UNIT 11 FINANCIAL SERVICES

Objectives

After studying this unit you should be able to :

- familiarise with the range of financial services available in India,
- explain the consumer behaviour in the context of financial services,
- explain the product, brand and other elements of marketing mix for the banking services, and
- understand the marketing strategies for the insurance services.

Structure

11.1 INTRODUCTION

Financial services markets play a prominent role in the mobilization of savings from all quarters of economy for useful inputs and for necessary formulation and implementation of various policies. This facilitates liquidity management in consonance with the macro economic environment. Regulators like SEBI, RBI and the Government of India monitor for the suitable sustained economic growth in the economy. In the Indian financial system funds flow into the main economy for growth, from financial institutions, commercial banks, insurance companies, mutual funds, provident funds, and from non banking finance companies. Of course the deposits and shares are mobilized from supplier of funds like individuals, businesses and governments.

Till early eighties, no one in the highly regulated banking/finance industry showed any inclination to innovate or market new financial products, given their respective roles as bankers or finance companies all offered absolutely the same products.

Product development or innovation of financial products interestingly requires very little or no additional investment. But the downside is that no brand can boast of a Unique Selling Proposition (USP) for long, as it can be copied immediately. Of course, the safeguard to some extent here is the very branding of the product.

Following is the list of some typical financial products available in the market:

- Savings and Recurring Account
- Current Account
- Fixed Deposits
- Retail Loan Products

- Commercial Loans
- Leasing and Hire Purchase
- Credit Cards
- Insurance
- Mutual Funds

Beside these, banks and finance companies provide a number of fee-based services such as merchant banking, issue management for raising equity from the market, foreign exchange advisory services etc.

In this unit we will be focusing on marketing issues related to banking and insurance.

Activity 1

Visit a commercial bank in your city and enlist the financial services offered by it.

....

....

....

11.2 BUYER BEHAVIOUR FOR FINANCIAL SERVICES

While making even the simplest purchase, consumers go through a complicated mental process. For us to appreciate the complexity of the consumer's buying decision, we need to understand the variety of individual influences on consumer behaviour; the impact of environmental factors such as family, social, and cultural influences on the consumer; and how these components are integrated in the consumer's mind.

A firm's marketing efforts interacts with non-commercial sources of information to stimulate the purchase decision process. This process is tempered by the individual influences on consumer behaviour, including motivation, personality, learning and perception. The process stops when the consumers lose interest or evaluates the product and decides not to make a purchase. If the purchase is made, the consumer has an opportunity to see whether the product satisfies his or her needs. If not, the consumer will discontinue the use of the product.

1. Individual Influences on Consumer Behaviour

The effort of the all marketing is to influences people's buying behaviour, but it is difficult to foresee the success of planned marketing programs because human beings are all individuals. Each behaves differently, thereby making mass consumer behaviour patterns we see everyday:

- People vary in their persuability. Some are easily persuaded to do something; others are skeptical and difficult to convince.
- Some people have very 'cool heads' and control their emotions. Others are 'hot heads' and get angry easily.
- Some people are loner, whereas others need the security of a crowd.
- Many people are oriented towards the acquisition of material things while some people are motivated mainly by spiritual matters.
- Some people spend their money cautiously while others spend their money extravagantly.

Many other contrasts in the behaviour of people could be noted such as interests in sports and hobbies, goal orientation, colour preference. All these affect consumers's buying decisions.

To further complicate the marketer's goal of influencing consumer behaviour, consider these observations. First, people's attitudes, beliefs and preferences change. What we have liked as children we may not like as adult. That includes products, activities and living conditions.

Second, individual behaviour is inconsistent and difficult to predict from one day to the next. An individual may like to go out and have diner today, but he may prefer to stay home tomorrow.

Third, people are often unable to explain their own behaviour. A man may say he brought a shirt because he needed it and it was at a discount of 30%. The real reason may be different.

People often do not understand why they behave as they do. And if they do understand their true motivations, they may fear expressing them. For example, a businessman who purchases a new Mercedes probably would be reluctant to admit it if the reasons for the purchase was his insecurity amongst his peer group.

Activity 2

Talk to your colleagues about some of the purchases of financial services that they have been making. Ascertain how over a period of time.

i) Their preferences have been changed.

ii) Their buying patterns have changed.

Can you furnish some explanation for these changes?

....

....

....

....

