CHAPTER – I

INTRODUCTION

As a result of Globalization and Liberalization policies, there is a paradigm shift in the marketing strategies across the globe. The focus is on benefits of long term relationships rather than creating short term relationships. The jargons used in the banking sector ranges from customer retention to customer loyalty. From the 1950s to the 1980s, bank markets were heavily regulated, which protected incumbent banks from any form of external competition. This period of stability has come to an end. Banks have tended to lag behind other industries regarding globalization and customization. Banking has become more globally integrated, there is high competition and it is however, important for banks to know what, when, where, and how they will provide and how their customers perceive products and services.

Banking is undergoing rapid changes across the world and UAE is no exception to it. With the entry of new generation tech-savvy private banks and the expansion of operations of foreign banks, the banking sector has become too competitive. Of late, the corporates have started accessing the capital markets directly for their capital requirements without depending on bank finance. It is found that most of the deposits come to the banking sector from the retail sector viz, individuals and joint individuals. Hence the banks have forced to shift their focus on retail banking. Continuous environmental change and international focus also made the banks to change their method of functioning. Consequently, it is desirable for banks to develop a customer-centric approach for future survival and growth. As a result, many banks have introduced new customer friendly measures like 24-hour banking, 7-day and anywhere banking,
internet banking, extended business hours, ATM network, mobile banking and many more.

As noted by Rust et al. (1994), understanding of the concept of satisfaction is necessary for managing SQ effectively. Satisfaction loosely means “enough” or “enough to excess” (Oliver, 1993). Thus, customer satisfaction can be defined as the customer’s fulfillment response. It has also been described as a process by (Rust, et al., 1994) and the most widely adopted process theory is that of expectancy disconfirmation in which satisfaction is viewed as largely based on meeting or exceeding expectations. According to Ernst & Young Global Consumer Banking Survey, globally, 44% of customers say their confidence in the banking industry decreased in 2010. Within Europe, the UK (63%), Germany (61%) and Spain (58%) have seen the largest falls in customer confidence. However, in emerging markets trust has risen, with 75% of respondents in India, for example, saying their trust in banks has increased.

In today’s competitive business environment, service quality is seen as a key-differentiating factor. The focus is on customer perceived quality. In majority of the countries customers are increasingly using multiple banks to meet their needs. Banks across Asia Pacific must close the gap between customer expectations and the way banks recognize and reward loyalty. Banks must give their loyal customers more compelling reasons to stay and avail more services. It is no longer providing a good service for a bank to grow and remain profitable; it is a question of providing excellent service. Increased competition, product standardization and pressure to cut costs will be the common agenda for the successful management of banks today.

As applicable to Banking, Quality may be defined as the ability to satisfy the customer’s requirements and needs to the fullest and to be able to replicate this on an on-
going basis. Quality is especially important in the banking sector because duplication of products and services is relatively easy. Further, differentiation of products is difficult. Thus, quality becomes the only differentiator and the key to continuing success. Banks that wish to succeed and stay ahead must, therefore, systematically build a structure that aims at providing Total Quality Service. The top management of the bank is the custodian of the Quality Key. Once the top management is convinced that quality is essential for the success, it can begin developing suitable quality programmes.

**Quality management system**

A QMS which drives service quality up to the highest standards is the key to future competitiveness and survival. The benefits are: Increased productivity, Reduction in error rates, Cost savings, increased customer satisfaction and Becoming a market leader. ISO 9000 standard fits the banking environment and perceived as a suitable tool for an efficient bank management. A logical progression for a bank that has a service quality approach to business is to get an ISO certification. ISO guidelines signify continued commitment to quality. Banks can also compete for various Quality Awards. Even if a bank does not win, this can help the bank measure where it stands and how far it needs to go. Quality awards encourage excellence and foster a competitive spirit. Operational efficiency and customer retention need to be the mantra of today’s banks.

**Marketing of banking services**

The marketing approach in the banking sector did not change much till the end of 20th century but planning techniques had been introduced in order to function effectively and to provide new services. However, scope of marketing should be considered due to banking sector coming under the services framework. Beginning of 21st century saw an
intense competition in the financial sector due to globalised banking perceptiveness and liberalized policies in the developing countries. According to Abed Abedniya et al (2011), the marketing comprehension that is performed by banks since 1950 can be shown as in following five stages:

1. Promotion oriented marketing comprehension
2. Marketing comprehension based on having close relations for customers
3. Reformist marketing comprehension
4. Marketing comprehension that focused on specializing in certain areas
5. Research, planning and control oriented marketing comprehension

