differences.”

Market segmentation differentiates customers with similar banking needs from those

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with dissimilar needs. If homogeneity is greater in needs and behaviour of a group of customers, then it is easier to understand them. In addition to that, segmentation provides a solid basis upon which the marketing strategy of a bank can be designed. Furthermore, segmenting the market also helps to evolve a distinctive marketing package for each segment based on the needs of different customer segment. This in turn helps the marketer to cultivate in the customer’s mind a perception of psychological membership of banker’s offerings. A customer is more likely to have a feeling that the given marketing package has been specially designed for a person like him only, and not for everyday. This will result in greater satisfaction of customer needs which will in turn result in to higher return for every rupee spent in marketing. Marketing literature is teeming with information about the different basis on which market segmentation may be attempted. Some of the popular basis of segmentation are geographic, demographic, psychological, volume, benefit etc.

Geographic segmentation in the banking context has variations like metropolitan, urban, rural, north, west, east, south, large city, and small city on the basis of population, hill area, tribal area and desert area. By this segmentation, it is assumed that customers in a given geographic region would show a high degree of homogeneity in their banking needs. As geographic region are already demarcated, it is the easiest way of segmentation.

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91 Rajcev K. Seth, Marketing of Banking Services, Macmillan India Ltd, New Delhi, 1997, p.119.
Generally, geographic segmentation could be further extended on the basis of demographic segmentation of customers. Typical demographic parameters in use are age, sex, income, occupation, education, social class etc. in India. Geographic and demographic segmentation combined together are likely to yield far more homogeneous segments than either of them individually.

Another more sophisticated criteria that a bank may use for segmentation is psychographic benefit parameters. Amongst psychographic parameters one could use segmentation variables which reflect personality traits of customers like leader-follower types, extrovert-introvert types and conservative – liberal types. This type of segmentation requires in-depth understanding of customer psychology. Even then it may remain uncertain to what extent these personality traits actually determine customer needs and behaviour. Because of these reasons, psychographic segmentation may be very difficult to implement in banks.

Another segmentation is benefit segmentation. This segmentation is on the basis of the benefit that a customer seeks from purchasing a given bank product. For instance, going for a ‘credit card’ is seeking the benefit of status. Another going for a loan to a particular bank is seeking the benefit of economy. Similarly, a third customer is seeking the benefit of convenience and prepared to pay a price for prompt, efficient and courteous service. Thus benefits like status, economy and convenience could be the basis for segmenting the market. In a nutshell, geographic and demographic basis of segmentation applied in tandem, appear perfectly capable of yielding useful, specific and fairly homogeneous market segment for banks. These segments need to be tested on the basis of three parameters – measurability, profitability, and accessibility by each
bank before being adopted. Some of the leading segments are senior citizens, students, domestic tourists, working women, investors, community, housewives, defence personnel, young salaried people. They are also known as house-holding banking segments. None of these segments are totally new to bankers. But the degree of marketing effort they require is of a high order.

Household and corporate segments display several distinctive characteristics which are diametrically opposite to each other. In terms of marketing theory, the household segment has to be approached with consumer marketing principals while the corporate sector can be best understood through the principals of industrial marketing.

Under the sponsorship of Indian Banks Association, National Institute of Bank Management in 1986 conducted a study on “All India Savings and Deposit Trends and Patterns” which is one of the important sources of Indian banking industry customers. This survey has collected data about households and institutions separately on a host of parameters of interest to bank marketers. Important findings can be categorised under three heads – households segment, institutional or corporate segment and rural segment of banking market in India.

3.4. Banking Services in India

Banking services constitute a hybrid type of “offering” by an organization. The offer consists of equal parts of tangible “goods” (that is, the various brands of accounts, the size of lockers, the loan schemes), and intangible ‘service’ (that is, the ambience,
behaviour of the staff, speed and accuracy of transactions, and the reliability of the bank). The commercial banks implement the marketing concept by the simultaneous use of internal marketing (from company to employees), external marketing (from company to customers), and interactive marketing (from employees to customers).

