Chapter-4

Urban Co-operative Banks and Marketing of Services in Rajasthan
CHAPTER-IV

URBAN COOPERATIVE BANKS AND MARKETING OF BANKING SERVICES IN RAJASTHAN

It has been revealed from the previous chapter that the growth of UCBs has been remarkable after 1990. And UCBs play crucial role in the economic development of the state. Survival and progress of banks are mainly influenced by their ability to market qualitative service to different classes of customers rather than the volume of their capital resources or the size of banks. Banks have to depend upon the human resources for their survival and progress. It follows that banks should prosper and make progress not merely in the interest of the community and the country at large but also their own interest and also in the interest of their employees.

Customer service, which is deteriorating quite against the fundamental obligation of the banker, is not a recent phenomenon; Complaints of poor customer service are generally heard in public sector banks, particularly in big towns. The quality of customer service is continuously deteriorating from bad to worse.

Important service that the bank can render the society on the whole today is to reduce the high lending rates and make them purposefully realistic with some relation to deposit interest rates paid in banks. The banks should be able to settle the transactions of the customers quickly,
and at just one point. The customers should be guided properly and satisfactorily.

Customer service refers to the service function of the banking organisation that permeates both banking and ancillary services. The success of a bank depends upon the range and quality of service offered to its customers. The range of services covers

- Mobilising Deposits
- Remittances and Transfers
- Collections of Bills Accept or Endorsed by the Members
- Loan & Advance Facilities
- ATM Facilities
- Non-residential Account Operation
- Trade Introduction
- Credit Information
- Periodical Payments Under Standing Instructions
- Arranging of investments
- Safety locker facility
- Overdraft facility
- Execution of trustee services
Among these, urban banks render only a few of the services. None of the banks offer non-residential account operation, trade introduction, credit information, arranging of investments and execution of trustee services and ATM service. Some of the services as mentioned above require technical know how and experienced persons in that field must be hired. Moreover, the volume of transactions may not be sufficient to cover the large overhead charges. Therefore, the urban banks by their nature cannot offer such services. Thus, it is seen that the range of services rendered by the urban banks is limited and this reduces their capacity to compete with the commercial banks.

**DIFFERENT TYPES OF ACCOUNTS CUSTOMER CAN HAVE WITH BANKS**

A bank is essentially an intermediary of short-term funds. A good banker is one who effectively mobilises the savings of the community as well as makes such use of saving by making it available to productive and priority sector of economy, traditionally the banker used to accept three types of deposits viz. current, fixed and saving deposits. But, because of the intense competition for resources, there are a variety of other innovations introduced by the bankers in the recent times.

**I. CURRENT ACCOUNT**

A current account is a running account with amounts being paid into and drawn out of the account continuously. These accounts are also called demand deposits or demand
liabilities since the banker is under an obligation to pay the money in such deposits on demand. The account becomes time barred, because the limitation does not run until the customer on the bank for the payment of deposit makes a demand. These accounts are generally opened by the business houses, public institutions, corporate bodies, and other organisations whose banking transactions are numerous and frequent. Some of the special features of current accounts are discussed below:

1. Accounts can be overdrawn by special arrangement with the bank. Cheques drawn without such special arrangements are not only dishonoured, but the bank also reserves to itself the right of closing such accounts without notice to the customer. Few banks also charge Rupee 1 for dishonour of a cheque drawn against insufficient balance.

2. Accounts can be opened free of charge for firms or individuals known to the bank or properly introduced. No account is opened for a sum less than Rs. 100. The same minimum balance is to be maintained to keep the account running. A minimum and maximum of 12 paise per month will be charged/made if the daily credit balance in an account is less than Rs. 100/- or any one day or number of days during the month.

3. As these deposits are payable on demand, banker is obliged to keep larger cash receive than are needed in the case of fixed and saving deposits. That is why banks
do not pay any interest on credit balances in current accounts. On the other hand, a moderate charge is made each half-year to cover incidental expenses and to offer adequate remuneration for the labour involved in keeping the account. This charge is the one familiarly referred to as incidental charge.

