CHAPTER 4

THE INDIAN FINANCIAL INSTITUTIONS INDUSTRY

4.1 GLOBALISED SCENARIO

"Change" is a continuous process and Financial Institutions is no exception to this natural law. Change in the Indian banking, life insurance and mutual fund industry is inevitable due to the implementation of the financial sector reforms and policies in the country. The main objective of financial sector reforms is to promote an efficient, competitive and diversified financial system in the country. Indian financial sector has undergone tremendous transformation after liberalization and globalisation process initiated from 1991. These changes have forced the Indian financial sector to adjust the product mix to effect the rapid changes in their process to remain competitive in the globalised environment.

4.2 CUSTOMER FOCUS IN FINANCIAL SERVICES

In India, the financial industry has been operating in a very stable environment for decades. The initiation of financial sector reforms in 1991, which included industry, trade, taxation, external sector, banking and financial markets, has a great impact on the Indian economy. It strengthened the fundamentals of banks and financial institutions of the Indian subcontinent (Purwar 2003).
As the intense competition becomes a way of doing business, it is the customer who calls the shot in deciding the nature of products and services offered in the market. The customers are becoming demanding, dominant and selective. In fact the perceptions and the expectations of the customers have undergone a sea change, with the availability of banks, life insurance and mutual fund services to the customers at their door steps through the help of technology.

Customer Relationship Management has emerged as a popular business strategy in today’s competitive environment. It is a discipline which enables the companies to identify and target their most profitable customers. CRM involves new and advance marketing strategies which not only retain the existing customers but also acquire new customers. It has been invented as a unique technique capable of remarkable changes in total output of companies. While the concept of relationship marketing was formally introduced in early 90s when financial services, airlines and other service institutions stated to ‘reward to retain’ the existing customers by introducing loyalty programs, CRM is only a product of the late nineties.

In the Post liberalization the Indian Financial Institutions was adopting push strategy in selling their products and the importance is not given in serving the customers.

The entry of more and more foreign financial institutions and new private sector financial institutions, with lean and nimble footed structure, better technology, market orientation and cost effective measures, have intensified the competition in the Indian Financial sector industry. Financial Institutions have also started entering into the domain of banks, life insurance and mutual funds. In recent years, the share of business of public sector banks and mutual funds has declined considerably. So there is a compelling need for the Indian banking, life insurance and mutual fund industry to modify its
marketing strategy to attract the customers and to withstand the stiff competition from foreign financial institutions and new private sector banks, life insurance and mutual funds.

The future of financial institutions business very much depends upon the ability of the financial companies to develop close relationship with the customers. In order to develop close relationship with the customers the financial companies has to focus on the technology oriented innovations that offer convenience to the customers.

Personalization is a strategy that can be easily differentiated and which cannot be simulated by competitors in the market. A good personalized idea will enhance in the increase of sales, improves the customer relationship. Personalization can be defined as serving the unique needs of individual customers. By improving the customer conversations the organization can improve the customer relationships. Personalized services are not only limited in cheering new sales, but its successful implementation allows the organization to improve its effectiveness and efficiency in serving the customers established already.

The insurance sector is seeking to maintain a balance between acquiring customers and developing existing ones, customer acquisition is vital, as no retention strategy will entirely stem customer defection. Insurance companies are experiencing unacceptable levels of customer churn, thanks to which they are focusing on keeping the customers they already have in a bid to ensure a net growth in their customer base. Today, the focus is on selling more products to existing customers to improve profitability. Customer-focused strategies require CRM (customer relationship management) to help acquire customers thorough various touch points and translate operational data into actionable insights for proactively serving customers.
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4.3 BANKING IN INDIA

Banking in India in the modern sense originated in the last decades of the 18th century.

- In 1839, some merchants in Calcutta established India’s first bank known as “Union Bank”, it is failed in 1848 due to economic crisis of 1848-49.
- 1863, “Bank of Upper India” was formed but it failed in 1913.
- In 1864, “Allahabad Bank” was established as a joint stock bank. This bank has survived till data and is now considered as the oldest surviving bank of India.
The largest bank, and the oldest still in existence, is the State Bank of India, which originated in the Bank of Calcutta in June 1806.

Bank of Bengal, Bank of Bombay and the Bank of Madras, all three of which were established under charters from British East India Company.

The three banks merged in 1921, to form the Imperial Bank of India, which upon India’s independence, became the SBI in 1955.

For many years the presidency banks acted as quasi-central banks, until the RBI was established in 1935.

The RBI, India’s central banking authority was established in April 1935, nationalized on 1st January 1949.

In 1949, the Banking Regulation Act was enacted which empowered the RBI “to regulate, control and inspect the banks in India”.

Nationalized 14 largest commercial banks from 19th July 1969.

Nationalization of 6 more commercial banks in 1980.

