Chapter 3

Marketing of Financial Services by Islamic Banks – The Iranian Perspective

3.1 Introduction

3.2 Concept of Service Marketing

3.3 Concept of Bank Marketing

3.4 Marketing Mix Issues for an Islamic Banking

3.5 Evolution of Bank Marketing

3.6 Islamic Banking Financial Services

3.7 Summary

References
3.1 Introduction

This chapter explains the concept of marketing and the Marketing of Financial Services by Islamic Banks in Iran. On the basis of a survey of literature, an attempt has been made to trace the concept of service marketing, the concept of bank marketing, explain the marketing of financial services by Islamic banks, point out marketing mix issues for an Islamic banking system, the evolution of bank marketing and explain different Islamic banking financial services.

3.2 Concept of Service Marketing

We term marketing a function by which a marketer plans, promotes and delivers goods and services to the customers or clients. In the marketing of services, the providers are supposed to influence and satisfy the customers or users. An institution or an individual may act as a provider who requires professional excellence to influence the impulse of prospects and to transform them into actual customers. When we buy services offered by a service generating organization, in a true sense we buy the time, knowledge, skill or resources. The application of marketing principles in the services sector is the main factor in the services marketing.
We can not deny the fact that concept services marketing has gained prominence very recently. The emergence of a number of service generating organization in almost all the areas engineered a strong foundation for the development of services marketing, specially in the developed countries of the West which could get a place in the developing countries like ours in the due course. The end of the 1950s paved avenues for services marketing for a number of financial institutions and, more specifically, the insurance companies realised the instrumentality of the quality of services in making the environmental conditions conducive. The service generating organizations like banking organizations, insurance companies and others felt that application of marketing principles in service management would initiate qualitative transformation which would simplify their task of increasing the market share and establishing leadership.

The perception of service marketing focuses on selling services in the best interest of the users/customers. It is concerned with a scientific and planned management of services which makes possible a fair synchronization of the interests of providers as well as the users. With a change in the perception of management, we witnessed multi-faceted changes which necessitated an analogous change in the concept of service marketing. The service generating organizations realized the interests of customers and thereafter they were
compelled to assign due weightage to the interest of society in the face of the holistic concept of management.

Marketing a service is to marketing something intangible. It is marketing a promise. We can not deny the fact that the selling of a promise is a complicated task for marketers as it is difficult to specifically identify were the services degenerate and the promises fail. There is no doubt that organizational goals like making profits, establishing leadership, and innovating marketing resources are significant, but the focal point is user satisfaction. In the marketing of services, a number of problems like market segmentation, marketing information systems, and behavioural management are studied minutely which simplifies the task of formulating a sound mix for marketing, such as Product mix, Promotion mix, Price mix and the place mix. It is important to mention that we find “people” an important mix of marketing services.

Marketing is also defined as a managerial process by which the products are matched with markets and through which the consumer is enabled to use or enjoy the product(Bateson.J, 1998). In the present definition, the product is an all inclusive term which includes services as well as physical goods. It is also said about marketing that it is the managerial process by which products are innovated. Modern management regards marketing and production as interdependent sub systems. It is against this background that in marketing
management, a number of problems are discussed, such as personal selling, advertisement, publicity, sales promotion, pricing, placement and the management of marketing people. The combination of marketing controls used to market a product or a service is often described as the marketing mix. In addition, marketing management is also responsible for the continual adjustment of marketing controls used to market tangibles or intangibles. (John M. Rathwell, 1994)

The aforementioned facts make it clear that marketing is a vital function in both for profit and non-profit organizations. Traditionally, we have studied marketing solely from the viewpoint of the profit-seeking institution but recently we have the marketing type problem of even the non-profit organizations like educational institutions, hospitals, political and social organizations and so (Walter A, 1984). Recently we have evinced our interests in studying the marketing problems of services generating organization. The banks have made available to the customers savings and investment facilities, the insurance companies have shared the risks of insured persons, and the transportation organizations have offered their customers quality, safety and economic services. Tourism organizations, hotels, communication organizations and many others have been found to study the problems of marketing with the motto of customer satisfaction, subserving social interests and enriching their
potential to face challenges and threats in the market. By and large most of the service generating organizations have been found to practice marketing for the accomplishment of organizational goals.

In view of the above, we observe the following key points regarding the concept or perception of services marketing:

- It is a managerial process of managing services.

- It is an organized effort for providing a sound foundation for the development of an organization.