Besides the above, rules of business relating to current accounts provide for the following:

1. Only the chequebook supplied by the bank should be used and the constituents are requested to sign in the same style as the specimen given to the bank. Cheque must be drawn in ink and all alterations made in a cheque must bear the full signature of the drawer and the bank reserves the right to refuse payment of cheques, which have been altered and are not so signed.

2. The following cases of cheques may not be honoured.

   a) Cheques drawn against unrealised credit.

   b) Post dated cheques

   c) Cheques drawn for amount in excess of balance at credit unless special arrangement is made previously.

   d) Cheque dated more than six months prior to presentation.

   e) Cheque being altered in any way, alterations being not confirmed by the drawers signature in full and
f) Cheque drawn on forms other than those supplied by bank.

3. The bank has reserved to itself the right to appropriate the deposits and securities of customers towards their obligations.

4. The bank reserves to itself the right of closing an account after previous intimation if it is not operated upon satisfactorily or for any other reason whatsoever.

II. SAVING ACCOUNTS: Saving accounts are mainly meant for non-trading customers who have some potential for saving and who do not have numerous transactions entering their accounts. Salaried class of lower and middle-income groups, small traders and farmers mainly open such accounts.

Who Can Open a Saving Account?

1. By a person on his/her own behalf.

2. By more than one person payable to any one or more of them or survivor or survivors.

3. In which case a declaration as to a guardian on behalf of minor should obtain the date of birth of the minor.

4. By minor himself/herself for reasonable amounts provided the minor produces satisfactory proof of his/her date of birth.
5. By secretaries, treasurers, managers or other officers of non-trading concerns such as schools, clubs, hospitals, religious and charitable institutions. However, in these cases, necessary information should be furnished regarding rules byelaws of such institution to the bank when the account is opened.

6. Saving bank account in the name of trading concern (proprietorship, firm or joint stock company) can be opened for placing their special funds such as provident fund, etc. but they cannot open saving bank accounts for conducting trade.

III. RECURRING DEPOSIT OR CUMULATIVE DEPOSIT ACCOUNTS

This is a variant of saving account and provides for gradual and yet steadies way to save every month for any project, small or big, e.g., radio, refrigerator, car or house or for lumpsum payment of taxes, premium, etc. useful even for the business and industrial houses to provide for the payment of dividends, taxes and other payments.

Deposits may be made in multiples of Rs. 5 every month for a period ranging from 12 to 72 months. The rate of interest is similar to the rates offered on fixed deposits, but the interest is compounded.

The depositor is allowed to close the account before maturity, but is allowed lesser rate of interest depending on the period for which the deposit has run. These
accounts are transferable from one branch to another without charge. Account can be opened by a person himself/herself, by more in the name of a minor and even by a minor. The monthly instalment must be paid before the last working day of that month. The deposit matures after a month from the last instalment.

IV. FIXED DEPOSITS: Fixed deposits constitute a very important resource for banks, as bank need not keep greater resources in respect of such deposits. Fixed deposits are money deposited by the customers for a fixed period, which ranges from 15 days to 120 months. These deposits are repayable subject to a period of notice and not on demand. The bank receives fixed deposits for sums of not less than Rs. 50/-.

For opening of a fixed deposit account no introduction or reference is required. However, the depositor is required to fill in an application form giving the particulars regarding the amount and period of deposit. Along with the application form, he/she has to give specimen signatures on a card.

For the amount placed on a fixed deposit the banker gives deposit receipt which states the amount received towards the deposit, the rate of interest, the name of the person from whom it is received and the period of deposit.

Bankers generally give loans up to 75% of the deposit, against the security of the deposit.
The deposit receipt is generally worded in such a way that the banker undertakes to pay the amount only whom it is duly discharged. Therefore, it is necessary to produce the receipt duly discharge at the time of repayment of the deposit.

