CHAPTER - 6

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Summary: The foregoing study is an attempt to explain the relevance of various marketing techniques to the banking industry with special reference to the rural areas in India. A summary of the findings of the study and a formal conclusion are furnished in this chapter.

The chief characteristics of an underdeveloped country generally include excessive reliance on the primary sector; high rate of growth of population; scarcity of capital; primitive technology; prevalence of seasonal unemployment; under-utilization of natural resources; existence of backward population; and existence of a dualistic economy. Since the Indian economy exhibits these characteristics, it is an underdeveloped economy. However, there are certain clear indicators of the developing nature of the Indian economy and hence the Indian economy may be rightly termed a developing economy.

Domestic savings and capital formation play an important role in the economic development of an underdeveloped country. While domestic savings can be supplemented by deficit financing and external borrowings in the initial stages of the development of a country, it is domestic savings that constitutes the ultimate source of capital formation since deficit financing and external borrowings cannot be continued forever.

In a traditional rural economy like that of India, the rate of domestic savings is low due to low levels of income. Further, whatever amount is saved is generally held in the form of gold and jewellery, land and buildings or spent on conspicuous consumption without making it available to the modern sector of the economy for capital formation. Through the encouragement of savings and effective mobilization of such savings for productive endeavours, financial intermediaries aid in the development process of a less developed country.

Among the various financial intermediaries, commercial banks occupy an unique position because of their capacity to manufacture money. Since commercial banks are the only important form of financial institutions in many of the less developed countries, they have to play a dynamic role in the growth-process of these countries.

There is a positive corelation between banking development and economic development in a country. But, the extent of the contribution that the banking system makes to the process of development depends upon how banking policies are pursued and the pattern of evolution of the banking structure. This calls for the development, in each country, of a banking system capable of meeting its investment needs for attaining the desired rate of economic growth by mobilizing the required savings and by providing the economy with the required financial infrastructure.

A study of the growth of banking in India in the Pre 1948 period indicates that the banking system continued to follow the same methods and practices as were followed by their British counterparts. No effort was made to develop a banking system suitable to the Indian economy. The concept of development banking was not known. A comprehensive piece of legislation to regulate and control the banking industry was non-existent. The modern banking industry confined its operations mostly to big cities and towns as a result of which small towns and rural areas were denied of the required banking facilities. In spite of the fact that the Banking Companies Act, 1949 (now known as the Banking Regulation Act, 1949) gave vast powers to the Reserve Bank to develop a strong commercial banking system capable of meeting the needs of the Indian economy, the general trend of banking operations and development in the country continued to be what it was prior to 1948.

For the purpose of setting right these imbalances in the Indian commercial banking system and in its operations and for making the flow of bank credit more broad-based and oriented towards Plan-priorities and objectives, 'Social Control' over banks was imposed in December 1967.

It was soon realised that nothing short of social ownership is sufficient to meet the requirements and hence the Government nationalised the 20 big commercial banks - 14 in July 1969 and 6 in April 1980 - operating in the country.

The banking industry in India has undergone radical changes after nationalisation. These changes relate to massive extension of banking facilities in the rural and unbanked centres, a shift from class to mass banking, orientation of the banks' lending policy increasingly in favour of the unprivileged sectors of the economy and sections of the society and involvement of banks in the process of planning and development at the grass-root level.

In order to ensure a balanced growth of banking and an even distribution of credit among the different regions of the country, the 'Lead Bank Scheme' was introduced in December 1969 under which all the districts in the country, excepting Greater Bombay, Calcutta, Madras, Union Territories of Delhi, Chandigarh and Goa, were allotted to State Bank of India and its subsidiaries and public and private sector banks after taking into account such factors as the resource base of the banks concerned, contiguity of the districts, etc. The Lead Bank has to act as a consortium leader and elicit the co-operation of the other banks operating in the district in resource mobilization and assessing and meeting the actual and potential credit needs of the district.