Traditionally, banking in India has been dominated by the offices/branches of the public sector banks. However, with the liberalization of the financial sector in the 1990s, the private-sector banks and the foreign banks have also set up their shops all over the country. These newly set up commercial banks are offering aggressive and technology-savvy competition to the public sector banks in the form of innovative products and services which include the following:

i. Round-the-clock banking facility on phone, that is, ‘Tele-Banking’.

ii. Banking facility through internet sites, i.e., ‘Net-Banking’.

iii. Free home services to open a bank account and to withdraw / deposit money by cheque / draft, that is, ‘Home Banking’.

iv. Free ‘autosweep’ facility in the saving account where the customer has the option to sweep excess funds into the high-interest fixed deposit at any time.

v. Multi-option deposit, in which the amount is fixed for a certain period of time, but the customer has the option to withdraw at any time, a portion of the lumpsum without losing interest on the rest of the deposit.

vi. Offer of 24-hour Automated Teller Machine (ATM) and 365 days service to all the customers.
vii. Providing an automatic terminal in a corporate office, allowing the company to access its bank accounts directly from its business premises.

viii. Offering of attractive consumer durable loans, educational loans, personal loans, and housing loans at low interest rates.

ix. Provision of credit-cards and free ‘demat’ services to customers.

Various committees have been appointed from time to time to study service quality in banks and to provide concrete recommendations. The Banking Commission appointed Saraiya Committee in 1972 which provided 77 recommendations, followed by Talwar Committee (1975) with 176 suggestions and Goipuria Committee (1980) which studied the causes of below-par customer service in banks and suggested 97 recommendations for improvement of work culture in Indian banking.

A nationwide survey on the 27 public sector bank’s customers service conducted on 3rd January 1997 by IBA (Indian Banker’s Association) provided useful findings. The Western Region of our economy showed excellent results with 26 banks providing “A” rating (above 75 per cent quality and satisfaction) service followed by Southern and Northern region (which includes our field of study – DELHI) with 22 and 21 banks in “A” category respectively. In terms of quality standards and customer satisfaction, the central region was lagging far behind with only one bank in “A” group and majority in “B” category (60-75 per cent satisfaction). (“A” rating denotes above 75 per cent customer satisfaction, “B” and “C” ratings refer to 60-75 per cent and 60 per cent satisfaction respectively).
Similarly an All Indian Survey conducted by the National Institute of Bank Management (NIBM) covering 90,000 households and 10,000 institutions on behalf of IBA provided two eye-opening lacunas in Indian banking. Firstly, many customer respondents expressed dissatisfaction over the delays in collection of cheques and other instruments. Secondly, the banking sector had not effectively adopted any promotional strategy on the various schemes and products offered by the banks. A recent study conducted by Sangeeta Aurora and Minakshi Malhotra (1997) concluded that routine operation factors (like cash withdrawal time, time in opening account, etc) and staff actors (staff attitude knowledge of staff) were the activities of highest satisfaction among customers of both public sector banks and private sector banks, respectively. On the other hand, interactive factors (banker-customers) and situational factors (location of the bank) are least satisfying in public sector and private banks, respectively.

3.5. Private Sector Banks in India

The private sector banks in India represent the part of the Indian banking sector that is made up of both private and public sector banks. In the private sector banks greater parts of stake or equity are held by the private shareholders and not by the Indian Government. Banking in India has been dominated by public sector banks since 1969 when all major banks were nationalised by the Indian government. However since liberalisation in government banking policy in 1990s, old and new private sector banks have re-emerged. They have grown faster and bigger over the two decades since liberalisation using the latest technology, providing contemporary innovations and
monetary tools and techniques. Table 3.1 presents the details of the Private Sector Banks in India.
### Table 3.1