V. MISCELLANEOUS ACCOUNTS

As already pointed out earlier, there is vigour's drive for mobilisation of deposits and different banks have introduced novel type of accounts. Some UCBs in Maharashtra, Gujarat, and Karnataka have created a new deposits' division to address itself exclusively to the task of deposit's mobilisation and to introduce some techniques. So is the case with other banks. Some of the novel schemes are given below as follows:

1. Grahashobha deposit.
2. Shubhamangal deposit.
3. Chintamani deposit.
4. Urban Suraksha
5. Shishu Kosh
6. Dhanvarsha
7. Marriage deposit.
MARKETING OF BANKING SERVICES BY THE UCBs IN RAJASTHAN

The concept of marketing is generally identified with tangible goods like consumer and manufactured goods. Gradually the principles of marketing were applied to business of intangible goods also, like business of banking, insurance, hotel and tourism and consultancy etc. In the early years of development of banking business, there were a few banks catering to the financial need of a large number of customers. In such a demand-supply situation, the banks had monopoly in providing services to its customers. Even though banks had used one or two components of marketing at that time, principally they were engaged in selling of banking services. Act of selling focuses on the need of seller while marketing focuses on the need of the buyer. Banks started integrating components of marketing into its operation since 1950s when it introduced itself to its customers through advertisement. Later on, banks started expanding their area of operation by opening more branches during 1970s, which is known as market development and market penetration. During 1980s, banks developed different kind of ancillary service, which is known as product development. In 1990s, the scenario of banking business has totally changed. In order to bring efficiency, accountability and high degree of customer service, competition has been induced by granting licence for banking business to new operators like private banks, local
area banks, foreign banks, regional rural bank, and cooperative banks. Consequently, now customers have option of more than one bank for their financial needs. It is estimated that a customer has a choice of at least three banks within a radius of 1km in cities. Banks are vying for each other to attract and hold the customers. Such competitive environment has necessitated use of not one or two components of marketing but a proper mix of all the six components of marketing of services.¹

The government of India has started the process of liberalisation and globalisation of economy, especially in the financial sector since 1991 and has taken several drastic measures to bring about decontrol and deregulation in the financial sector. In 1991, the Government constituted a committee headed by Mr. Narasimham to suggest reforms in the financial sector to make it more competitive and vibrant. Narasimham Committee in its report strongly recommended that the financial sector should operate on the basis of operational flexibility and functional autonomy to enhance efficiency and productivity. The committee also recommended that the interest rate structure should be deregulated and concessional interest rate enjoyed by co-operative banks should be phased out. The committee has favoured opening of new banks in the private sector to engineer and encourage competition. The Government started the implementation of some of the recommendations of the committee, which has created intense competition amongst
the nationalised banks, private sector banks, foreign banks, regional rural banks, co-operative banks and NBFI.² It is a fact that despite several restrictions on the operation of foreign banks they are doing brisk business. Private sector banks have emerged as a force to reckon with, within a short period of three years of their inception. It has made a large base of equity and deposit and has created a position for itself. Some of the co-operative banks with limited area of operation and few branches are also performing better than most of the nationalised banks. Success of these banks lies on the fact that knowingly or unknowingly they have adopted marketing strategies in their business. In such a competitive environment, banks have no option but to accept the heat of the competition and be prepared to meet any challenge for existence and sustenance. Globalisation of the economy and integration of Indian financial sector with that of the world has enabled banks to bring the latest trends of banking industry at the doorstep of Indian customers. This has totally changed the perception and expectation of customers. Now customers demand customised and personalised services. The financial need of the customer has also changed with time. The living standards of middle class have improved and there is spate in consumerism in the society. Today, understanding the needs, desires, and problems of customer and redefining its business operation for satisfying customer needs are the major challenge facing the banks. Market research and development, which is an integral part of marketing, will be very helpful for the banks. Marketing research will be
necessary for assessing the impact and acceptance of existing service as well as for ascertaining the need for changing the existing procedures and setting business development goals to meet them. Marketing of banking services is generally mistaken for deposit mobilisation only. But it includes prudent lending, customer research and tapping of potential customers. Thus, adopting marketing strategy gives the bank a competitive edge over its competitors and also forces them to think for future.