- It is a social process which helps an organization understand the emerging social problems and take part in the social transformation process to justify its existence in society.

### 3.3 Concept of Bank Marketing

Marketing, as it is viewed today, is a way of managing a business so that each strategy is evolved with foreknowledge of the impact of such a decision on the consumer. Banks have three dimensions, i.e. deposits, borrowings and other allied services. Anyone who interacts on any of these fronts is qualified to be a
customer of a bank. Thus, a bank renders financial services as an intermediary. As it renders personalized services, and the present emphasis in marketing is customer satisfaction, it will not be inappropriate here to observe that the “customer of a bank is king.” Customer satisfaction, which must be the ultimate goal of bank marketing, is achieved not only through creating suitable products according to customer needs but also through delivering them in a most satisfactory manner.

Therefore, bank marketing implies that “it is the creation and delivery of financial services suitable to meet the customers’ needs at a profit to the bank.” The concept of bank marketing encompasses:(Bhatt, Sanjeev, 1988)

i) Identifying the most profitable markets now and in the future;

ii) Assessing the present and future needs of customers;

iii) Setting business development goals and making plans to meet them;

iv) Managing various services and promoting them to achieve the plans;

v) Adapting to a changing environment in the market place.
The following model has been developed by Arthur Meidan to show the marketing approach to banking services.

**Figure 3.3.1**

**Marketing Approach to Banking Services**

1. Identifying the customer’s financial needs and wants
2. Develop appropriate banking products and services
3. Pricing: Determine the prices for the products/services developed
4. Advertise and promote the product to existing and potential customers of financial services
5. Distribution: Set up suitable distribution channels and bank branches
6. Forecasting and research of future market needs

From the above discussion of the bank marketing, it can be understood that the existence of the bank has little value without the existence of the customer. The key task of the bank is, therefore, not only to create and win more and more customers but also to retain them through effective customer service. Customers are attracted through promises and are retained through the satisfaction of expectations, needs and wants. Marketing, as related to banking, is to define an appropriate promise to a customer through a range of service (products) and also to ensure effective delivery creating satisfaction. The actual
satisfaction delivered to a customer depends upon how the customer is treated with. It goes on to emphasize that every employee of the bank, from the top executive to junior the most recently hired, is a marketer.

It has been understood all along that marketing is meant only for physical products produced by manufacturing units whether for industrial or consumer goods. A bank, as a service industry, which deals with and satisfies the financial needs of the customers was thought to be of an entirely different breed. Financial needs were treated as basic needs and the demand for them was natural and perpetual. Therefore, it was thought, that people would flock into banks either to deposit their surplus funds, to borrow to meet their financial requirements or to help themselves with some other ancillary services as they had nowhere else to go. This belief grew from the fact that bankers were habituated with the culture of getting “walk-in” business. They were sure of their share of the cake. “Selling”, as a concept, was looked down upon by the bankers.

Things changed too quickly and people became more picky. They had multiple options. There were several shops crying hoarse to attract the customer’s attention. It was not necessary for him to go to only one place to meet all his financial needs. There were specialized shops with tailor-made financial products to meet his needs, that too at his door-step. Thus, people became more conscious of this vehicle of financial development and started
making use of it. In some ways it led to the rise of consumerism. They preferred “buying first, paying later” to “saving first and buying later.” These changes did create a challenge for bankers. They suddenly discovered themselves lagging behind socially, culturally by training, and working habits, temperamentally and in other ways to overcome the challenges of this changing scenario.

The growth of a capital market resulted in high net worth corporate borrowers directly tapping the deposits from the general public, not only for financing their fixed assets but also for paying loans taken from banks and other financial institutions and even financing working capital needs. This phenomenon of financial dis-intermediation left the second rate corporations, who could not tap the capital market directly, and other borrowers to remain with commercial banks. Even when these high-rated corporations decide to borrow from banks through raising commercial papers, the playing field was uneven for banks. This created a role reversal by making banks run after valued customers. On the other hand, the small investors, the banks stable depositors, had now become more of borrower to have more financial muscle for their investing ambition. Though it may prove to be temporary, in the first instance, banks lost their deposits from a section where it was least expected.

Another factor that is worth considering here is the profitability compulsion of banks. The falling bottom-lines of banks may be argued from the point of
view that banks are not profit-conscious or that social banking is not profitable. The answer lies in marketing. Instead of going blindly by quantitative norms they have to do qualitative lending, energise their efforts to recover dues, increase fee-based incomes, concentrate on off-balance sheet items, improve deposit mix to reduce interest burden, and maximize staff productivity to bring down overheads. A market driven, profit conscious and customer-oriented culture will go a long way in making this task easier.