2. Family Influences on Buying Behaviour

We are aware as to how our needs and expectations change over different stages of our lifecycle. Your priorities as a teenager or a young adult or a family man are very different. These differences are important as they enable the marketer to fine tune his marketing effort by using family life cycle as a segmentation variable.

The family life cycle was developed in 1960 and was based on variables like martial status, number and ages of children, work status and age. It has since then, been widely used as a segmentation tool.

Because our age, income and family requirements, except for the basic necessities change over time, the family life cycle and identification of family needs over various stages of the FLC are useful inputs to the marketer. The family life cycle consists of 5 stages, the young bachelor stage, the full nest I, the full nest II, the empty nest and the solitary survivor stage. Expenditure priorities and need for money at different stages have interesting implication for the demand for various financial services. Table 11.1 gives you an idea of varying requirements of consumers for banking services.

Table 11.1: Family Life Cycle and Banking Needs

Stage	Financial Situation	Banking Needs
Young Bachelor Stage	Few financial burdens, per capita income high,income low as compared to future prospects	Credit Cards, auto loans, low cost banking services
Full Nest I Married with young children	Home buying a priority, liquidity low, may have working couples situation	Mortgage, Credit cards, Overdraft saving accounts Housing and durables loans
Full Nest II Older married with older dependents children	Income stabilized. Good financial position. Mid career, comfortable position, money involving matters	Home improvements loans Equity investment, certificate of deposits, money market deposit accounts, fixed or flexi-deposits, other investments services
Empty nest - Older couple, with children now not living at home, may be retired.	Significantly reduced income	Social security services, few loan services, health insurance services

Source: Adopted from Exhibit 6.4. The family life cycle and Banking needs "Marketing of financial Service", Ann Pezzullo, American Bankers Association, McMillan.

11.3 BRANDING OF FINANCIAL PRODUCTS

Branding, which is a major input in the marketing strategy of commercial products, can be successfully used in the marketing of financial services too. *Brand* is a broad term that includes practically all means of identifying a product e.g., the LIC logo, Citibank's "City" – schemes, Canara Bank's "Can"-schemes. *Brand name* is that part of the brand which can be verbalized e.g., Citihome, Canstar etc. *Brand mark* is that part of the brand which can be recognised but is not utterable e.g. the LIC folded hands symbol, Citibank's distinctive lettering etc. These constitute the logo of the company.

Branding is of two types – *individual branding* which is one-time affair like the Reliance public issue "Khazana" or *umbrella branding*, the practice of labeling more than one product with a single brand name e.g., Citibank's "Citihome, "Citimoble", and LIC's "Jeevan Dhara", "Jeevan Akshay"etc.

The concept of branding of financial products offers several advantages. Brands command customer loyalty for the product. Each brand has a consumer franchise which can be used to its advantage. Financial products aim to attract the investors to bring his savings into the market. This is quite a delicate task because the investor's money is involved. Most of the financial instruments are very similar. This is where the advantages of branding can be exploited. Branding can help in creating differentiation between the various financial products or public issues. Branding can also help to create some insulation from the competitor's promotional strategy.

A successful brand will be demanded by a consumer even if the price is slightly higher. Trust is the key element if people are expected to part with their money. A good name evokes that trust and gives the investors confidence that their money will be safe. Branding, especially umbrella branding, helps the consumers to decide whether to buy a product when the new product quality cannot be determined prior to purchase. Another strong advantage of branding is that good brands help to build the company's corporate image. In umbrella branding, the advertising and promotion costs of subsequent products can be reduced considerably. This is because the brand-name recognition and preference is already there.

Branding of financial products has arrived in India in a big way. The first example of the handling of a public issue was when NTPC came out with its "Power Bonds" in 1986. Since then, the investors have seen Reliance Petro-Chemical's "Khazana", Deepak Fertilizer's "Mahadhan" and others. Most of the major issues of 1989 were branded - Bindal Agro's "Goldmine", Usha Rectifier's "Usha Lakshmi", Essar's "Steel Bonds" and Larsen and Turbo's "L&T Vision". Banks too have gone in for umbrella branding in big way. For instance, we have a series of Canara Bank's schemes like, "Canpep", Canstar" and "Canstock", or, the series of Citibank's schemes – "Citione", "Citihome", "Citimobile". Even institutions like LIC have jumped on to the branding bandwagon with their schemes like "Jeevan Dhara" and "Jeevan Akshay".

The importance of brand name is crucial in the branding exercise. The brand name should not be a casual after thought but an initial reinforcer of the product concept. First, it should suggest something about the product's benefits and qualities. Secondly, it should be easy to pronounce, recognise and remember. Third, it should be distinctive.