**Private Sector Banks in India**

(Amount in Million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>No. of banks</td>
<td>22</td>
<td>22</td>
<td>21</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>2.</td>
<td>No. of offices</td>
<td>9288</td>
<td>10516</td>
<td>12097</td>
<td>13970</td>
<td>16001</td>
</tr>
<tr>
<td>3.</td>
<td>No. of employees</td>
<td>193578</td>
<td>188332</td>
<td>217953</td>
<td>248284</td>
<td>269941</td>
</tr>
<tr>
<td>4.</td>
<td>Business per employee</td>
<td>67.76</td>
<td>77.27</td>
<td>82.60</td>
<td>86.23</td>
<td>94.06</td>
</tr>
<tr>
<td>5.</td>
<td>Profit per employee</td>
<td>0.56</td>
<td>0.70</td>
<td>0.81</td>
<td>0.92</td>
<td>1.07</td>
</tr>
<tr>
<td>6.</td>
<td>Capital and Reserve &amp; Surplus</td>
<td>996686</td>
<td>1199839</td>
<td>1385664</td>
<td>1592952</td>
<td>1929461</td>
</tr>
<tr>
<td>7.</td>
<td>Deposits</td>
<td>7363776</td>
<td>8228007</td>
<td>1002758</td>
<td>1174587</td>
<td>1395835</td>
</tr>
<tr>
<td>8.</td>
<td>Investments</td>
<td>3065312</td>
<td>3541169</td>
<td>4220576</td>
<td>5259822</td>
<td>6261063</td>
</tr>
<tr>
<td>9.</td>
<td>Advances</td>
<td>5753276</td>
<td>6324409</td>
<td>7975440</td>
<td>9664030</td>
<td>11432486</td>
</tr>
<tr>
<td>10.</td>
<td>Interest Income</td>
<td>850714</td>
<td>828064</td>
<td>967131</td>
<td>1345555</td>
<td>1664864</td>
</tr>
<tr>
<td>11.</td>
<td>Other income</td>
<td>178602</td>
<td>204231</td>
<td>208734</td>
<td>250480</td>
<td>297927</td>
</tr>
<tr>
<td>12.</td>
<td>Interest expended</td>
<td>569574</td>
<td>512056</td>
<td>571491</td>
<td>867843</td>
<td>1071332</td>
</tr>
<tr>
<td>13.</td>
<td>Operating expenses</td>
<td>217794</td>
<td>228510</td>
<td>276064</td>
<td>340301</td>
<td>404851</td>
</tr>
<tr>
<td>14.</td>
<td>Net Interest Margin</td>
<td>2.86</td>
<td>2.90</td>
<td>3.10</td>
<td>3.09</td>
<td>3.22</td>
</tr>
<tr>
<td>15.</td>
<td>Cost of Funds (CoF)</td>
<td>6.27</td>
<td>4.83</td>
<td>4.60</td>
<td>5.84</td>
<td>6.12</td>
</tr>
<tr>
<td>16.</td>
<td>Return on advances adjusted to COF</td>
<td>5.31</td>
<td>5.06</td>
<td>5.11</td>
<td>5.22</td>
<td>5.41</td>
</tr>
<tr>
<td>17.</td>
<td>Wages as % to total expenses</td>
<td>10.83</td>
<td>12.73</td>
<td>14.53</td>
<td>12.22</td>
<td>11.61</td>
</tr>
<tr>
<td>18.</td>
<td>Return on Equity</td>
<td>11.38</td>
<td>11.94</td>
<td>13.70</td>
<td>15.25</td>
<td>16.47</td>
</tr>
<tr>
<td>19.</td>
<td>Return on Assets</td>
<td>1.13</td>
<td>1.28</td>
<td>1.43</td>
<td>1.53</td>
<td>1.63</td>
</tr>
<tr>
<td>20.</td>
<td>CRAR</td>
<td>15.23</td>
<td>17.43</td>
<td>16.46</td>
<td>16.21</td>
<td>16.84</td>
</tr>
<tr>
<td>21.</td>
<td>Net NPA ratio</td>
<td>1.29</td>
<td>1.04</td>
<td>0.56</td>
<td>0.46</td>
<td>0.52</td>
</tr>
</tbody>
</table>

Source: http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/APB30091213F.pdf

It is inferred from Table 3.1 that the number of private sector banks in India were 20 with 16001 branches in the year 2012-13. The number of employees working in these banks were 269941. The selected Private Sector Banks in India are as follows
3.5.1. Old Private-Sector Banks

The banks, which were not nationalized at the time of bank nationalization during 1969 and 1980 are known to be the old private-sector banks. These were not nationalized, because of their small size and regional focus. Most of the old private-sector banks have been closely held by certain communities their and operations have been mostly restricted to the areas in and around their place of origin. Their Board of directors mainly has consisted of locally prominent personalities from trade and business circles. One of the positive points of these banks is that they lean heavily on service and technology and as such, they are likely to attract more business in days to come with the restructuring of the industry round the corner. Table 3.2 shows the details of list of the old private sector banks in India.