The earlier marketing theory was generally focusing on the sellers approach and Moller (2006:24) assert that Marketing mix is internally oriented and does not consider customer behaviour, does not allow or capture relationships while focusing only on management. The traditional marketing is therefore viewed as obsolete toward achieving high business performance in a dynamic and more sophisticated marketing environment. Hence, there is a need for paradigm shift in the marketing practices i.e. customer retention through Relationship Marketing Orientation. It is important to note here that, the paradigm shift from ‘transactions’ to ‘relationships’ is associated with the return of direct marketing,

According to Wong and Sohal (2003), companies could increase their customer’s satisfaction and also customer’s loyalty through improving service quality that has been related to success in organization, especially in financial provider organizations such as bank that it has presented a variety of services among their customers. Schneider and White (2004), define service quality as customers’ assessment on the overall excellence
or superiority of the services provided. One of the significant aspects that are vital for any Business organizations is customer satisfaction. According to Mittal & Kamakura in 2001, satisfaction is a main indicator for customer retention in future. They believe that customers don’t change their services or products provider if they are satisfied with their purchase. In addition, this concept is prerequisite for customer loyalty. Some researchers believe that the goal of customer satisfaction is customer loyalty, which refers to the tendency of a customer to choose one service or product over another for a particular need (Heskett 1997). This can lead to the achievement of the ultimate goal of profit maximization and wealth maximization.

**Relationship marketing**

According to Kotler (2000), building relationships with clients help marketers to better understand and satisfy clients. The shift away from the transaction-based view of marketing has focused attention on the benefits of managing customer relationships. Within a retail banking setting, Walsh et al. (2004, p. 469) define RM as “the activities carried out by banks in order to attract, interact with, and retain more profitable or high net-worth customers.” Fornell, Johnson, Anderson, Cha and Bryant (1996) validated the logical chain as “Perceived Quality -> Value -> cumulative satisfaction -> Loyalty

According to Morgan, R. M et.al, Relationship marketing is all marketing activities performed in order to create, extend, and sustain successful relationships. Gummesson, E. (1994) refers to relationship marketing as a continuing mutual relationship between the business holder and the customer that leads to enduring profitability. Relationship marketing encourages companies to build up long term relationships with their stakeholders. According to Relationship marketing theory, some
characteristics in mutual relationships lead to a successful relationship marketing. Hunt S. et al [2006] realized relationship marketing to be a firm’s competency which enables it to build up and manage a mutual customer - company relationship through creating relationship commitment, satisfaction and trust. Relationship Marketing is not just Loyalty Programs. It’s about creating Recipient Centric Communication that increases relationship value and business benefit.

The concept of customer relationship is still developing and relationship marketing dimensions (trust, relationship commitment, relationship satisfaction, bonding and communication) should get remarkable attention [Jap, Sandy D. et al. (2000)]. Furthermore, relationship marketing was also described as “establishing relationships with customers and other parties at a profit, by mutual exchange and fulfillment of promises” [Grönroos, C. (1991)].

**Evolution of Relationship Marketing**

The domain of marketing has been witnessed by rapid changes in the recent period where it is redefined from transaction oriented to Relationship. The timeline on its growth can be divided into three ages such as Pre- industrial, industrial and Post industrial. The Pre-industrial era or medieval period is the one when Direct Marketing was the order of the day, but the Industrial Era which refers to the period of industrial revolution that led to mass production and mass consumption of goods and services, and the Post-Industrial Era which witnessed a total transformed the marketing practices from transaction orientation to relational orientation.

The Pre-industrial, Industrial and Post-industrial eras of Marketing.
<table>
<thead>
<tr>
<th>Period</th>
<th>Pre-Industrial era</th>
<th>Industrial era</th>
<th>Post-Industrial era</th>
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<tbody>
<tr>
<td>Orientation</td>
<td>Direct Marketing</td>
<td>Transactional Marketing</td>
<td>Relationship Marketing</td>
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Source: Sheith J. N. and Parvatiyar (2005)

In the place of transactional view of marketing, marketing is now increasingly seen as being concerned with relationships. Levitt (1983) describes that relationship marketing is an approach which emphasizes the continuing relationships that exist between the organization and its customers, the importance of customer service and quality and developing a series of transactions with customers. Berry (1983) introduced the concept of relationship marketing to describe a longer-term approach to marketing and claims that relationship marketing is applicable when there is an ongoing and periodic desire for the service and when the customer controls the selection of a service supplier and has alternatives from which to choose. The emphasis on relationship is important for banking services and with the achievement of close and long term relationships, they can reap the benefits of customer loyalty and retention with increased profitability by means of reduced cost.