There are a couple of things to be careful about while using umbrella branding. *Spillover* occurs when information about one product affects the demand for other products with the same brand name. Spillovers can be positive or negative. All products under the umbrella contribute to the brand's reputation. This joint estimate of quality is used to evaluate product. The company cannot control all the information revealed about its product, nor can it precisely determine how information will be shared by its umbrella-branded products. For instance, if customers are dissatisfied by "Citimobile" – this dissatisfaction can spillover to "Citihome" and other Citi schemes. Thus, it is imperative to maintain the quality of all the products under the umbrella brand, all the times.

A brand line should not be extended indiscriminately. Ries and Trout have called it the line extension trap when the new products added to the brand does more damage to the previous products than good. Any new product should be consistent with the established line. A "fit" is said to occur, when a consumer accepts the new product as logical and would expect it from the brand. The company should know when to draw the line about introducing new products with the same brand name. In other words, brand name should not be over-used. For instance, if Canara Bank introduces fifteen more "Can" – schemes, the investors will not only get confused but also begin to doubt the quality of the previous schemes.

Developing a brand requires a great deal of long term investment especially advertising, promotion etc. It is quite an expensive proposition and hence is worthwhile mostly for large public issues or long term plans like a bank's schemes. Nonetheless, the advantage of branding can easily be exploited by the marketers of financial products. With a little bit of caution and planning, branding can be as successful for public issues as it is for toothpastes or cigarettes.

Activity 3

Identify any financial services offered by bank, where an attempt was made to create a successful brand. Also identify the reasons, which make you think that it is a successful brand.

....

....

....

11.4 CHANNELS OF DISTRIBUTION FOR BANKS

The channels of distribution in financial services perform a number of key functions, as follows:

- Sales and offer of services and products, as well as advising customers.
- Contact and liaison with advertising and public relations agencies to assist in designing more effective advertising/promotional campaigns.
- Gathering of information necessary for planning marketing activities, strategy decision and product development.

In distributing financial services, firms employ a number of channels. The advantages of direct distribution channels – for example branches, used to be lower operational costs and more efficiency. In comparison, the selling through indirect channels offers convenience to the customers and more "impartial" advice, as in the case of agencies.

The Branch Network

Bank's major distribution outlets are their branches. The design and development of the branch network will be affected by :

- Characteristics of the products – importance of service quality, inseparability of the product, intangibility of the product.
- Customer needs – convenience, operating hours, availability of ATM, telephone banking, home banking and so on.
- Environment factors – legislation, development of information technology.
- Competitors – if a branch network is efficient, it will be a competitive advantage keeping up to date with changes made by competitors.

Advantages of the branch network includes:

- Its accessibility for customers.
- It keeps a bank's name in the public eye.
- The prime sites.
- Banks become accepted as an important member of the community.

Disadvantages of the branch network include:

- It is costly to maintain premises.
- The staff costs.
- The major investment involved – the amount of capital tied up in it.
- It is old fashioned, difficult to modernize.
- Small branches can be difficult to enlarge when expansion is necessary.

Branch location and distribution

As the roles and functions of financial services continue to grow in most countries, pressures are building up for more efficient distribution systems. Historically, for financial services, branches have essentially been retail outlets. Although in the last few decades or so the roles of the branches have changed, financial services customers still regard convenience of delivery as being decisive when choosing a financial organisation. Moreover, location decisions involves long-term commitment of resources and as such have implications on the long term profitability of the bank. In distribution of banking services the marketer is faced with a huge market that should be duly served. This market falls into two broad categories:

The mass (retail) market: Standard products, relatively inflexible in performance and cost, can be offered to this market. It spells out the requirements of geographical decentralization, standardized services, heavy advertising and promotion, attractive services and above all cost effective processes.

The individual (corporate) market: This market constitutes single orders of sufficient size of importance to be profitable singled out for individual treatment. It requires individualized services and counseling, such as comprehensive financial advise, the availability of research services and negotiated terms and so on.

Banks are now changing the image of their branches. Bank branches used to be serious, dull places that often intimidated customers. All the staff used to work behind security screens and this created an unfriendly atmosphere. Now, some security screens have gone, banking halls are brighter and a friendly atmosphere has been created that is less daunting for customers. Branches are more like a financial services shop. Newly designed branches are open, planned and many staff have moved into the banking hall to tables, to advise customers in a friendly way about financial matters, opening of accounts, solve problems or answering queries. Though the importance of ATM's, telebanking and internet banking is increasing, branches still continue to be the most important channel of distribution for banks.