MARKETING MIX FOR SERVICE SECTOR

Marketing mix means combination of ingredients, which makes of marketing programmes. It is necessary to understand the features of financial services, which will help in preparing a proper marketing mix. Financial service is intangible. It has high involvement of people and it has direct customer relationship. Finance service cannot be stored and its demand is highly fluctuating. Business of financial service is highly regulated by the government and other nodal agencies. Standard marketing mix is product, price, place, and promotion. But features of financial services suggest adding two more aspects, i.e., people and procedure. A good marketing of banking services is a proper combination of six ingredients in the background of business environment and organisational objectives.³

STUDY AND ANALYSIS

PRODUCT: A product is anything, which is handed over by the bank to its customer, to satisfy his need and wants
like any other banking institution. The urban co-operative banks in India are also offering three kinds of product namely deposit scheme, credit scheme, ancillary services, like commercial banks urban co-operative banks offer current account savings account, term deposit and time deposit facilities to their customers. The product like current account and saving account facilities are ubiquitous and hosts of other are also offering the same products. The urban co-operative banks especially in the state of Maharashtra, Gujarat, Karnataka and Tamil Nadu feel that old products have failed to attract more deposits and it is high time that new and innovative products are offered for the deposits’ mobilisation. When the competition is at an optimum stage, a new product is designed by value addition caters to the need, demand and expectation of customers and it is helpful in product differentiation. Value addition makes the product more customers friendly and attractive. The urban co-operative banks like Mehsana Urban Co-operative Bank Ltd., (Gujarat), the Nagpur Mahila Nagrik Sahakari Bank Ltd. (Maharashtra), and some other banks in Maharashtra, Gujarat, Karnataka and Tamil Nadu had introduced products like Urban Cash Certificate, Dhanvarsha, Golden Bond, Urban Suraksha, Chintamani Deposit, Shubhamangal Deposit, Shishu Kosh, Marriage Deposit under the time deposit scheme wherein a certain amount of money is doubled over different period of time. Some of these schemes are as follows:
Urban Cash Certificate: Where an amount (minimum Rs. 500) is doubled in 61 months

Dhanvarsha: It is a scheme in which the amount is doubled @ 14 percent in 61 months.

Golden Bond: Where a minimum amount of Rs 5000 or its multiple is doubled over 53 months.

Urban Suraksha: Mehsana UCB Ltd. (Gujarat) introduced this product. The bank has been cashing on the growing awareness about the personal insurance in urban area in this product. Urban Suraksha provides personal insurance cover against the fixed deposit of certain amount to be doubled over a period of time. The bank has an arrangement with National Insurance Company Ltd. and it bears the insurance premium. The bank has designed this product for two target customer groups viz., lower income group and named it GP "A" and GP "B". A customer can deposit Rs. 2000 and get insurance cover of Rs 1 lakh in GP "A" and by depositing Rs. 4000 get insurance cover of Rs. 2 lakh in GP "B". The amount doubles at 60 months and insurance cover is also provided for 60 months. The bank meets the cost of insurance premium by blocking the amount for 3 months more than normal. The innovative product was so popular among customers that bank got deposits of more than Rs. 2 crore within a month.

However, UCBs in Rajasthan are largely depending on the old product, which are not so effective to attract new
customers. The UCBs should start service like "Urban Suraksha" and "Mobile Service".

Generally, credit facility of a bank is designed for a large share of loans and advances to industrial sector. Hypothecation, pledged cash credit, industrial finance, book debt overdraft facility against fixed deposit is the major components of credit facility. On the other hand, to cater to the needs of service class customers, banks also provide loans for purchasing car, scooter and household consumers' items. Now-a-days banks are also poised in extending credit in emerging segments like computer and education loan. Out of Rs. 597 crore the UCBs in Rajasthan has given 351 crore as on 30 June 2000. Their credit deposit ratio is 58.79 percent. This ratio is not satisfactory. This is due to the hesitation among the bankers to provide loans and advances to unsecured field, i.e., poor and middle class people.

**PRICE:** In financial service, price is nothing but service charge and interest rate on deposit and credit. The bank acts as a buyer while accepting deposit and acts as a seller while giving credit. So bank incurs both selling price and purchasing price. Pricing is one of the important marketing mix to attract customer.