The Banking Regulation Act was amended in 1993 and thus the gates for the new private sector banks were opened.

Currently 20 Public sector banks plus State Bank of India with six associate banks, Regional Rural Banks, Co-operative Banks, 16 Private sector banks, Foreign Banks operating in India 33, Foreign Banks with Business in India 29, number of Foreign banks with representative offices in India and number of Indian Banks with Business Outside India.
4.4 CUSTOMER RELATIONSHIP MARKETING IN BANKING: INDIAN SCENARIO

The financial health of Indian Commercial Banks, in terms of capital adequacy, profitability, and asset quality, has improved significantly. This sector is experiencing major changes as a result of the economic reforms. The economic reforms have also created new and demanding customers (the ever-increasing Indian middle class) and the new mix of players consisting of the public sector units, private banks and the foreign banks. Because of this competition customers’ expectations regarding service and innovative products have risen (Ravichandran 2003).

Customer Relationship Marketing practices and optimising and maintaining customer relationships across diverse customer segments has been realised and practiced by all banks in India, the technology enabled CRM is still at a developing stage. Different Banks are at different levels of CRM adoption and implementation and majority of them can be considered to be at preliminary stages. Operational CRM is the most wide spread, but collaborative CRM is most evident in internet banking, mobile banking, ATM functions, POS devices and initiatives like availability of pass book printing machines to enable customers to update their passbooks themselves. Also SMS alerts at various significant customer service events are proliferating. Analytical CRM is being utilised but not by all banks. Here also a few illustrations of Indian banks using CRM will define a clearer picture of CRM in Indian banking.

Yes Bank has developed YCCRM (Yes Bank Collaborative CRM), the prominent features of which are ‘discussion boards’ and ‘templates’. These enable sharing of relevant customer information to all concerned staff members to design new products, provide proactive service, and informed
customer handling leading better service. It enables collaboration among staff and customers to create higher customer value through use of CRM software.

Punjab National Bank deployed CRM software with modules of Prospect Management, Lead Management, Activity Management, Product Management, Complaint Management and Business Intelligence Reporting. The payoffs are in terms of increased customer base, cross-selling, sales force optimisation, efficient lead management and higher productivity.

ICICI bank identified five functional areas which when integrated will give Bank its CRM Business Transformation Map. Core areas of transformation were business focus, organisation structure, business matrix, marketing focus and technology. The payoffs were: lower cost of ownership, efficient management of volume growth, greater responsiveness to market needs, improved operations, decrease in operational costs, reduction in turnaround time, and integrated platform for all applications of bank. The recent CRM application is enabling ICICI bank customers to perform transactions via platform of face book, a social networking site. This brings the bank one step ahead in providing convenience and service through CRM.

SBI’s Business Intelligence system integrates data from nearly 70 databases to form a single enterprise data warehouse model. The system generates 248 reports daily for top management and each of the branches have access to reports generated particularly for them. This has empowered decision makers to have actionable data lending to faster decision making based on latter’s information.

Bank of Maharashtra has developed in-house software which generates and updates a variety of reports on detailed customer information and sends to branches. These reports are utilized for better customer understanding, better customer support and service by access to relevant
customer information with all stakeholders to enable decision making and Business Development as well as retention activities.

4.5 LIFE INSURANCE IN INDIA

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmriti), Yagnavalkya (Dharmasutra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine.

- 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta.
- 1829 the Madras equitable has began transacting life insurance in Madras Presidency.
- 1871 the Bombay Mutual, Oriental (1874) and Empire of India (1897) were started in the Bombay Residency.
- This era, was dominated by foreign insurance offices which did good business in India, namely Albert Life Insurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.
- 1914, the Government of India started publishing returns of Insurance Companies in India.
- The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business.
- The earlier legislation was consolidated amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

- An Ordinance was issued on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year.

- The LIC of India had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

- The Insurance Regulatory and Development Authority (IRDA) was incorporated as a statutory body in April 2000, as an autonomous body to regulate and develop the Insurance industry.

- The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of upto 26%.

- Today there are 23 Private sector life insurance companies and Government of India fully owns 1 company i.e., LIC of India.

4.6 CUSTOMER RELATIONSHIP MARKETING IN LIFE INSURANCE - INDIAN SCENARIO:

The insurance sector is seeking to maintain a balance between acquiring customers and developing existing ones, customer acquisition is vital, as no retention strategy will entirely stem customer defection. Insurance companies are experiencing unacceptable levels of customer churn, thanks to which they are focusing on keeping the customers they already have in a bid to ensure a net growth in their customer base. Today, the focus is on selling more products to existing customers to improve profitability. Customer-
focused strategies require CRM to help acquire customers thorough various
touch points and translate operational data into actionable insights for
proactively serving customers.