Internet Banking

Security First Network Bank, an Atlanta (US) based saving bank, is one of the first international banks to go operational on the internet. Within 10 months of its launch in October, 1995 it garnered 5550 accounts and US$ 15 million deposits across the world. The services being envisaged by Indian Banks include:

- View transactions in their accounts, exchange messages with the officers concerned in the bank through a mailbox, request cheque book and get printed account statements, structure loans by asking a series of 'what if' questions and getting answers.
- Request for funds transfer between accounts, issue stop payment requests and standing instructions and do deposit modelling
- Have on-line connectivity providing the customer with the ability to directly debit and credit the account without the bank's intervention etc.

A study estimates that in a full service branch, the cost per transaction is US$ 1.07 as against US$ 0.54 for telephone banking, US$ 0.27 for ATM full service, US$ 0.015 for PC banking and US$ 0.01 for internet based banking.

Activity 4

a) Discuss with 15-20 bank customers, the uses and applications that they have been making of the electronic modes of banking. What are the specific advantages they perceive?

....

....

....

b) Very large percentage of existing bank customers however, do not avail of the electronic banking facilities. Discuss with some of these customers to elicit the reasons for their non utilization.

....

....

....

11.5 PRICING OF BANKING PRODUCTS/SERVICES

No discussion on marketing mix for banking services can be complete without understanding the concept of pricing and its importance, in detail. Pricing can be strategically used as a tool to meet/reduce the competition.

Pricing affects the product cost and also plays a key role in decision making of the buyers (customers). Pricing is affected by competition, seasonality and general trend of demand and supply. In short it can be said that the price is determined by cost, demand and competition in the market.

Price in the eyes of the consumer is the evaluation of the total product offering which includes the brand name, package, product benefits, service, delivery, credit extended etc. Price can be defined as the money value of a product or service agreed upon in a market transaction and can be shown as – PRICE = sum of expectations + satisfactions.

In a competitive market, price is determined by free play of demand and supply. Price will increase or decrease depending on increase or decrease in demand for product. Pricing decisions link the marketing actions with financial objectives of organisations.

Pricing affects:

1) Sales volume
2) Profit margin
3) Rate of return on investment
4) Product position
5) Image of the organisation

Price simply read can be described as "cost plus profit". Therefore, proper analysis of cost and proper decisions regarding profit level have direct impact on pricing decisions/strategy.

Normally direct expenses which vary with volume of production/sales are variable costs and indirect expenses are fixed cost.

A) Pricing Objectives

The pricing strategy to be adopted depends on the objective to be achieved. These objectives can be:

1) Growth in Sales – A low price can achieve higher growth in sales volume but may affect the profit level adversely.

2) Market Share- The customer acceptance is reflected by market share of a product and is an indicator of acceptability of price.

3) Competition- To face the competition, prices can be lowered to maintain sales or in the absence of it, prices can be revised but stable prices help in maintaining image or brand name and quality.

4) Pre-determined Profit – If a profit level is pre-decided as a policy, the price has to be maintained at a particular level despite other factors as to ensure attaining that objective.

5) Corporate objectives to have pay-back in a specific period also can affect the pricing and price level.

B) Pricing Methods

I) Market based pricing system

In order to understand consumers based inputs on pricing system, we should also take into account the market related pricing systems which adopt one or more of the following approaches:

i) Perceived value pricing

ii) Psychological pricing

iii) Promotional pricing

iv) Skimming

i) **Perceived value pricing:** This is based on the belief the consumers have about the value of products and pricing is based on these assumptions. This is supplemented by market research and if price is more than buyer – recognised value, it may affect sales whereas if price is less than buyer – recognised value, the revenue will suffer.

ii) **Psychological Pricing:** In many pricing systems, pricing is based on prestige – and can be kept higher to promote the idea of status and quality.

Many other times the price will be just below a round figure say Rs. 99.90 (to show it is less than Rs. 100) or Rs. 499.00 (i.e. not Rs. 500/- or above).

Sometimes instead of giving a 20% discount, the price per unit per-se will be constant (uncharged) but it is advertised that on purchase of 4 units one unit will be free.

iii) **Promotional Pricing:** This is used for promoting high level of sales or to clear excess stock which although is with a reduced profit margin.

iv) **Skimming:** This strategy is to 'skim and cream' i.e. adopting a high price approach. When the product is new and innovative and in a monopolistic or less competitive market, the price will be higher (like in mobile phones) which can be progressively reduced with entry of more producers.