People, who put their savings in the form of deposits with banks or non-banking institutions, consider among others, interest offered for selecting the institution. Earlier in the banking field the Reserve Bank of India used to fix
the minimum and maximum interest rate limits and the banks are bound to adopt them. As per R.B.I. directions, the urban banks are allowed to offer 1 percent more than that of the commercial banks and this is done with the intention of aiding urban banks in their mobilising efforts. This higher rate of interest enables the urban banks to compete with the branches of commercial banks, which operate in their area of operation. And to some extent it acts as a compensating factor to the customer for the absence of some services in the urban banks.\(^5\)

On the line of recommendation of Narasimham committee the Govt. is in the process of deregulating the interest rate from 30 days to 1 year is fixed but bank has leverage in deciding differential interest beyond 1 year. The bank can offer attractive interest beyond 1 year and can also offer attractive interest rate on deposits for long term. For example, Integral Urban Co-operative Bank ltd. Jaipur has made interest rate beyond 1 year very competitive. The bank offers interest rate of 11.5 percent on deposits from 1 year to 3 years and 12 percent on deposits from 3 years and above. In recent years interest rate has been characterised by a declining trend and coupled with annual inflation, these interest rates on deposits are very attractive for deposit mobilisation. However, interest rates vary from bank to bank. It is noteworthy that the interest rates provided by the UCBs are more than those of the Nationalised and other commercial banks; while the UCBs in Rajasthan has failed
to attract more deposits. The reasons behind poor deposits mobilisation are the feeling of insecurity among the people about the UCBs, poor image of UCBs; all deposits schemes are not covered by insurance schemes etc. The failure of Madhavpura Mercantile Co-operative bank and Krushi urban co-operative bank has damaged urban co-operative movement in Gujarat and Andhra Pradesh but has also affected the other states and the economy as well.

**PLACE:** Place refers to located of bank where it offers its service. As density of banks within an area is increasing so place assumes a greater significance. Customer prefers a bank, which is near to place of living or location of work. So bank should carefully select the area for opening its branches, which should be near to the target customers. Timing of banking operation, trend of deposits on the location of the branch should also be kept in mind.

Foreign bank and private sector bank have introduced aesthetic sense in banking by providing pleasant ambience, basic amenities in the premises and good infrastructure, interior and exterior décor, spacious lounge and parking areas has been a major attraction for there.

Branches expansion plays an important role in deposit mobilisation. And this technique is usually adopted by the commercial bank, urban Banks being "Unit Banks" that operate within specified urban or semi urban area does not adopt this technique.
However, the RBI has relaxed the norms relating to area of operations of new urban co-operative banks. UCBs were permitted to extend their area of operation to the entire district and those registered in metropolitan cities were allowed to extent their area of operation to the entire city limits. In order to grant greater freedom to financially strong and well-managed UCBs, which satisfy, prescribed norms the branch expansion policy was liberalised by permitting them to open branches at centres of their choice without prior approval of the Reserve Bank.

The entry point norms (EPNs) based on the population criteria; the entry point norms for new UCBs were revised effective April 1, 1998. The centres were reclassified into three categories i.e. (i) metropolitan (10 lakh and above) (ii) Urban (1 lakh and above but less than 10 lakh) and (iii) semi-urban (10,000 and above but less than 1 lakh). The share capital norms (Rs. 100 lakh, Rs. 50 lakh and Rs. 25 lakh) and initial membership (2000, 1500 and 1000), respectively, of the three categories, were also revised. Entry point norms continue to remain relaxed for banks in less/least developed states as well as for those organised for Mahilas /SGS/STs.

The urban banks are not generally enthusiastic in opening branches. While the urban banks in Maharashtra have taken active step to open branches such a trend is not seen in other places. In Rajasthan only 19 urban banks have branches and 22 have carried their operation without branches till date, 7 districts, no urban banks has taken any
steps to identify the potential areas, conduct feasibility studies and draw programmes for obtaining licence & opening new branches. One of the reasons for reluctance of these banks is the high expense involved in opening and maintaining the branches till they become viable. Urban banks, therefore, are left with either opening one-man branches instead of full-fledged branches or opening of extension counters. But, in general, the urban banks of Rajasthan are not well placed with regard to the usage of this technique for deposit mobilisation.

**PROMOTION:** Promotion is a major tool for informing, educating and communicating with customers. The various promotional tools available to the banks are: personal contact, advertisement, publicity, and the provision of incentives. Out of these, provision of incentives has been prohibited by the R.B.I. and therefore this tool is not available to the banks. The urban bank often uses personal contacts and occasionally the advertisement tool and very rarely publicity for mobilising the deposits.