To improve the bottom-line, customer satisfaction is a prime necessity. A dissatisfied customer is a bad advertisement. To undo the damage caused by this will necessitate doubling the efforts. Customer satisfaction is a dynamic concept. It is the perception of a customer of the satisfactory service he receives from a bank. These perceptions differ from individual to individual and within an individual from time to time. With every passing day, in tune with the changing financial sector, the expectation of the customer from this sector also changes. What is effective customer service today may be indifferent customer service tomorrow and bad service the day after. Therefore, it becomes the task of the banker to assess and reassess continuously how customers perceive the services rendered; also to assess what the new and emerging customers’ expectations are and how they can be satisfied on an ongoing basis. The motto would be not only to create and win further customers but also to retain the existing ones through a
concerted effort. Since every staff member at a branch is involved in the delivery of total satisfaction to a customer, it reaffirms the fact that every staff member is a marketer. Banks can no longer resort to the old ways of what we call “post office banking”, that is, selling readymade financial products directly from the shelf. The customer in this new environment would like to have personalized services where nobody comes between him and the banker. This may be termed “boutique banking.” To cater to this breed of customers with ‘consultative banking’ and tailor-made products, the banker has to shift from his routine way of thinking to market ways of thinking where he makes a constant effort to understand what a customer wants. At times, counseling him may be required.

3.4 Marketing Mix Issues for an Islamic Banking

Marketing strategy implies the development of an action plan to achieve marketing objectives. Just highlighting marketing in the cozy atmosphere of high offices and issuing directives to subordinate offices emphasizing its importance does not serve a purpose. It involves skill and concerted efforts on the part of management to create tools and techniques, which are understood and accepted throughout the organization in furtherance of the marketing cause. External marketing consists of the four Ps of marketing mix: Product, Price, Place and Promotion.
Accordingly, this chapter presents, in a theoretical perspective, the marketing strategies relevant to Islamic banks in Iran. It focuses on the four ‘Ps’ of traditional external marketing, training and motivation of employees under internal marketing, delivery, customer relationship and customer service under interactive marketing.

Marketing Mix

Marketing mix is a combination of tools and techniques with which a marketer has to meet the consumer in furthering his marketing objectives. The tools, as propounded by different authorities, are many, but traditionally they are the famous 4 Ps viz., Product, Price, Place, Promotion. Therefore, they constitute the tools of marketing. Before the individual tools and techniques are discussed, one point which needs emphasizing is that none of the tools are very useful in isolation. It is important, therefore, to think from the very beginning in terms of a judicious blend of the tools and techniques of marketing mix. “Business executive is a ‘decider,’ and ‘artist’ a ‘mixer of ingredients,’ who sometimes follows a recipe prepared by others, sometimes prepares his own recipe as he goes along, sometimes adapts a recipe to the ingredients immediately available and sometimes experiments with or invents what no one else has tried.” From the above statement, given by Prof. James Culliton in his study of “manufacturer’s marketing cost,” Prof. Neil H. Borden describes the marketing
executive as a “mixer of ingredients”, one who is constantly engaged in fashioning creatively a mix of marketing procedures and policies in his efforts to produce a profitable enterprise (Neil, H. Borden, 1964). Thus the concept of marketing mix is furthered.

It is needless to state that all products and services are not for all segments. All segments may not afford the same price. The same place may not be suitable for all segments for delivery of the products/service or the same promotional measure may not arouse same level of confidence in all the customers. Therefore, the essence of marketing lies in providing each group of customers from a segment with a cost-effective mix of product, price, place and promotion which most suits their needs.

**Products**

A product is anything that can be offered to a market for attention, acquisition, or use of consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations and ideas (Kotler, Philip, 1983). The function of marketing is to assess what attributes the consumer seeks from the product and to combine these to make the most attractive product offering that, in turn, will optimize the company’s profits (Litter, Dale, 1985). Our concern here is with the ‘services.’ This is the product which banks deal with.
Thus it becomes essential to keep in mind the peculiarities of a service like its intangibility, inseparability, variability and perishability before we frame any product strategy. By buying a service a customer does not possess anything as in the case of a physical product. What he gets is the satisfaction of his wants and needs from the use of the service. Thus a bank product is anything that has the capacity to provide the satisfaction, use and return desired by the customer (Tina Harrison, 2000). As Theodore Levitt has suggested there are four different levels of satisfaction constituting a total product concept.