II) Cost Based Pricing

There are four main cost based pricing methods which are :

1) Standard cost pricing
2) Cost-plus pricing
3) Break-even analysis
4) Managerial pricing

III) Competition Related Pricing Strategies

The competitive pricing means pricing to compete with the leader in the market with respect to the price. It can be either to set higher price initially and then to offer discounts known as 'discount pricing' or to significantly increase sales volume by competing with others already leading in the market by undercutting the prices significantly with the sole idea of penetrating the market.

11.6 PROMOTION OF BANKING PRODUCTS / SERVICES

Promotion is a generic term used for the communication efforts of the firm that are directed towards achieving the objectives of a marketing strategy.

The promotion efforts include the marketing communication through

- Advertising
- Sales Promotion
- Personal Selling
- Publicity
- Bank's internal communication process, etc.

These elements of promotion serve as the link between the Bank and the target segment of its market (customers). You may note that promotion does not mean only advertisements but a Bank's conscious communication efforts towards integrating its marketing strategies with business plans. Promotion thus means the Bank's well organized, planned and goal oriented communication efforts which must be in congruence with its overall business goals and objectives in the desired market area keeping specific needs of customer in mind.

In the service industry like Banking, promotion assumes all the more important position as what we really sell is 'abstract' thing i.e. service with the interest rates, range of product etc. being more or less same, the service given through proper promotional channel makes all the difference between two Banks in marketing context.

Promotion can thus mean 'communicating with the buyers (customer), in order to strengthen his attitudes that are favourable to the (Bank's) sellers' offering and to change his attitudes which are unfavourable to the sellers. This presupposes ensuring that such buyers become satisfied customers of the Bank, now or later.

a) Advertising

Although advertising is a very effective and most frequently used promotional tool in marketing of banking services, it is desirable to measure the effectiveness (impact) of an advertisement campaign. For this there cannot be any one criterion to assess the effectiveness. Normally below mentioned methods are used to measure effectiveness of advertising:

1) **Usage Measurement:** This is done through measuring business growth, interviewing consumers.
2) **Measuring Recalls:** This can be either unaided recall or aided recall – which assesses the extent to which advertisements are retained in customers' mind.
3) **Psychological Measurement:** This can be measured through interviews.
4) **Attitude Measurement:** This is done through structured interviews or attitude scales.
5) **Measuring Awareness:** This is done through YES/NO type questionnaires.

The success of advertising affects successful launching of product/schemes, customer's positive response of increase in business share. This can reflect in the business figures like Deposits, Advances, Profitability, etc. and the comparison of pre and post advertisement figures can reveal the visible effect of advertising campaigns.

It can thus be summed up that effective advertising is the technique of creative communication. It ensures co-ordination and application of various batches of the art and profession to achieve a pre-determined end i.e. to communicate a message to the public in general or to the desired segment of public/market in particular. Advertising is significant both as a social and economic force.

Advertising serves as a 'mouthpiece' for the organisation's objectives to be made public.

In simpler words, advertisement makes use of communication process with in-built psychological and sociological contents which influence the buyer's behaviour in advertiser's favour through a process cycle of – stimuli, response, motivation and reward.

Activity 5

Carefully look through bank advertisements on the television and newspapers. What are the major themes that have been used to promote the banks? List these themes.

....

....

....

Do the promotion efforts vary? How?

i) With the type of Bank i.e. public, private or foreign?

   ....

   ....

   ....

ii) With the type of product being marketed?

   ....

   ....

   ....

b) Sales Promotion

Advertising and Sales Promotion as parts of the marketing mix are integrated with the marketing objectives and they are often co-ordinated with other selling efforts.

As the name suggests, sales promotion is a collective name given to all measures used to promote the sales. Any sales by an intending seller of a product presupposes a corresponding buyer and , therefore, to sell anything the buyer has to be made aware about the product and its advantages to the buyer. The visible benefits of the product have to be demonstrated to facilitate buyer's decision to buy that product.

In a controlled economy and market if the competition is low or less, sales promotion may not be necessary if there is only one seller and many buyers but in a competitive market place, the importance of sales promotion cannot be undermined.

In Indian context in general and in marketing of banking services in particular during the launching of product, sales promotion is an important task.