Table 3.2
List of the Old Private-Sector Banks in India

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name</th>
<th>Year Established</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bank of Punjab merged with Centurion Bank to form Centurion Bank of Punjab in June 2005</td>
<td>1943</td>
</tr>
<tr>
<td>2.</td>
<td>City Union Bank</td>
<td>1904</td>
</tr>
<tr>
<td>3.</td>
<td>Dhanlaxmi Bank</td>
<td>1927</td>
</tr>
<tr>
<td>4.</td>
<td>Federal Bank</td>
<td>1931</td>
</tr>
<tr>
<td>5.</td>
<td>ING Vysya Bank</td>
<td>1930</td>
</tr>
<tr>
<td></td>
<td>Bank Name</td>
<td>Year</td>
</tr>
<tr>
<td>---</td>
<td>----------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>6</td>
<td>Jammu and Kashmir Bank</td>
<td>1938</td>
</tr>
<tr>
<td>7</td>
<td>Karnataka Bank</td>
<td>1924</td>
</tr>
<tr>
<td>8</td>
<td>Karur Vysya Bank</td>
<td>1916</td>
</tr>
<tr>
<td>9</td>
<td>Lakshmi Vilas Bank</td>
<td>1926</td>
</tr>
<tr>
<td>10</td>
<td>Nainital Bank</td>
<td>1922</td>
</tr>
<tr>
<td>11</td>
<td>RBL Bank</td>
<td>1943</td>
</tr>
<tr>
<td>12</td>
<td>SBI Commercial and international Bank</td>
<td>1955</td>
</tr>
<tr>
<td>13</td>
<td>South Indian Bank</td>
<td>1929</td>
</tr>
<tr>
<td>14</td>
<td>Tamilnad Mercantile Bank Limited</td>
<td>1921</td>
</tr>
<tr>
<td>15</td>
<td>United Western Bank</td>
<td>1936</td>
</tr>
<tr>
<td>16</td>
<td>IDBI Bank Ltd (reverse merged with parent IDBI in 2004 to become IDBI Bank. Making this public sector bank private)</td>
<td>1964</td>
</tr>
<tr>
<td>17</td>
<td>Catholic Syrian Bank</td>
<td>1920</td>
</tr>
</tbody>
</table>


It is clear from Table 3.2 that the City Union Bank is the oldest bank among the Old Private Sector Banks in India.

### 3.5.2. New Private-Sector Banks

The banks, which have came in operation after 1991, with the introduction of economic reforms and financial sector reforms are called "new private-sector banks". Banking regulation act was then amended in 1993, which permitted the entry of new private-sector banks in the Indian banking sector. However, there had been certain criteria set for the establishment of the new private-sector banks, some of those criteria being:
i. The bank should have a minimum net worth of Rs. 200 crores.

ii. The promoters holding should be a minimum of 25% of the paid-up capital.

iii. Within 3 years of the starting of the operations, the bank should offer shares to public and their net worth must increase to 300 crores. Table 3.3 carries the list of the new private sector banks in India.
Table 3.3
List of the New Private-Sector Banks in India

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name</th>
<th>Year established</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Axis Bank (earlier UTI Bnk)</td>
<td>1994</td>
</tr>
<tr>
<td>2.</td>
<td>Bank of Punjab (actually an old generation private bank since it was not founded under post-1993 new bank licensing regime)</td>
<td>1989</td>
</tr>
<tr>
<td>4.</td>
<td>Development Credit Bank (Converted from Co-operative Bank, now DCB Bank Ltd.)</td>
<td>1995</td>
</tr>
<tr>
<td>5.</td>
<td>HDFC Bank</td>
<td>1994</td>
</tr>
<tr>
<td>6.</td>
<td>ICICI Bank (previously ICICI and then both merged; total merger SCICI+ICICI+ICICI Bank Ltd)</td>
<td>1996</td>
</tr>
<tr>
<td>7.</td>
<td>Indus Ind Bank</td>
<td>1994</td>
</tr>
<tr>
<td>9.</td>
<td>Yes Bank</td>
<td>2005</td>
</tr>
<tr>
<td>10.</td>
<td>Balaji Corporation Bank Limited</td>
<td>2010</td>
</tr>
</tbody>
</table>

Source: http://en.wikipedia.org/wiki/Private-sector_banks_in_India

It is clear from Table 3.3 that there are ten banks in the new private sector banks in India.