![Levels of Satisfaction](image)

The basic utility that the customer derives from a product is the first level or core level placed at the centre surrounded by higher levels of satisfaction. At each level more and more value is added. For a banking service such as a deposit account, the core element might be safety of and return on deposits. The higher
level associated this expectation. The customer also expects that the transaction will be completed without undue delay and neat and accurate account statements should be given to him. All this should be done in a warm and friendly atmosphere. At the augmented level the banker provides his own additional services, such as, a loan facility, locker facility, credit card or customer service which differentiates the product from that of its competitors. The highest level consists of all potential additional features which the banker is capable of packing into the banking product, besides, forging personal rapport with the target customer. Thus the banker transforms into a friend, philosopher and guide at this stage.

Banking industry today is quite different from what it used to be in the past. Markets have become more differentiated, fragmented and technologically driven than before. As such, no bank can take its market share for granted. Even to maintain the existing share, banks have to renew and regenerate themselves on a continuing basis. Two important tools for such organizational renewal are “product development and innovation.”

Financial services are amenable to easy imitation. Competitors are sure to catch-up with the developments and innovations made. Thus the advantages of product differentiation are bound to be short-lived. To stay ahead of the competition it is imperative to have continues product development.
In product development, two processes can be followed.

**Process-I:** Idea generation (concept generation) - Product cost analysis - Testing of service - Introduction

**Process-II:** Need identification (size of the market) - Cost benefit analysis - Introduction.

The first process is proactive, in which the needs of the target market are anticipated and visualized. The second process is reactive and in it banks respond to the expressed needs of the target. Thus product development in banks is more technical in character involving market study and a cost benefit analysis of the product. The activities of Islamic banking in Iran in relation to the development of new products and services were totally under the directives of the Central Bank of Iran. But, increasing competition has seen banks coming out with various customer-friendly and innovative schemes. It will be necessary for the banker to have the knowledge of product life-cycle.
Product Life-Cycle

A product also passes through different stages of its life as the life of human being. A product is born, goes through different stages in its life and then, ultimately, dies.

The first stage is the period of introduction, when the sales volume is low and revenue from the product is sufficient to cover the cost of producing, marketing, and servicing it. The next stage is the stage of growth when the product is likely to break even and may start generating profits. In the maturity stage, the profit from the product keeps on flowing and growing. In the
saturation stage the product faces competition and profit and growth stagnate. The last and final stage is decline, where both growth and profit contribution fall. At this stage, either a step is taken to revitalize the product or it is allowed to degenerate. A product’s life-cycle is different for different products. Savings bank accounts still attract considerable demand despite static and low returns. Many schemes in the last two decades have had a very short life cycle. Some of them have died a natural death and some of them are still lying in the branch shelf, rarely being sold. A study of product life-cycle provides a useful insight into the strategic implications of time and competition in the life of a product and helps to evolve a proper product mix.

**Product Mix**

A product mix is the list of all products offered for sale. The concept behind the product mix is that a marketer typically manages to market a number of different products which are in different stages of their life-cycle. This disparity of performance calls for different types of decisions in response to differing market circumstances. A product mix is essential because:

1. There is an ever-growing number of new products, each requiring the development of specific marketing plans to manage them throughout their life cycles.
2. There is an imperative need to prioritize products with respect to the resources available with the marketer which will be allowed toward their management. Some products may offer better opportunities in attaining marketing objectives than others.

3. As many of the bank products are related to each other there is a likelihood of crippling an existing product with a new product. The product mix approach provides the marketer with a better advantage thereby reducing the extent of his problems.

Boston Consultancy Group (BCG) developed a useful matrix to focus on the performance of existing products and services.

**Figure 3.4.3**

**BCG Product Performance Matrix**

<table>
<thead>
<tr>
<th>Market Potential</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stars</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Problem child</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash cows</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dogs</strong></td>
<td></td>
<td>Low</td>
</tr>
</tbody>
</table>
The BCG matrix divides the products and services into four groups: Dogs, Cash cows, Stars, Problem Child.

Dogs are products and services which are not doing well in the market and have little potential. They are the products which might attract customers who will then be attracted to more profitable services. But no bank can bear the cost of too many dogs.

Cash cows are products and services from which the core of the business is always in demand and which produces high revenue in a stable market.

Stars are products making an important contribution to the business in a growing market.