Before deciding the sales promotion strategy it is important to keep in mind following three essentials:

i) **Product Knowledge:** This is first essential. The employees and specialized staff promoting a scheme/product must have the through knowledge of both the advantages and disadvantages of the product. Only after ensuring the market demand and specific needs of customers, the product/scheme has to be launched with full details made available to staff before hand to promote this product in a better way.

ii) **Market information:** This means knowing who will buy the product, when he will buy and why he will buy? This gives an idea about the probable market share and enables to decide promotion (selling) strategy to specific segment of the market. This also enables the seller to decide on the advertising through proper media keeping in view the specific needs of the potential buyers.

iii) **Reaching the customer:** After ascertaining the market and ensuring proper product knowledge to all concerned; when it's time to reach the customer, the campaign has to take into account :

a) TIMING – to launch the product;

b) APPEAL – to target audience; and

c) GEOGRAPHICAL TIMING: to ensure that when the customers respond, in adequate quantity, product will be available at all probable locations of demand.

Personal Selling: Sales promotion also can be done through personal selling. In banking context, it is the person at the counter who is the primary contact point with both existing and potential buyers (customers). Well informed and well-trained staff at the counter, eager to explain the schemes to the customer using smile, courtesy and proper communication process can ensure successful sales promotion through personal selling, within the branch, across the counter.

The pro-active approach of the staff and projecting a harmonious image of the bank taking keen interest in customers' interest can do wonders to boost the image and increase business of the bank. Seminar, exhibitions, deposit mobilization-month/fortnight, branch anniversary etc. are some of the other special sales promotion measures taken by banks.

The sales promotion is very important instrument which smoothens the process of selling a product to the customer successfully. A well thought strategy of sales promotion, like planned advertising, should be looked at as an investment and not just another expenditure. Sales promotion is a bridge between advertising and actual selling in the field. Like the sum 2 + 5 = 5, when proper advertising is added with sales promotion, publicity and personalized services it can bring rich dividends in promotional efforts.

c) Publicity

The Oxford English Dictionary gives definition of word "Publicity" as : "The quality of being public, the condition or fact being open to public observation or knowledge- the business of making goods or persons publicly known".

The publicity differs from advertising not in its aim but in its technique/s. While the latter has a more specific job to do i.e. inform and motivate, publicity seeks to interest and draw attention, without essentially motivating or informing the public

Publicity can be good or bad. With high customer expectations and presence of various consumer councils these days it is just possible that a branch of a bank can get wide bad publicity for some mistakes/flaws or inadequacies in giving service.

The publicity handouts or press releases are the commonest form of publicity. Such a press release must

i) give specific facts

ii) not give any sales promotion suggestion

iii) be accompanied by photograph

iv) be prepared/sent well in advance of the function/event. Publicity normally is not paid for by the organisations. It comes through good liaison with press reporters, journalists and column writers. Good public relation strategy usually compliments publicity to boost the bank's image.

Publicity does the job of reducing ill effects of bad news and also increases positive effect of goods news if properly backed by proper public relations.

e) Internal Communication

Thus far we have seen the various promotional measures that are required in the communication process to achieve the corporate goals and objectives of the banks.

In order to supplement such external communication measures, most of the banks also have internal communication strategies in the form of an annual budget or business and corporate plan which spell out its goals, objectives and targets during the financial year.

The expectations of the CMD are conveyed with respect to corporate goals using past data and changes in economy and business environment appealing to the managers/staff to realistically assess the business potential in the common area of their branches and to arrive at revised business targets as expected by corporate goals based on analysis of market and potential of branches. Motivational techniques and recognition measures are used in such an exercise of budget or business plan.

The success of such an exercise largely depends on the realistic assessment of past data and realistic targets set. The utilization of the top-bottom communication ensures positive feedback/response from bottom to top.

Besides business plan exercise, internal communication also involves:

1) House Journals
2) Circulars
3) Corporate objective/Business plan booklets
4) D.O. letter for encouragement/appreciation
5) Posters etc.

11.7 INSURANCE

a) Need for Marketing Insurance Services

Thre is an enormous scope to exploit the potential market and raise per capita life premium. The need for marketing insurance services also arises due to following factors:

– The insurance products have a distinct feature where benefits of the product comes at the later date and at times after a considerable time.

– The demand unlike consumers products is not inbuilt.

– Among the financial services too the insurance sector gets the least priority as other investments avenues provide immediate yields.