Customer satisfaction is important because satisfied customers are less likely to switch to a competitor (Kotler, 2001). Customer loyalty and the ability to retain customers are therefore highly dependent on the customer's satisfaction. In this context, customer service is a key element in relationship marketing that result in customer retention.

**FIGURE 1.1**

**BENEFIT OF CUSTOMER SATISFACTION (EGAN, 2001)**

![Customer Satisfaction](image) → ![Customer Retention](image) → ![Company Profitability](image)
THE CONCEPT

In the early 1990s the concept of relationship marketing was formally introduced into the field of service marketing. And further the concept was also found applicable in the case of industrial as well as consumer products. As the concept of relationship marketing has emerged the focus has been shifted from transaction marketing to relationship marketing as under:

<table>
<thead>
<tr>
<th>Transaction marketing</th>
<th>Relationship Marketing</th>
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<tbody>
<tr>
<td>Focus on single sale</td>
<td>Focus on customer retention</td>
</tr>
<tr>
<td>Orientation on product features</td>
<td>Orientation on product benefits</td>
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<tr>
<td>Little emphasis on customer Service</td>
<td>High customer service emphasis</td>
</tr>
<tr>
<td>Limited customer commitment</td>
<td>High customer commitment</td>
</tr>
<tr>
<td>Moderate customer contact</td>
<td>High customer contact</td>
</tr>
<tr>
<td>Quality is primarily a concern of production - (TQM)</td>
<td>Quality is concern for all</td>
</tr>
</tbody>
</table>

NEED FOR RELATIONSHIP MARKETING

The aim of relationship marketing is to create strong, lasting relationship with core group of customers. It is to a firm's advantage to develop long term relationship with existing customers because it is easier and less expensive to make an additional sale to an existing customer than to make a new sale to a new customer.
BENEFITS OF RELATIONSHIP MARKETING

The relationship marketing helps the customer on one hand and the service provider on the other hand.

The benefits which are associated with the customers are:

• Customers remain loyal and receive more value compared to the competitors.
• Customers have the sense of well being and quality of life as they have long term relationship with the service provider.
• Customer think that the service provider knows their preferences and have tailored services to suit their needs over a period of time and they do not want to change this arrangement they have remain loyal.

The benefits for the service producers are:

• Due to good relationship management the service provider gets committed and loyal customers, thus increasing the purchases, which in turn increase the profits of the company.
• Lower cost retaining the current customers cost much lower than making new customers as new customers attract advertising cost and other promotional costs, operating costs of setting up accounts and systems and cost of getting to know the customers.
• Free advertising through word of mouth.
• It is easier for the firm to retain the employees when the company has stable base of satisfied customers.
CONSTRAINTS OF RM

RM is not panacea for all marketing troubles. It has its own constraints. RM is not for everyone. When the market consists of a myriad of customers and the unit profit margins are not much, for instance selling washing powders, basic marketing is enough. RM is an apt strategy when customers are of long-time horizons and profit margins are much. RM assumes that customers play a passive role in relationships. But in the networked world, they have the ability to play an active role in managing relationships. Now a-days the marketing is towards collaborative marketing, in which the company collaborates with customers and makes them an integral part of the company's marketing activities. RM is mainly based on customer databases. The collection of data and storage of data for RM comes in handy only, when the data collected is accurate and appropriate, is collected at a reasonable cost, analysed diligently, reported promptly in a lucid manner and kept secret from competitors. Simon London opines, "Data have little value on their own: They are useful only when they have context and relevance."

Banking Sector and Relationship Marketing

Some time ago, customers were simple persons and were happy at whatever banks provided to them. Over a period of time with the competition and technological improvements customers have become fully aware of their rights. They now demand nothing short of excellent and prompt services. And further expect improvements there on. Actually over a period of time customer service has become customer satisfaction and customer delight and it can be said what they look forward to now is customer ecstasy.
There are many alternatives available to present to customers and they choose only those banks that they consider best for them.

With increasing competition among banks, customer loyalty to their bankers' has defined. Today's customers are approached by more competitors with equal or better offers. As such, most customers have become more willing to use more than one financial institution to meet their needs and to switch funds for short-term gains. Marketing theory and practice have recognized this paradigm shift from the art of attracting new customers to retaining existing ones. The concept of relationship marketing has evolved as a result of intense global and local competition.