Since the first lap of nationalization of 14 banks in July 1969, there has been a phenominal increase in bank coverage, deposit mobilisation and credit deployment in the country, particularly in rural areas. Between the end of June 1969 and the end of June 1981, the share of rural areas in branches, deposits and advances of commercial banks shot up from 22 per cent to 49 per cent, 3 per cent to 13 per cent and 2 per cent to 11 per cent respectively.

With the object of ensuring adequate flow of credit to weaker sections (small and marginal farmers, share-croppers, agricultural and non-agricultural labourers, rural artisans, persons belonging to scheduled caste and tribe, etc.) and strategic but neglected sectors (agriculture, small-scale industries, retail trade, road and water transport, small business etc.) of the economy, the concept of the 'Priority Sectors' was first introduced in 1972. The concept was examined and was broadbased once in 1980 and again in 1982. Under the priority sectors, banks were directed to lend 40 per cent of their aggregate credit to the above mentioned sections and sectors of the economy by March 1985. The share of priority sector advances in the total outstanding credit of commercial banks moved up from Rs. 441 crores as at the end of June 1969 to Rs. 10240 crores as at the end of December 1981.

With the aim of assisting the rural poor in a larger measure, in addition to Government schemes like Integrated Rural Development Programme and 20-Point Economic Programme, schemes such as Village Adoption, Financing Primary Agricultural Co-operative Credit Societies by commercial banks and granting of loans under concessional rate of interest (DRI Scheme) were initiated.

The undertaking of all these functions by the Indian commercial banks highlight the increasing recognition in the country of the fact that the banking system is a tool of socio-economic change and development in the country.

Marketing plays a key role in the development of an economy by bringing a balance between production and consumption. Though marketing is one of the most powerful instruments of development, till recently it was not given due weightage by the underdeveloped countries. It is now recognised that compared to developed economies, the application of the marketing concept is of greater value, use and help to less developed or developing countries.

Since the main aim of marketing is to match the needs and desires of the people with the producers' products or services so as to effect transfer of ownership of the product or enjoyment of the service, it plays the same basic role both in manufacturing firms and in service industries.

Generally business concerns including banks that market services are slow when compared to manufacturers in recognizing marketing as a key element in their operations. Unlike other business or industrial organizations, banks deal directly with the end-users of their services without any middlemen. At present, the end-users of bank services are not only numerous but also belong to different walks of life. In order to find out and evolve suitable products (services) that meet the requirements of various customer segments, marketing techniques will assist banks in their business operations.

The adoption of marketing techniques by banks on a scientific basis is in its nascent stage and hence there is no precise definition of bank marketing. Irrespective of the definition of marketing, bank marketing has to help banks to identify what their customers need and to devise the type of products/ services required by them. Viewed from this angle, bank marketing may be defined as a systematic and continuous process of identifying and developing suitable products(services) to meet the needs and demands of the target markets. In other words, planned efforts to develop the type of products(services) that meet the demands of different customer segments may be called bank marketing. However, since services have many unique characteristics such as intangibility, inseperability, fluctuating demand, lack of standardisation, absence of logistic functions such as physical distribution, storage, transportation, inventory control, etc., the strategies adopted for product marketing are not suitable for service marketing and call for a different approach.

The ultimate goal of marketing concept in banks is to help them to find out new uses for old products(services), constant search for new products(services), markets and segments and satisfying the customers by providing the products(services) they want and need.

In addition to innovations, other important functions of marketing in banks include - finding out today that services which will become the main business force tomorrow; to spot out prospective customers well in advances; to motivate the organisation to adjust itself to meet the changing needs of the customers on a continuous basis; to evolve new product (service) and product (service) packages to meet the requirements of the customers; and to communicate the existence and advantages of these products (services) to the public.

Since the banking requirements of all the people residing in an area are not the same, it is necessary for a bank to segment the market so that it can adjust its products (services) to the needs of different people. This is being done by dividing the public into different categories on the basis of many variables such as population, sex, age, profession, income levels, educational standards, etc. The main virtue of market -segmentation lies in that it represents sub-markets with individual differences which can be measured. Small and marginal farmers, agricultural labourers, retail traders in fertilizers and other agricultural inputs, village and cottage industrialists, self-employed persons like tailors, carpenters, masons, weavers, petty shop owners, etc., women folk either self-employed or gainfully employed, persons of young age group and student community are some of the promising market segments for bank products(services) in rural areas. After the market is segmented, a bank has to develop a package of products(services) keeping the specific needs of different customer segments in view.