– In case of life insurance the case is further complicated as in India people have belief, traditional culture and religious background and tendency to leave everything to fate. This happens specially in rural areas.

– The rural market is still untapped. The insurance sector is yet to exploit this segment which have vast potentialities.

– The concept of proper financial planning, taxation and investment is still lacking among the middle class strata.

– Over the period of time the L.I.C. have come out with multipurpose better yielding attractive terms insurance's policies which certainly needs effective marketing to wipe of the synergic ideas in the minds of people that life insurance policies are mainly for death hazards.

– The General insurance have wide scope for marketing as small and medium business entrepreneurs are yet to reap the benefits of general insurance schemes.

b) Scope for Growth of Marketing Insurance Services

The scope for marketing insurance services is vast and thereby marketing of insurance services needs a re-look. There are number of impending changes that are likely to make this sector more dynamic. The Insurance Regulatory and Development Authority (IRDA) has been established in 1999 for promoting, regulating and strengthening the insurance sector. The following factors may further induce promotion of marketing activities in the insurance sector.

a) IRDA aims at promoting the regulating professional organizations connected with insurance and re-insurance business.

b) The insurance sector is thrown open to private and corporate sector. This will certainly expand the business dimensions.

c) There is also a move to specify the percentage of life insurance business as well as general insurance in rural and social sector.

d) With the increased spirit of investment education and awareness there are already indications of increased participation.

e) The yield on other avenues of investments such as banks, other financial institutions, mutual funds, capital market have come down and almost at par with insurance investments. This trend will further enhance the scope of marketing insurance services.

f) Service standards are bound to improve and insurance premium should come down once the insurance reforms takes place. With such a positive development the marketing scope would further increase.

g) The process of privatization will bring in many customer friendly insurance products.

h) The marketing of insurance services would take together new shape once banking services, insurance selling and fund management are all inter-related.

i) Though the market of general insurance is smaller in comparison to life insurance nevertheless the scope of growth is ample.

j) The Budgetary provision have provided additional tax saving opportunity to certain specified insurance products such as pension policies. This will give further fillip to marketing strategies.

Activity 6

Against the backdrop of recent opening up of the insurance sector, what do you think are the marketing implications for nationalist providers like LIC and GIC?

....

....

....

....

c) Strategies for Effective Marketing

Selling of services are different from goods in that, they are sold before production and consumption take place. Goods are purchased first then sold and consumed.

Services also have particular characteristics such as their intangibility and variability where they are difficult to standardize. This makes it more difficult for customers to evaluate them (especially when they have no understanding of the service being provided and are relying on professional competence). This assumes significant importance in case of insurance services.

Opening of insurance to private insurers has potential of increasing sales in different segments because of:

1) Sophisticated and knowledgeable selling by qualified agents,
2) Cost effective products,
3) Increased use of "Family Package" policies (A good product-mix)
   i) Widowed mothers
   ii) Un-married mothers
   iii) Single parent family
   iv) Multipurpose products

However to augment the business in this sector and exploit huge resources available in the markets, effective marketing strategies will have prominent role. The majority of insurance business is undertaken by the agents nominated for the purpose. They have crucial role in mobilising the business. Therefore their professional approach to consumers assumes significant importance. The following aspects have to be considered in this regard.

Awareness about Demographic Changes: An agent must keep himself aware of latest trends, such as:

i) With increase in "Average Life Span" in our country, the number of aged persons are on the increase every day. Therefore, the financial problems of longer retired life are no less than those of early death. In future insurance market of Annuity and Pension plans is going to expand significantly.
ii) Restructuring of national economy has brought in its wake many Voluntary Retirement Schems. The employees affected from these schemes form potential group of pension or Annuity Schemes.

Product Knowledge: It is obvious that a life insurance agent must know the product he is selling. What he is selling is an INTANGIBLE commodity. Therefore, an agent should not have superficial knowledge about various types of policies. He must be able to draw out the philosophy behind the launch of a product or insurance plan.

Ability to Convince: Imagine a situation where an agent says to his client "I will got to my office and find out." Such a salesman will not be able to convince his prospects. KNOWLEDGE IS POWER: Yes, it has the powers to convince others. An agent, in order to be successful must attain training sessions or seminars on insurance whether held by his company or outside agency. He should make it a habit to read daily the material connected with his profession.

Consumer Orientation: A customer is always right because he is the cause of your profession. You are for him. There may be many agents who are interested in him. Why he should be interested in you only? Here lies the secret of your skills of salesman. Therefore, an agent has to so establish himself as to enable the client to think that Agent cares for his interests, i.e.

i) Agent understands his needs.

ii) Agent is considerate towards his difficulties.