Marketing approach in banking sector could be traced back just after 1950 in western countries and then after 1980 in Turkey. New banking insights oriented market approaches had influenced banks to create new market. Banks had began to carry out marketing techniques in banking sector mainly to offer their new services and products efficiently. Bank marketing not only included service aspect but also comprises personality and image for bank on its customers’ mind. The marketing comprehension of banks can be identified in the following stages:

1. Promotion oriented marketing comprehension
2. Marketing comprehension based on having close relations for customers
3. Reformist marketing comprehension
4. Marketing comprehension that focused on specializing in certain areas
5. Research, planning and control oriented marketing comprehension

Relationship marketing, on the other hand, focuses on the establishment of strong relationships and stable partnerships in order to maximise the pursuit of the interests of
all aspects of the relationship. With the growth of the internet and mobile technology, banks should meet the more complex needs and build long term customer relationships. The rise of technology has complemented the relationship marketing aspect in banks, both in the way that banks analyse customer data internally and the way they communicate information to their customers.

THE MARKETING MIX IN BANKING SECTOR

SERVICE

Like other services, banking services are also intangible. Banking services are about the money in different types and attributes like lending, depositing and transferring procedures. The structure of banking services affects the success of institution in long term. Besides the basic attributes like speed, security and ease in banking services, the rights like consultancy for services to be compounded are also preferred.

PRICE

The price which is an important component of marketing mix is named differently in the base of transaction exchange that it takes place. Banks have to estimate the prices of their services offered. By performing this, they keep their relations with extant customers and take new ones. The prices in banking have names like interest, commission and expenses. Price is the sole element of marketing variables that create earnings, while others cause expenditure. While marketing mix elements other than price affect sales volume, price affect both profit and sales volume directly. Banks should be very careful in determining their prices and price policies. Because mistakes in pricing cause customers’ shift toward the rivals offering likewise services. Traditionally, banks
use three methods called “cost-plus”, “transaction volume base” and “challenging leader” in pricing of their services.

**DISTRIBUTION**

The complexity of banking services is resulted from different kinds of them. The most important feature of banking is the persuasion of customers benefiting from services. Most banks’ services are complex in attribute. On the other hand, value of service and benefits taken from it mostly depend on knowledge, capability and participation of customers besides features of offerings. This is resulted from the fact that production and consumption have non separable characteristics in those services. Most authors argue that those features of banking services make personal interaction between customer and bank obligatory and the direct distribution is the sole alternative.

**PROMOTION**

One of the most important elements of marketing mix of services is promotion which includes personal selling.

**PERSONAL SELLING**

Due to the characteristics of banking services, personal selling is the way that most banks prefer in expanding selling and use of them. Personal selling occurs in two ways. First occurs in a way that customer and banker perform interaction face to face at branch office. In this case, whole personnel, bank employees, chief and office manager, takes part in selling. Second occurs in a way that customer representatives go to customers’ place. Customer representatives are specialist in banks’ services to be offered and they shape the relationship between bank and customer.
DIMENSIONS OF RELATIONSHIP MARKETING

There are six components of RM that are essential for sharing of meaningful and timely information between buyers and sellers. Sin et al (2002:658) mentions them as Trust, Marketing communication, Shared value, Empathy, reciprocity, and Bonding.

**Trust:**

Callaghan et al, (1995:238) describe trust as the belief of confidence in, or reliance on, the truth, goodness, character, power and ability of someone or something. trust is a potentially weapon that banks can employ in their desire to gain a strategic advantage and survive in today’s ever increasing competitive environment. Trust is an important ingredient in firm-customer relationships and ultimately in the development of loyalty. So trust is therefore considered as an experience of mutual honesty and confidence between the service provider and the customer.

**Bonding**

It is important to note that when different forms of bonds are brought to play in a relationship such as in service marketing, the customers are not only seen as clients, but also as partners.

**Marketing Communication**

Ahmad and Buttle (2002:10), Kotler, (2005) and Hawkins et al, (2001) concluded that, if Relationship Marketing is to be successful; an integration of all marketing communications messages is needed to support the establishment, maintenance, and enhancement of relationships with customers.
Shared Value

Hesket et al (1994:168) posits that shared value is the ability of a company to provide superior value to its customers. The banking sector must therefore, create additional value other than the product or utility value through Relationship Marketing

Empathy:

Relationship Marketing Orientation can be viewed as the ability to share, understand and feel another person’s feelings in a relational situation. Thus, Sin et al (2002:660) described empathy as dealing with a business relationship that enables two parties to see the situation from the other’s perspective i.e. seeking to understand somebody else’s desires and goals. In a study Callaghan in Sin, et al (2006:412) described reciprocity as the dimension of a business relationship that causes either party to provide favours or make allowances for the other in return for similar favours or allowances to be received at a later date.