In view of the fact that advertising plays an important role in bank marketing, a bank must attach due care and caution in selecting the media, conveying the message and other aspects of advertising. A vast majority of rural masses being illiterate, a combination of traditional folk media with modern media is likely to have a better impact on them. Since the object of publicity is to boost up the corporate image of a bank among the public in general and its customers in particular, it is beneficial for a bank to gather the views of the public about its activities before devising any publicity campaign.

In order to prepare a realistic 'Marketing Plan', it is necessary for a rural branch to conduct a comprehensive market survey in its 'Command Area' from which it expects to get a lion's share of its business and collect the following information - the occupational distribution of the population and their incomes as far as they relate to banking services, i.e., the market potential for banking services; the saving and investment pattern of various occupational groups; the habits, customs, traditions, etc; that govern the people belonging to different castes; the competitive situation prevailing in the area; the product (service) mix that would meet the requirements of different customer groups; the need for introduction of new products(services) to serve the requirements of a particular customer group or groups; the necessity of improving the existing products(services) for enhancing their utility; the possibility of withdrawing unwanted products(services); the potential customer group or groups that need special attention; and the ideal media to effectively communicate with the customers in the area.

After a careful analysis of the above data, a rural branch has to draw up a meaningful and useful marketing plan indicating clearly the amount of different types of business - deposits, advances and ancillary services- it expects to undertake in the ensuing calander year. The additional manpower and other facilities, if any, necessary for undertaking the anticipated business should also be mentioned in the plan. It is these micro-level plans that should form the basis for the preparation of marketing plans at various higher levels - divisional, regional, zonal and at the bank level.

An important aspect of bank-marketing is customer-service. Since modern commercial banking is new to majority of the rural people in India and since the rural people find it difficult to understand and follow the deposit and loan procedures of the commercial banks due to their low educational standards - and illiteracy in many cases - proper bank- customer relationship and customer-service are essential to promote the banking habit among the rural people in the country. Such customer-service assumes added importance for an individual bank since under a regime of non-price competition customer-service is the only way by which one bank can compete with its competitors in attracting business.

The success of the marketing strategy followed by the banks can be judged by the market-penetration ratio. For the country as a whole the per household deposit penetration ratio by banks in terms of savings bank accounts as at the end of June 1981 was found to be the highest at 1.12 in Northern Region (Haryana, Himachal Pradesh, Jammu and Kashmir, Punjab, Rajasthan, Chandigarh and Delhi), followed by 1.07 in Western Region (Gujarat, Maharashtra, Dadra and Nagar Havely and Goa, Daman and Deu), 0.91 in Southern Region (Andhra Pradesh, Karnataka, Kerala, Tamilnadu, Lakshadweep and Pondicherry), 0.53 in Eastern Region (Bihar, Orissa, West Bengal and Andaman and Nicobar Islands), 0.51 in Central Region (Madhya Pradesh and Uttar Pradesh) and 0.34 in North-Eastern Region (Manipur, Meghalaya, Nagaland, Sikkim, Tripura, Arunachal Pradesh and Mizoram). As regards advances, the penetration ratio per household stood at 0.15 for Northern Region, 0.09 for North-Eastern Region, 0.11 for Eastern Region, 0.09 for Central Region, 0.13 for Western Region and 0.33 for Southern Region. For all-India, the per household penetration ratio was 0.77 for deposits and 0.17 for advances.

The potential for deposits in terms of households - savings bank accounts varied from a minimum of 0.05 lakh accounts in the Union Territory of Andaman and Nicobar Islands to a maximum of 88.16 lakh accounts in Uttar Pradesh State. For the entire country, it amounted to 363.85 lakh accounts. In respect of advances to improve the economic conditions of the 50 per cent of the households living below the subsistence level in the country, banks have yet to assist 396.85 lakh households.