The problem Child is a product which is presently enjoying low market share but is considered to have high growth potential. A push at this stage will convert the ‘problem child’ into a star product.

The BCG Matrix is a useful tool in the hands of marketers. It helps him keep a proper balance of dogs, cash cows, stars and problem child. As time passes, the back products will move throughout the matrix. It is the job of the
market to manage these moves rather than let time, competition and environmental changes do it for him.

The most important product-based questions in Islamic banking are as follows:

- How much variety of Islamic banking services and even basic banking services is the Islamic bank offering?

- What is the level of quality in the services compared with the bank’s competitors?

- How should we design a customer-targeted model of products or services?

- What should be the brand name of a product or services?

- How should it be packaged and delivered to the customer and in which environment?
Price

The second P of the marketing mix is price. Price refers to the amount of money a customer is willing to pay for the product. From the supplier’s angle, it is the amount of money at which the firm is prepared to offer its goods and services. Buying and selling in a competitive market, is a game in which a transaction takes place. It is necessary that both buyer and seller must have the feeling of winning from the transaction. The seller, looks to the cost plus profit and buyer looks to the satisfaction in return for price to be paid. The satisfaction is a judgment, a notion, a feeling and as such cannot be quantified in terms of money. It differs from person to person. Accordingly, the variable that determines the satisfaction would differ from person to person (Walfried M.Lassar, 2000). Thus the banks, while pricing their products, must take care of this factor and rely on product quality and promotion. A hike in price is always viewed by the public with skepticism and distrust but it could be alleviated by better communication between bankers and their customers. One survey pointed out that when customers were offered an explanation for changes in fees, the proportion of customers who viewed the changes as justified increased by about 50 percent (Necmi Kemal Avkrin, 1994).

The other side of pricing is cost. Price should cover the costs as well as a return for the organization to thrive. Islamic banks in Iran are operating in an
administered structure where the prices of services are prescribed by the Central Bank of Iran.

Relevant questions regarding pricing strategy in Islamic banking are as follows:

- What are the competitor’s price and banking average charges for such services? What would they be if they offer equivalent services?

- What should the credit terms be with respect to each product?

- Should we use a discount policy for bank products and to what extent?

- **Promotion**

Promotion is a process of persuasive communication and constitutes one of the 4 Ps of the marketing mix. It relates to the task of informing the target market about the nature and type of the firm’s products and services, their unique benefits, uses and features as well as price and place at which these would be available. As we know, there is a buying process which culminates in ultimate buying. It is imperative on the part of a marketer to begin by winning attention then creating interest, inspiring desire and precipitating the action for
purchase of its product or service and above all it should result in a mutually satisfying exchange. Thus the essence of promotion is the supply of required information which, in turn, will stimulate the target customer and create a product preference among them. To put it in other words, the term promotion embraces influence processes exerted by the sellers of product on those who seek to be buyers (David, J.L. and Ferrell, D.C., 1882). In banking context, promotion is a challenging job. Banks sell benefits. The services rendered by the banks can not be pre-tested or seen by the customers. For this, bankers have to organize effective promotional measures which seek to inform, educate and actualize the markets. As we have observed, communication provides the basis for promotion. It is a process of transmitting meaning through written, oral and non-verbal messages (Madhukar, R.K., 1990). It implies that the receiver understands the message in the same sense that the sender wishes to communicate.

**Figure 3.4.4**

**Communication Model**

Source (Bank) ➔ Message ➔ Receiver (Customer)

Vehicle (person, T.V, radio, etc.,)

Feedback
Here the source is the bank, which desires to transmit some idea to the customer through any vehicle, which may be a personal or impersonal mode such as a newspaper, T.V., or radio. The idea may be in verbal or non-verbal mode and it may be a scheme and/or theme. The receiver is the customer(s) to whom the message is directed. Feedback is the signal received by the sender from the receiver indicating the effect of the message.

**The Promotion Mix**

Promotion is comprised of four major elements: advertising, publicity, sale promotion, personal sale. To achieve the objectives of promotion, i.e., to inform, to persuade, to remind and to reinforce, all the four methods are used to some degree. Selection of the mix is based on their relative strength. Thus the promotional mix would vary from time to time, bank to bank, and place to place, depending upon the major customer segments and the types of services offered.