The board of Directors/Chief Executive Officers, the secretaries and the staff must develop personal contact with present and potential depositors and actively canvas deposits. For this purpose, it is desirable for the urban banks, to conduct a survey to identify the potential depositors and devise a suitable programme to contact them personally and canvas deposits. Success in these fields pre-supposes willing participation of the staff given
the load by Secretaries and Board of Directors. Such a cooperation could be ensured in all these banks.

The urban banks in Rajasthan have not been able to use the most powerful tool of advertisement available to them in an effective manner. The Registrar of Cooperatives restricted the amount that could be spent on advertisement in any particular year to 0.1 percent of the working capital. This amount is inadequate at the present level of advertisement expenses. Further, many banks in the State do not fully or effectively use even the available amount. As a result poor advertisement mainly in the form of plain messages are communicated to the general public mostly in the form of printed notices or leaflets. Two steps are necessary to derive the maximum benefits from advertisement. First, the urban banks should plan and launch advertisement campaign in their respective locality. Secondly, all the urban banks in the district jointly undertake an advertisement campaign and promote the idea of banking with the urban banks.

Urban banks in many districts do not make use of publicity and they have not seized any opportunity to use publicity for the deposits mobilisation. Individual banks themselves can arrange for bringing out write-ups or feature articles about their successful performances in different fields in popular local newspapers and in leading magazines. In their area of operation, they can arrange to obtain favourable presentation of themselves on the stage or radio. Beyond that the urban banks in a particular state
together should establish a common seal for them where in the symbol of the state Government along with the symbol of Cooperative Department of the state should be engraved. This will develop the image and confidence of the general public about the urban banks.

**PEOPLE:** Motivated, dedicated, and enlightened workforce is the best asset for any organisation, which can face any competition eventually. Banking is essentially a person-to-person business. Whatever is handed over to the customer is intangible. So whatever is handed over may be important but more important is the way it is handed over. It is found that customer prefers to do business with the bank whose staff is well mannered and well informed. The UCBs of Rajasthan have sufficient number of banking staff and officers. But UCBs have not emphasised the need for a regular training of the staff to make them abreast of the latest developments. There is lack of systematic plan to train the staff; there is also lack of training centres in the states. UCBs are not serious to train its staff in public dealings, handling complains, and providing customised service. The banks also do not encourage its staff for self-development by giving various incentives. The banks pay package proved to be insignificant. It is one of the major causes of staff turnover. All these affect the deposit mobilisation process.
PROCEDURE: Bank business is composed of various processes and procedures. The processes and procedures are made by the bank to adhere to the laws and regulations as well as to the transaction of business. But on the one hand, often banks make these procedures very time consuming, complicated, and not friendly to customers at all. On the other hand, customer demands faster service and less cumbersome procedures. So the bank, which takes less time in delivering service to customers, commands a competitive edge over others. This lead-time, which is consumed in processing, can be curtailed by simplifying the existing procedures and by the use of modern technology. Computerisation of banking service takes less time in processing.

In Rajasthan only eight UCBs in Jaipur and two banks in Jodhpur are computerised. But these have no networking between the branches of these banks. Remaining UCBs in the state are working in the old manner, which is time consuming, and it is hard to compete with the other public and private sector banks.

To sum up, the urban banks in Rajasthan in general have not used effectively any of the six techniques outlined above. In fact, a proper mix of the above techniques would have yielded better results. The main reason for the failure of urban banks in this respect is the absence of plans. None of the banks has any plan for the deposit mobilisation. In the absence of plans, the banks
have not set any goals or target for the deposit mobilisation. Consequently, they do not feel the necessity for any of the above techniques. They were largely satisfied with the deposits that were made to the banks out of the individual efforts of the customers. In other words, the banks were satisfied with their limited operation. In a highly competitive field of banking, this approach may ultimately land the urban banks in stagnation and in the long run, the banks may face various problems.

Therefore, it is suggested that the urban banks initiate steps to prepare both short-term and long-term plans for the deposit mobilisation. Such an exercise should be on a rational basis taking into account the local environment, past achievements, the potentialities of the locality, the experience, expertise and willing cooperation of the staff, the competition from the commercial banks, and the cost of such operations. In the next chapter we will concentrate our focus on the deposit mobilisation.

REFERENCES


7. Ibid