Conceptual Framework Showing RMO and BP

<table>
<thead>
<tr>
<th>RELATIONSHIP MARKETING ORIENTATION (RMO)</th>
<th>BUSINESS PERFORMANCE (BP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
<td>Market share</td>
</tr>
<tr>
<td>Bonding</td>
<td>customer retention</td>
</tr>
<tr>
<td>Empathy</td>
<td>cost reduction</td>
</tr>
<tr>
<td>Reciprocity</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td></td>
</tr>
<tr>
<td>Shared value</td>
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</tbody>
</table>

Service quality

Modern day Customers are having better control over their banking relationships. What is witnessed today are switching banks, changing their behavior and demanding improvements. In turn, banks need to reexamine their assumptions and basically modify their relationship with their customers. They need to change by giving their customers greater flexibility, choice and control, and by redesigning their business models around customer needs. Giving more power to customers may not be a welcome sign for the banks, but in the long run banks that do so will position themselves for success in the future.

Worldwide, only 44% of customers say their bank adapts the products and services to meet their needs. Nowadays, multi-banking is increasing as customers look for the best rates and products. Banks face a possible threat from new competitors offering better rates, more personalized service, stronger technology or more attractive rewards. So banks should provide flexibility to its customers by making pricing and service promises transparent, offering alternative products and services to choose, use innovative technology to deliver its services and develop flexible loyalty programmes. The growing popularity of online banking and the continued importance for the emerging role of mobile banking demonstrate the increasing diversity of customers’ channel preferences. Many customers choose one channel on one day and a different one the next, depending on their specific needs at the time.

Gronroos in 1991 categorizes quality into three components: technical, functional and image. In addition, Parasuraman et. al in 1990 defined service quality as customer’s perception of how well a service meets or exceeds their expectation; accordingly service
quality is judged by customers, not the companies or organizations that offer them. Therefore, marketers are faced with the challenge of examining their service quality from customers’ point view. To achieve this, marketers of service organizations try to determine customers’ expectations and then develop their service quality dimension to meet or exceed their customers’ expectation. Marketers utilize data and information obtained from customers point view as the key way of ensuring services fulfill conformity of quality process and customers expectation. Marketers should design their service quality dimensions based on these factors because the dimensions highlighted can cover all aspects of quality. However, these dimensions must be modified based on each organization or industries’ needs and areas of services that they want to explore. In some cases, research must be done first to suggest and examine some dimensions to enhance their investigation about the service needs and effectiveness.

**Customers’ Expectations on Service Quality**

One of the important issues that the marketers facing today is what the customers expect from the service purchased. In fact it is the first and foremost key stage to be considered in delivering service quality. Generally, customer expectation revolves around the certainty of the products and services that they receive from their bankers. It is the focus where the performance of the service provided is judged. This understanding is imperative for marketers because customers compare the quality of the services received and determines these as the reference points when they experience and evaluate the service quality (Zeithaml et al., 2006). Today’s customers generally expect personalized services with more technological innovations.
According to a survey made by Ernst and Young in 2010, Service quality is the most significant criteria for customers while selecting their bank or switching to another bank. Majority of the customers consider a personal relationship with their bank is most important. Satisfactory service can be defined as the lowest level of service the customers expect from the banks without much discontent. Predicted service is the level of service the customers believe they are likely to get. The type of service that the consumers believe a bank can deliver and a consumer anticipates to receive is termed as desired service. According to Valarie A et al (Free Press, 1990), the authors present the relative importance of five dimensions of service quality from customer perspective based on service industry research.

**FIGURE 1.2**

RELATIVE IMPORTANCE OF SERVICE QUALITY DIMENSIONS

![Pie chart showing relative importance of service quality dimensions: Tangibles 31%, Reliability 32%, Empathy 16%, Assurance 19%, Responsiveness 22%]
Customer Satisfaction:

Oliver (1997, p. 13) defines satisfaction as “the consumer’s fulfillment response”, a post consumption judgment by the consumer that a service provides a pleasing level of consumption-related fulfillment, including under or over-fulfillment. Oliver (1981) point of view Customer satisfaction is the evaluation a customer makes to a certain exchange, which reflects the relation of the customer's expectation and their real perception to products and services they receive. Definitely, customer satisfaction is the consequence of customer expectation on the services and products that they have received from providers. Thus, satisfaction is defined as the comparison between expectations and perceived performance.

Customer loyalty.

Customer loyalty is defined as “a deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour.” (Oliver, 1999, p. 34).

CUSTOMER SERVICE IN BANKING SECTOR

A customer is the most important person who visits the premises of a bank. He/She is not dependent on the bank - rather the bank is dependent on them. They should not be considered as a rude interruption in work. Rather they are the purpose of the work. Further it must be realised that:

- It takes months to find and get a good customer but only seconds to lose one.
- It is easier to rectify a mistake than to go on arguing on a mistake with a customer.
• A satisfied customer brings in more customers and he is the best advertisement for the back.