**Advertising**

This is any paid form of a non-personal presentation of ideas, goods and services by an identified sponsor. Advertising is used for mass communication and includes the use of newspapers, magazines, radio, television, posters, banners, leaflets/brochures, direct mail, etc.
Publicity

Publicity refers to the communication of any non-sponsored, commercially-significant information about a company or its products to the public through impersonal media without any financial charge to the company. It may be in the form of a news item or editorial comment. Normally, a customer is faced with a bewildering array of advertisements and neither pays attention to nor believes much of what he is told. But publicity, as it is a third party, which mentions the product or organization, is likely to have a greater impact on the target-audience.

Sales Promotion

Sales promotion has been defined by the American Marketing Association as “those activities, other than personal sale, advertisement and publicity that stimulate consumer purchasing and dealer effectiveness such as displays, shows, exhibitions, demonstrations and various non-recurring sale efforts, not in the ordinary routine.” This is a type of activity where short-term incentives are extended to encourage purchase. This may break through a buyer’s inertia towards a particular product or service, but frequent use of this tool may lose its effectiveness.
Personal Sale

Personal sale is the most vital tool in the promotional mix. It is an oral presentation while in conversation with prospective customers and is of particular relevance to a service industry like banking. As it involves two-way communication in social behavior, both of buyer and seller, it influences the process to a large extent. For the same reason, it is also necessary that bank staff should adopt the characteristic retailer’s approach and should have the following knowledge and abilities:

- Knowledge of all existing services or at least the knowledge of the person to whom the customer should be referred for further information;

- Understanding of the customer’s problems;

- Ability to solve the customer’s problems and persuade the customer to accept the solution.

Relevant questions regarding the promotion strategy in Islamic banking are as follows:

- What should be the medium of advertising?
• Would personal sale, word to mouth marketing, and direct marketing be helpful and feasible? If yes, then to what extent?

• What should be the sales promotion plan and its break up to branch level?

**Place**

The third ‘P’ in the marketing mix is place or physical distribution. It refers to the establishment and operation of outlets for the physical distribution of the products. In order to deliver value satisfaction to target customers it is not only sufficient to properly price the product but it is also necessary to physically move it to the place of consumption. The very objective of distribution is to get the right product to the right places, at the right time for the least cost. Hence, distribution involves establishing of a strategy covering channels of distribution and physical distribution of the product from the points of origin to the points of consumption for a profit.

In the case of goods the distribution may be direct or indirect through agents, middlemen and/or mercantile middlemen. But in the service sector, the distribution ought to be direct because of the characteristic of ‘inseparability.’ Both production and consumption of services take place at the same time.
In the context of banking, distribution refers to the establishment and functioning of a network of branches and other offices through which banking services are delivered. An extensive branch network helps a bank to have access to a larger section of the people. From the customer’s angle, it is the proximity and convenience of operation which plays a vital role in the selection of a bank, as their need for banking services is repetitive in nature. Thus, a suitable location of the bank, proper layout and provision of facilities for the customer are the key factors to get a majority of customers. The bank, in selection of a suitable location, should consider the factors such as the availability of parking spaces, traffic, the design and structure of the building, the internal layout and the maintenance of their premises (Venous Davar and Safaian Mitra, 2002). In the olden days, banks were imposing structures, designed to impress the elite section of society. In terms of their physical appearance they were more awe-inspiring than inviting. Butt the shift to mass banking and the resulting emphasis on the social approach have dictated the appearance of branch offices to be more customer-friendly. Besides, the structure of the building, the neat, clean, tidy premises, proper branch layout, i.e., position of the counters, space for movement, queuing in front of the counters, waiting lobbies etc., attract people to walk in. Maintenance of the branch is a regular process and not a one-time measure. “Fight dirt and remain clean” should be cultivated as part of organizational culture.
The place is more than physical place. It is where actual transactions take place. It can go beyond the bank premises. And this has been made more significant by technological advancements which have extended it to the doorsteps of the customer and even into the cozy atmosphere of his living room.

The following questions regarding place are relevant in Islamic banking in Iran:

- What are the prime locations available and can they be obtained to attract and retain target customers?
- Which places would be ideal for self-promotion to the public?
- Is transportation to the area pertinent and can it be used for self-promotion?

3.5 Evolution of Bank Marketing

In the earlier days, selling as a concept was looked down upon by bankers. They, as a breed, were known for their conservative approach. The bank building was created in the image of a Greek Temple calculated to impress the public with the banks importance and solidarity.
Marketing came to banks in late 1950s not in the form of the marketing concept but in the form of the advertising and promotion concept. Soon, however, it was realized that marketing transcends advertising and friendliness. In the 1960s, bankers’ attitudes towards marketing flourished and in the 1970s the bank marketing profession changed dramatically. In this decade, banks throughout Europe found it necessary to introduce the marketing function as a response to an increasingly competitive market place. The quality, integration and effectiveness of these functions naturally varied somewhat between banks.