Though Indian commercial banks were slow in realising the importance of marketing, there have been instances of individual banks adopting certain systematic programmes for popularising their products(services) among the people even during their formative years. The case study of the operations of Syndicate Bank highlights such strategies adopted by the Indian banks.

The operational policies of Syndicate Bank were aimed at improving the living standards of the rural people. Resisting the temptation to limit itself to urban conglomerations, Syndicate bank pioneered in rural branch expansion. 'Area Approach' aimed at developing a network of branches for intensive banking in a specified area has been the policy adopted by the bank in its branch expansion. The measures taken by the bank to reduce the cost of operation include recruiting of staff locally on low pay scales and appointment of persons on commission basis to collect deposits and provision of banking services in rural areas. With a view to instil the habit of saving and banking among the poorer sections of the people in the country and thereby to improve their economic conditions, the Bank introduced new products like the 'Pigmy Deposit' scheme and 'new processes' such as outdoor deposit collection so as to make banking convenient to the small savers.

Towards its endeavour in locating new areas for business, lending to agriculture and other activities in rural areas was taken up. The bank's interest in fostering scientific farming has manifested in the promotion of Syndicate Agriculture Foundation. The Farm Clinic Project was an innovative attempt to put into practice the concept of integrated credit and extension. The Self-Employment Clinics established by the bank were a venture to provide employment opportunities to the educated youth through bank finance and technical guidance. The aim of the Investor's Agency Service set up by the bank was to help the small savers to get an assured return of 9 to 10 per cent of the investments made by them on any of the recommended shares. The objective of the Tax Cell started by the bank was to assist the tax-payers in solving their income-tax problems. The motto behind such programmes like the organisation of 'Teachers' Week', 'Lawyers' Week', 'Doctors' Week', etc. is to attract business from different sections of the community.

A combination of modern and traditional folk media was used by the bank to spread the message of banking. Publicity campaigns are being conducted to popularise the various deposit schemes. A novel medium in the form of 'Magic' introduced by the bank for mass communication seems to be very effective in attracting rural masses. Through this medium efforts are being made to propagate the banking habit, particularly thrift, among the villagers.

The marketing strategy adopted by the bank in the different spheres of its activities had contributed to its development. It is, however, not possible to assess the impact of each of the Bank's marketing techniques on its overall growth and efficiency for the reason that while the contribution was visible in some cases, it was invisible in some other cases.

However, the marketing techniques adopted in the four areas - Rural Banking, Small Deposits Mobilization, Financing Agriculture and Small Advances - of its operation are relatively more quantifiable and were elaborately discussed in the thesis.

The case study of the operations of Syndicate Bank and its marketing strategy points out the crucial role of marketing in popularising the products(services) of the banks among the people and in promoting the banking habit among them.

<u>Conclusions</u>: The following conclusions can be arrived at from the detailed study made of the role of banks in the development of the Indian economy, particularly of its rural areas, of the role of marketing in banking industry and of the case study of the marketing techniques employed by Syndicate Bank in the years of its growth and expansion:

(I) India is a developing country whose rate of development can be speeded up through vigorous and proper mobilization of its domestic savings for productive purposes.

(II) The commercial banks as financial intermediaries, creators and purveyors of credit, can help in accelerating the process of economic development in the country by encouraging domestic savings and by mobilizing such savings for productive investment.

(III) Apart from its function as the creator and purveyor of credit, the banking system of the country forms an effective instrument of socio-economic change and development.

(IV) The concept of marketing and its techniques are as much relevant and useful to the banking industry in the promotion of its business activity and in the discharge of its social obligations, as to other manufacturing units engaged in the production of tangible goods. Hence, a bank has to devise an appropriate marketing strategy so as to make its product(service) mix reach the various target groups for whom they are developed.

(V) The case study of the strategy and techniques adopted by Syndicate Bank in marketing its product (service) mix signifies the role and effectiveness of marketing in furthering the business of a banking institution and in enabling it to fulfil its social responsibilities.