Of late, banks have been taking many initiatives to reorient their basic customer service ethos. These include

• Emphasis on process reengineering for improving customers' terms of transaction.
• Shift from 'cost plus' pricing to competitive pricing of services.
• Progressive IT application for swift delivery channels
• Universal service obligation by creating 'bank within a branch' concept.
• Improving value chain for customers.
• Pursuit of TQM at operational and administrative units.
• Three pronged strategy of product innovation, product delivery and product servicing
• Focus on product augmentation as well as hybridization.
• Shift from a "selling" to "marketing" mode.
• Multiple platforms for swift redressal of grievances.
• Periodical rating of service quality in house as well as by external agencies.
• Enrichment of training calendar, with sharp focus on behavioral aspects of customer service.

Any bank aspiring to grow in size, diversity, profitability and clientele base must adopt a fourfold strategy. These relate to

• Acquiring new customers more cost effectively.
• Increasing revenues from existing clientèle.

• Increasing retention rates, especially among high value clients.

• Reducing the cost of sales and servicing.

For a better customer service, banks should emphasis on : 1) Increasing the volume of business by extending working hours with the use of technology; 2) Widening the customer base by providing anywhere, anytime and any channel banking service to the customers; 3) Increasing the number of delivery channels like ATM banking, phone banking etc. 4) Improving service quality and operational efficiency; 5) Improving management information system to use data as a business intelligence tool; 6) Enhancing cross selling of products to existing customer; 7) Service culture is to be developed among the staff and Human Resource Development standards should be maintained in the recruitments at all levels.

**UAE Profile**

The United Arab Emirates (UAE) is a federation of seven emirates established on 2 December 1971, with the seventh member, Ras al-Khaimah, joining in early 1972. The seven emirates in the UAE Federation are Abu Dhabi, Dubai, Sharjah, Ajman, Umm al Qaiwan, Fujairah and Ras al Khaimah. Following vast investments in infrastructure and services, the UAE is today a modern country with all the amenities found in Western industrialized societies. The majority of the UAE population is a mix of foreign expatriates and Asian labour, collectively constituting at least 70% of the UAE population. Both the government and the private sector in Abu Dhabi and Dubai have been increasingly capitalising on the growing foreign population in the development of the services sector and infrastructure to support this growth.
The UAE has one of the highest per capita incomes in the world and claims the world's three largest oil reserves. Traditionally oil totally dominates the economies of the seven emirates in the UAE federation, because before oil was exploited, the country had a subsistence economy. The seven emirates came together in 1971 and still enjoy a large degree of autonomy. Abu Dhabi, as the largest oil producer, was until recently the richest and most powerful. Dubai, however, is mounting a serious challenge and has entrenched its position as the commercial center (and second largest oil producer). It has made major investments in an internet and media city and is well placed to become a commercial and tourism hub between Asia, Europe and the USA.

The UAE has made major strides in its overall development, and its success has been held up as an example for the rest of the Middle East. Its ability to bring seven disparate emirates together in a workable federal experiment is viewed as a model for the rest of the Arab world, and served as a precursor to the establishment of the Gulf Cooperation Council. Moreover, its open economic environment with an emphasis on pro-business policies, market liberalism, general economic openness and an embrace of globalization has transformed the country into a modern state that enjoys an exceptionally high standard of living. As a result, the country has become the envy of regional states, many of which have begun to replicate the UAE’s success by implementing similar policies.

The banking industry in the UAE experienced an impressive 24 per cent increase in profits in 2011, exceeding profit levels since 2005. Bank revenues also saw a healthy growth of 6 per cent in 2011 according to the Boston Consulting Group (BCG). The positive news for the UAE banking sector comes despite an increase in banks’ loan loss
provisions (LLPs) – the latter increased by 4 per cent in 2011. Moreover, the operating expenses for UAE banks rose by 12 per cent. Based on 2011 annual results as reported by the banks in the first quarter of 2012, the new study is part of BCG’s annual banking performance indices measuring the development of banking revenues (operating income) and profits for leading Middle East banks.

Banks in the UAE are broadly categorized in four categories: commercial banks, merchant or investment banks, Islamic Banks, and industrial banks. Within the “Gulf region”, United Arab Emirates (UAE) is the second highest in terms of branch density with one bank branch serving almost 12000 populations in the year 2000 itself. Such an over-banked situation has resulted in increased competition, reduced margins, limited lending opportunities for banks and hence efforts are needed to increase their productivity. In spite of this situation, UAE records strongest growth in retail banking revenues The UAE, has posted a 10 per cent increase in retail profits, while neighbours such as Saudi posted a decline of minus two per cent.