While the CRM market in India is still nascent, bigger players such
as ICICI Prudential Life Insurance Company are adopting it in a big way.
CRM play a significant role in acquiring new customers. CRM lets us obtain
granular details about our customers, helping us to design better products,
 improve service levels and reduce operational costs. CRM has helped ICICI
Prudential Life capture five lakh customers through effective event-based
marketing and lead tracking to cross- and up-sell products.

Aviva Life Insurance Company India adds, “CRM helps us categorise and segment customers and align our products that best suit them”. Aviva says that CRM is helping them expand into rural areas. Aviva caters to close to 100,000 customers with its CRM solution. Players such as Birla Sun Life, Aviva, HDFC Life and MetLife are expected to adopt CRM tools as well in the near term.

Insurance firms spend close to 12 percent of their IT budgets on
CRM software and services. The sector is busy compiling data on individuals,
including their purchasing patterns and buying preferences of policies,
pension plans and the like. In many cases, policy renewal marketing to
existing customers remains an unsophisticated exercise, often amounting to
little more than a request to renew, with no attempt at putting a value
proposition before the customer. With a little help from CRM software,
insurance firms can sell multiple insurance policies and pension plans to the
same customer.

India has the highest number of life insurance policies in force in
the world. The industry is pegged at Rs 400 billion in India. Gross premium
collections stand at 2 percent of the GDP and this has been growing by 15 to 20 percent per year from the Life Insurance Corporation of India (LIC) and other government-owned insurers.

A couple of years ago, LIC dominated the insurance market with the help of its sales force and channels and margins were reasonably high. Today, there are close to 20 companies offering both life and general insurance products. All of them have equally strong international and local partners; all are focusing upon similar geographies and target audiences. The new firms selling life insurance and non-life insurance [pensions, insurance as saving, etc] have failed to emulate the LIC model because margins are getting squeezed. There are several pain areas that new insurance firms face—acquiring new customers, retaining them, cross-selling products and controlling rising costs while providing comprehensive support.

Insurance companies are joining hands with banks by becoming channel partners for insurance. Tata AIG has a marketing alliance with HSBC, Birla Sun Life has one with Citibank and IDBI and LIC ally with Corporation Bank, while Kotak Life Insurance has an arrangement with Kotak Bank. This strategy helps insurance firms increase their footprint to cover a larger part of the customer base in the 20-30 years demographic. CRM helps connect a bank’s high net worth customers with insurance firms.

4.7 MUTUAL FUNDS IN INDIA

The first mutual funds were established in Europe. One researcher credits a Dutch merchant with creating the first mutual fund in 1774. The first mutual fund outside the Netherlands was the Foreign and Colonial Government Trust, which was established in London in 1868. It is now the Foreign and Colonial Investment Trust and trades on the London Stock exchange.
The origin of mutual fund industry in India is with the introduction of the concept of mutual fund by Unit Trust of India (UTI) in the year 1963. The growth was slow, but it accelerated from the year 1987 when non-UTI players entered the industry. The mutual fund industry can be broadly put into four phases according to the development of the sector.

First Phase – 1964-87

- UTI was established on 1963 by an Act of Parliament. It was set up by the RBI and functioned under the Regulatory and administrative control of the RBI.
- In 1978 UTI was de-linked from the RBI and the IDBI took over the regulatory and administrative control in the place of RBI.
- The first scheme launched by UTI was US1964.

Second Phase – 1987-93

- Entry of non-UTI mutual funds, i.e., entry of Public Sector Funds.
Third Phase – 1993-2003

- With the entry of Private sector funds in 1993, a new era started in the Indian Mutual Fund Industry, giving the Indian investors a wider choice of fund families.
- 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed.
- The Kothari Pioneer (Now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.
- The 1993 SEBI (Mutual fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996.
- Many foreign mutual funds setting up funds in India, at the end of Jan. 2003, there were 33 mutual funds with total assets of Rs.1,21,805 crores, the UTI assets of under management was way ahead of other mutual funds.

Fourth Phase – Since February 2003

- This phase had bitter experience for UTI. It was bifurcated into two separate entities.
- One is the Specified undertaking of the UTI, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual fund regulations.
• The second is the UTI Mutual Fund Ltd., sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the MF regulations.

• As the end of September, 2004, there were 29 funds in India. Now currently nearly 45 funds, both public and private funds in India.

The Indian mutual fund industry has witnessed significant growth in the past few years driven by several favourable economic and demographic factors such as rising income levels and the increasing reach of Asset Management Companies (AMCs) and distributors.

Recent developments triggered by the global economic crisis have served to highlight the vulnerability of the Indian mutual fund industry to global economic turbulence and exposed our increased dependence on corporate customers and the retail distribution system. It is therefore an opportune time for the industry to dwell on the experiences and develop a roadmap through a collaborative effort across all stakeholders, to achieve sustained profitable growth and strengthen investor faith and confidence in the health of the industry.