The increasing inclination on the part of the banks towards marketing can be observed by the way the marketing function within the American Bankers Association (ABA) had shifted from one department to the other until marketing, itself, became a separate department. From 1959 to 1962, there was a subcommittee on ‘Market Research’ operating under the Economic Department. In 1963, Market Research at ABA teamed with the Automation Department because of the developments and application of the computer. Then in 1965, because of its relationship with other activities of the Association’s Public Relations Department, the market research function was combined with public relations functions; and the Department’s title was changed to the Public Relations and Marketing Department.’ In September 1966, marketing became a
separate department at ABA and the Advertising Department became a part of this new department.

Since then, with support from ABA, the member banks have achieved significant progress in marketing functions in America. By 1970 there was a formal marketing department in 55 per cent of the banks with deposits over $10 million (Kenneth, A, 1986).

3.6 Islamic Banking Financial Services

This section is concerned with the practical implementation of the Islamic banking theory. This will be done by discussing the implications for the main activities of a bank.

3.6.1 Collecting Deposits

Since interest-bearing deposits cause Reba of debt, Islamic banks offer two kinds of deposits: current accounts and investment accounts. Current accounts are similar to those offered by conventional banks. The deposited capital is guaranteed and made available to the client at any moment. No reward is paid on deposits. They are mainly used for transaction and safety purposes.
Investment deposits must remain with the bank for a certain, previously agreed upon, period. Customers open investment accounts to yield a financial return. Investment accounts are based on trust financing. The depositor is the financing partner, while the bank is the managing partner. The bank pools all investment deposits and searches for suitable investment opportunities. The return on investment (positive and negative) is then shared with the depositors, after the bank has deducted its own costs and a previously agreed upon fee for its efforts. The type of investment account and the terms of the deposit determine a depositor's share in the investment's return. A higher share of profit is paid for deposits with a longer maturity. In the event the investment is not profitable, the depositors share the loss. Their maximum liability is the deposited sum. Investment deposits can only be withdrawn prematurely by paying a certain fine (Schacht, J 1994).

3.6.2 Financing

Depending on the situation, Islamic banks can choose between PLS-financing, trade financing or lending. With respect to PLS, a client will, first of all present a detailed investment proposal to the bank. The bank will then decide whether or not to participate. If it does, it will usually do so on the basis of trust financing, assuming the role of financing partner so as not to be involved with the actual management of the venture. The contract between the bank and the
client should clearly stipulate the partners' responsibility and the profit sharing ratio. However, trust between both parties should prevail, so contracts should not be too restrictive and detailed. In practice, however, banks design extremely detailed contracts, thereby severely limiting the managing partner's freedom to act. Banks try to minimize all chances for the abuse of their funds. Furthermore, in practice, banks sometimes use their dominant position to renegotiate their profit share during the project, for example if profits are disappointing. According to Shariat, the conditions of the contract can only be altered with the consent of both parties. Some banks even try to avoid liability for losses, which is completely contrary to Shariat. The client should regularly report to the bank about the venture's progress, and should reveal all relevant information. In practice, however, entrepreneurs often inform the bank selectively, so as not to reveal sensitive information about their business. This illustrates that the ideal situation of mutual trust is seldom encountered.

With respect to trade financing, besides mark-up financing, other popular methods consist of leasing and lease-purchase. In practice, banks involved with mark-up financing limit the freedom of the final buyer to refuse an ordered object by requesting him to sign a contact of promise. Furthermore, these contracts impose uncontrollable obligations. Both elements are forbidden by Shariat.
Lending is possible in the form of overdrafts on current accounts or interest-free loans. In practice, not all banks allow overdrafts, and some charge a fee for overdrafts. Regarding interest-free loans, there is no uniformity among Muslim scholars about the question of whether a bank is allowed to charge a fee to compensate for administrative costs and for bad loans, i.e. no profit is received for these loans, only a compensation for costs. Strictly orthodox scholars will, however, not agree with loans bearing a fee. In practice Islamic banks only provide free costless loans for humanitarian and welfare purposes. After the agreed upon period, the debtor has to repay the loan, but in cases of financial distress, repayment may be postponed, in line with the Shariat.