The Central Bank of the UAE is responsible for the correctness and effectiveness of all financial institutions including all local banks, financial institutions, representatives, brokers and financial instruments. Banks in this part of the world are technologically up to date as their counterparts in the west but certain services are in their beginning stages. According to the United Arab Emirates Embassy in Washington D.C federal law prohibits from foreign banks to have more than eight branches each and they all must have paid up capital of Dh40Million.

The fast growing field of services has a strong focus on relationship marketing. Many researches are made on the effect of paradigm shift in marketing principles from
transactional marketing to relationship marketing. The term ‘relationship marketing’ was first introduced by Berry in a services marketing context, he viewed that relationship marketing as a strategy to attract, maintain and enhance customer relationships (Grönroos, 1997). The concept of relationship marketing results in the development of an individualized, one-to-one relationship with a customer that has become more and more significant and focused, Therefore, to remain in the global market trend, RM is an Inevitable ‘marketing Shift’ from transaction marketing.

**Economic Overview**

The UAE economy is strong, and its outlook positive. The country has an open economy with a high per capita income and a sizable annual trade surplus. Successful efforts at economic diversification have reduced the portion of GDP based on oil and gas output to 25%. Since the discovery of oil in the UAE more than 30 years ago, the UAE has undergone a profound transformation from an impoverished region of small desert principalities to a modern state with a high standard of living. The government has increased spending on job creation and infrastructure expansion and is opening up utilities to greater private sector involvement. In April 2004, the UAE signed a Trade and Investment Framework Agreement with Washington and in November 2004 agreed to undertake negotiations toward a Free Trade Agreement with the US, however, those talks have not moved forward. The country's Free Trade Zones - offering 100% foreign ownership and zero taxes - are helping to attract foreign investors.

With Abu Dhabi generating 60%, on average, of the UAE’s GDP and being the main contributor to the UAE budget, the recent spike in international oil prices has generated significant surpluses which are being invested both abroad and domestically in
mega-projects, further stimulating returns on investments, domestic demand and growth. Growth in Dubai, on the other hand, has been more organic in terms of large companies, combining government and ruling family ownership, laying a foundation of infrastructure, housing, tourism, financial and manufacturing projects to expand the Emirate geographically and economically.

The global financial crisis, tight international credit, and deflated asset prices constricted the economy in 2009 and 2010. UAE authorities tried to blunt the crisis by increasing spending and boosting liquidity in the banking sector. The crisis hit Dubai hardest, as it was heavily exposed to depressed real estate prices. Dubai lacked sufficient cash to meet its debt obligations, prompting global concern about its solvency. The UAE Central Bank and Abu Dhabi-based banks bought the largest shares. In December 2009 Dubai received an additional $10 billion loan from the emirate of Abu Dhabi. The economy is expected to continue a slow rebound. Dependence on oil, a large expatriate workforce, and growing inflation pressures are significant long-term challenges. The UAE’s strategic plan for the next few years focuses on diversification and creating more opportunities for nationals through improved education and increased private sector employment.

**UAE Banking Sector**

The UAE banking sector witnessed a real economic growth with oil development in the 1960s. But the growth was inconsistent in the 1980s and 1990s that resulted in the failure of some banks. During the past years, it saw a strong growth, fueled by the surge in oil prices, opening in the infrastructure and real estate sectors, besides the capital market recovery. Today, the UAE banking sector holds a prime position amongst the
MENA countries, registering higher than average loan/deposit, loan/asset and loan/GDP ratios. The UAE is also the biggest in the region in terms of total banking assets. Dominance of local banks are the main reason for the growth of UAE banking sector which control a 78% market share of total banking assets. One can say UAE is perhaps over-banked since 51 banks serve a population of nearly 4 million. Other key features include healthy margins, high asset quality and adequate capitalisation. With the entry of new banks into the market, all banks are gearing up for the challenge created by the global competition. UAE banks are working assertively into areas where there is potential for high growth including: personal lending; Islamic lending; mortgage and SME financing. Still, corporate lending continues to dominate in the lending sector.