3.6. Market Capitalization of Private Sector Banks in India

Many of the Indian private sector banks are listed in Bombay Stock Exchange and actively traded. Table 3.5 records the details of Market Capitalization of Private Sector Banks in India on 18th July 2014.

Table 3.4
Market Capitalization of Private Sector Banks in India on 18th July 2014
<table>
<thead>
<tr>
<th>S. No.</th>
<th>Company Name</th>
<th>Market Cap (Rs. cr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>HDFC Bank</td>
<td>200,527.54</td>
</tr>
<tr>
<td>2</td>
<td>ICICI Bank</td>
<td>170,842.12</td>
</tr>
<tr>
<td>3</td>
<td>Axis Bank</td>
<td>94,112.69</td>
</tr>
<tr>
<td>4</td>
<td>Kotak Mahindra</td>
<td>72,061.21</td>
</tr>
<tr>
<td>5</td>
<td>IndusInd Bank</td>
<td>28,605.42</td>
</tr>
<tr>
<td>6</td>
<td>Yes Bank</td>
<td>22,987.50</td>
</tr>
<tr>
<td>7</td>
<td>ING Vysya Bank</td>
<td>11,852.16</td>
</tr>
<tr>
<td>8</td>
<td>Federal Bank</td>
<td>10,765.20</td>
</tr>
<tr>
<td>9</td>
<td>JK Bank</td>
<td>8,137.00</td>
</tr>
<tr>
<td>10</td>
<td>Karur Vysya</td>
<td>5,229.75</td>
</tr>
<tr>
<td>11</td>
<td>South Ind Bk</td>
<td>4,428.52</td>
</tr>
<tr>
<td>12</td>
<td>City Union Bank</td>
<td>4,385.73</td>
</tr>
<tr>
<td>13</td>
<td>Karnataka Bank</td>
<td>2,584.13</td>
</tr>
<tr>
<td>14</td>
<td>DCB Bank</td>
<td>2,082.08</td>
</tr>
<tr>
<td>15</td>
<td>StanChart IDR</td>
<td>1,380.00</td>
</tr>
<tr>
<td>16</td>
<td>Lakshmi Vilas</td>
<td>1,051.70</td>
</tr>
<tr>
<td>17</td>
<td>Dhanlaxmi Bank</td>
<td>652.97</td>
</tr>
<tr>
<td>18</td>
<td>Goldman BEES</td>
<td>266.16</td>
</tr>
</tbody>
</table>

Source: [http://www.moneycontrol.com](http://www.moneycontrol.com)

It is clear from Table 3.4 that HDFC Bank has the maximum market capitalization among all private sector banks in India followed by ICICI Bank and Axis Bank.

### 3.7. Summary

In this chapter, the researcher has analysed the background of the private sector banks in India. The private sector banks are facing different challenges like competition,
technology, innovations, bank computerisation, changes in the customers attitude, customer driven growth, deregulation, restructuring of banks, voluntary retirement scheme, constraints and consumer satisfaction in banks. The role of private sector banks in the development of Indian Economy is highly significant because of its coverage in various parts of the country.

Chapter IV

EVALUATING THE MARKETING STRATEGIES OF PRIVATE SECTOR BANKS IN SIVAGANGAI DISTRICT

4.1 Introduction

4.2 Profile of the Selected Private Sector Banks in India

4.3 Different Components of Services of Select Private Sector Banks

4.4 Comparative Score and Rankings of Customers and Bankers of the Components of the Banking Services

4.5 Relationship Between Customers And Bankers Observation About Banking Services

4.6 Summary