From the perspective of Shariat, PLS-financing is the most desirable possibility and second is lending. Only in cases in which neither of these are suitable should banks resort to trade financing. In this respect, there is a great gap between theory and reality: in practice, 70% or more of all financing is provided through trade financing, whereas PLS never makes up more than 30% and usually much less( Schacht, J 1995).

3.6.3 Trading in Securities

A bank may trade in securities for its client, and ask a fee for it. The legal basis for this in the Shariat is the agency-contract. The fee, however, should be
fixed and reflect the costs and efforts of the bank. Hence, it may not depend on the sum in transaction, unless the size of the transaction influences the bank's effort.

A number of securities are not acceptable according to the Shariat; consequently Islamic banks may not deal with them. There are three types of securities: fixed-income securities, stocks and derivations. Fixed-income securities, such as certificates of deposit and zero-coupon bonds, are forbidden. They contain either explicit or implicit forms of interest, i.e. Reba in debts. Stocks are a legal form of trust financing. As with trust financing, dividends are normally distributed according to the capital-contribution ratio. In general, Islam has a positive attitude towards shareholdership and stock-markets. This holds good, of course, only within the legal framework of the Shariat. Speculative trade in stocks, or shareholdership in forbidden sectors, such as breweries, are illegal. A majority of Islamic scholars also reject shareholdership in firms that are in any way involved with interest-based financing. Preferred stocks form a special case: owners of preferred stocks are promised a fixed cash dividend periodically. This is similar to interest, and therefore illegal. A feasible Islamic solution would be to issue preferred stock with a preference dividend based on a pre-determined ratio of profit.
3.6.4 Other Banking Services

The fourth category of bank activities comprises services like payment and clearing of cheques, money transfers, safeguarding of valuables, purchase and sale of foreign currency, and financial advice. The legal basis for these activities is the agency-contract. Clients benefit from these services, and the bank has to incur costs to offer them. Hence, it is justified to ask for fee. When no extra effort is performed and no extra costs are incurred for repeated services, the bank cannot legally charge a fee. The fee must be proportionate to the effort and costs. It may not fluctuate with the size of the transaction, if size does not matter for cost and/or effort. Another important activity of banks is issuing letters of credit and guarantees. The legal basis for these transactions is the guarantee contract. As liability (guarantee) is one of the justifications for a reward, so a fee may be asked.

3.6.5 Social Activities and the Religious Supervisory Board

Islamic banks have to incorporate both profit and morality into their objectives. Consequently, supporting social welfare programs is a way of fulfilling their religious duty. Islamic banks finance social activities through the obligatory Zakat (wealth) tax and through voluntary donations.
In order to ensure that their operations conform to the Shariat, banks often need the advice of experienced religious scholars. Therefore, most banks employ a board of Islamic scholars. When confronted with a new problem, the bank should present a solution to the board, and seek its approval. The religious board also administers the Zakat-fund. Most boards have an orthodox approach, and try to apply the available Islamic jurisprudence as literally as possible. But where legal definitions are emphasised, too often legal tricks to evade the prohibitions of the Shariat are overlooked. Fictitious sale transactions are an example. By manipulating parameters such as the pay-back period, the selling price, etc., a transaction that is completely equal to an interest-bearing loan can be modeled, whereas, in reality, no real transaction occurs at all. In the long run, such tricks may undermine the authority of the Islamic banking movement (Wilson, R 1990).

3.7 Summary

With the change in the business environment from a seller’s market to a buyer’s market, the concept of marketing also changed. When the availability of the product was less than its demand the focus was on production. But when various products were made available to meet a particular need or want of the customer, emphasis was on quality and product improvement to win the customer. After that, it was understood that customer was the king and goods that satisfy the needs and wants of the customer should be produced.
As the services sector grew in importance and competition, intensified marketing concepts were applied to the services. Services are unique in their characteristics. They differ from physical products on the ground that they are intangible, inseparable from the provider, inconsistent depending upon the skill and efficiency of the provider and they cannot be stored. Organizational marketing, personal marketing, place marketing and idea marketing are a few other concepts that go with services marketing.

In the group of service-generating industries, we find that banking services occupying a place of outstanding significance. We can not deny the fact that with the development of economic activities, the banking sector could emerge as an industry. The public as well as the private sector has been found owning, managing and controlling the bank services.

As Islamic banking is used frequently by Islamic and non-Islamic countries, marketing of financial services provided by this system is necessary. Thus in this chapter, some of related concepts were introduced.

References