A SWOC analysis


**Strengths**

- The sector growth is fueled by the UAE’s robust economic growth
- Banks benefit from the favourable demographics, pushed by the rise in the expatriate workforce
- Majority government ownership supports local banks
- Healthy competition, with no significant pressure on spreads and margins
- Strong profitability levels
- High asset quality
- Well-capitalized banks, supporting further expansion
- Low trading multiples, implying undervalued banks
• High credit ratings

Weaknesses
• Fragmented and over-banked sector
• No credit history of the growing expatriate population
• Banks have recorded high utilisation levels (gross loans/deposits). As a result, banks had to resort to higher cost sources of funding like EMTNs, syndicated loans, and sukukas (in the case of Islamic banks), which raise their funding cost on one side, but create a better asset liability management on another
• High exposure to real estate loans, thus, if a softening in the sector takes place, it will ripple through the system

Opportunities
• The corporate sector, which represents the majority of lending, is yet to benefit from the size and number of infrastructure, housing, tourism and manufacturing projects, along with the growth in other sectors of the economy
• Unexploited potential in profitable segments including retail, mortgage, SMEs, Islamic lending and wealth management

Risks & Challenges
• Experienced human resources deficiency
• Credit concentration in certain sectors or high exposure to certain big names
• Competition is yet to intensify, putting pressure on spreads, margins and market shares.
• Rising cost of funding, with higher reliance on the medium-term notes to close the funding gap.
Islamic Banking

In Islamic banking sector, marketers are faced by cultural and religious differences among people that reinforce the importance of building additional dimensions for service quality. Othman and Owen (2001) introduce a dimension called Compliance for Islamic bank service quality. This dimension includes several items that are directly related to Islamic laws and principles. In Islamic banking sector in particular, marketers are faced by cultural and religious differences among peoples that reinforce the importance of building additional dimensions for service quality. Islamic banks in Muslim countries need to differentiate an organization from the rest of the rivals and they need to present better service quality in order to be felt. Muslim people are very sensitive to the Islamic rules especially in financial sectors therefore, the advent of Islamic banking is very important for Islamic world.

Islamic banking plays very vital role to develop economy and to generate the economic growth. Islamic banking has become a substantial and fastest growing industry during the last four decades. It has spread across the whole universe and received wide acceptance by both Muslims and non-Muslims (Iqbal & Molyneux, 2005). From structural point of view, both Islamic and commercial banks represent similar products and role in the world, but the main difference among Islamic and commercial banks are this issue that Islamic banks are not allowed to charge interest. The basis for all Islamic finance lies in the principles of the Sharia, or Islamic Law, which is taken from the Quran. The Islamic form of finance is as old as the religion of Islam itself. The principal aim of Islamic finance is based on trading and they adapt to do their business based on sharia (Henry & Wilson, 2004, Iqbal & Molyneux, 2005, Dusuki and Abdullah, 2007).
Sharia prohibits the interest fee for the loan of money, earning money by gambling and uncertain money. It means investing in businesses that provide profit considered contrary to its principle is forbidden (Haram). All of these factors are implemented by commercial banks but are restricted by Islamic banking system. On the contrary, they have offered many similar services and products to their customers in particular. Such as payment agents by conducting checking or current accounts for customers, paying cheques drawn by customers for the bank, collecting cheques deposited in customers' current accounts, providing loan, credit cards and debit cards for them and investing.

Nowadays, there are over 300 Islamic banks and financial institutes that have been giving services to the people worldwide and control over $900 billion in assets which is about 0.7% of the current global market (Global Islamic Finance Magazine, 2010). Today, Islamic banks have become imminent financial sources for Muslims and as alternative financial sources to non-Muslims people. Therefore, Islamic banking system has appeared as strong rival side by side the commercial system in attracting more customers and retaining them. On the one hand, by increase of globalization in the world, intense competition between Islamic and commercial banks, now almost 25% of Islamic banks and credit institutes operate in non-Muslim countries such as America and Europe, on the other hand, commercial banks have opened Islamic branches to allure Muslim customers in their countries or even in Muslim countries (Pollard & Samers, 2007). Thereby, Islamic banks really need to understand their customers’ perception of their quality of service in order to enhance customers’ satisfaction that lead to their repurchase and retention.
CONCLUSION

Today, marketing services are of great emphasis on both customer and bank. So, the framework of the bank’s quality system should be based on customer defined quality, senior management’s commitment to quality, well-designed processes and systems, continuous improvement, quality leadership and strategies for defect and error prevention. Banks must focus on developing long term relationships rather than focusing on easy borrowing and lending and relationship marketing is important to global business because it is viewed as one of the most vital strategies in yielding added value for customers. Though the recent economic slowdown has killed customer trust and transparency, banks can continually invent new products and services to attract and retain the customers.

END NOTES :

2. Gummesson, E. (1994), Relationship Marketing: From 4Ps to 30Rs, Stockholm University, Stockholm.