Selling Right Type of Policy: An agent should never go by his personal gains. The benefit of the customer (life assured) should be uppermost in his mind. It is said a stitch in time saves nine. However, for an insurance agent a right advice brings nine opportunities. Therefore, always sell the right type of policy.

Activity 4

Contact at least 5 people who have tried to claim their motor insurance or household insurance policy in the event of a mishap. On the basis of their feedbak, note the kind of problems customers may face while collecting policy claims. What is the advise that you would have for the marketers of insurance on the basis of the feedback collected by you.

....

....

....

d) Role of other Institutions in Marketing of Insurance Services

An open entry has been permitted to private corporate sector, foreign institutions, banks and other financial institutions to the insurance sector. The systematic and planned marketing strategies by new entrants in the market will certainly give a different shape to marketing practices for various kinds of insurance services. We may mention the possible out come benefits as under:

a) Banking services, insurance selling and fund management are inter related synergies. Therefore insurance selling by banks are mutually beneficial to banks and insurance companies. Banking products offer insurance product through the banking channel will complement banking.

b) With the entry of corporate sector with sophisticated technology, the quality of services will improve significantly and so is the cost effective products. This will certainly widen the market horizons.

c) The regulations and controlling measures by IRDA would provide protection to investor.

d) The professional training institutes will also have important contribution in training the personnel and thereby sharpening their professional skills. It will have positive development on marketing of insurance services.

e) There is also a need to expose institutional structure more particularly in the marketing segment to rural and semi-urban areas.

The efficient and well organized marketing strategies will bring more number of investors to insurance services and large population uncovered so far will have advantage of access to this sector.

Exhibit 11.1

Financial Services Firms and Product Innovations

Developing new products is of prime importance for organisations. The financial sector is also recognizing the increasing importance of new products. Due to the rapidly increasing level of international competition there is a growing need for product innovation in banking and insurance products. The service characteristics of intangibility and inseparability raise a number of issues related to new service development. The main problem regarding intangibility is that people cannot feel, see or touch the product being developed, which means that people should work closely together in the development process. Prototype is hardly possible. Intensive communication is needed between the people involved in developing the new services, maybe even more than would be the case in manufacturing. The simultaneity of production and consumption (inseparability) warrants strong customer and user involvement in the process.

Becoming more innovative requires alterations at the deepest levels of the organisation. They key changes that are required to become more innovative are concerned with the organisational structure, the underlying values and beliefs and information technology. An important issue in becoming more innovative in the financial services is to designate explicitly a ‘place’ for product development. Also, considerable attention has to be given to changes in the value system of the organisation. Generally, banks and insurance companies are diffused with stability. Employees in these companies have to get used to a special product development function and its importance. Role of IT in product innovations has also to be understood. Changing the perspective and investing in IT would help in increasing the innovations potential of many banks and insurances companies

Source: Patrick Vermeulen, “Managing Product Innovation in Financial Services Firms”, European Management Journal, Vol.22 No.1 pp. 43-50, Feb 2004.

11.8 SUMMARY

This unit explored the basic concepts for understanding the way a consumer believes in selecting and consuming financial products and services. In order to be able to manage their marketing effectively, marketers of financial services must understand why and how people believe, so that the pricing, distribution and communication of the organisation’s offer can be profitably offered to its target markets. Apart from needs and perceptions, a number of individual variables like consumer learning, their personality and self concept as well as group variables like family culture, sub-culture, reference groups and society affect buyer behaviour.

The key elements in determination of the marketing strategies for financial services are the marketing objectives of the organisation, its target segment and its marketing mix. The process would involve the best possible selection of the elements of the marketing mix to enable the greatest degree of fit between the needs and wants of the selected target group and the organisation services offer such that the exchange process results in value creation for the consumer and the organisation. Once the organisation, looking at the needs of the target market determines what is sold to whom (decision on the service product), the pricing, promotion and distribution will be easier to determine. In practice, the determination of these elements involves a thorough understanding of buyer preferences and company capabilities. In developing a marketing strategy for financial services, marketers would thus need to go through a two steps process: First to select or identify its target market or markets and then to design a marketing mix to meet the needs of the target market better than its competition can. In this unit you have been explained in details the branding, pricing, distribution and promotional strategies for banks.

The insurance services in our country have wide scope for growth. A large number of investors could be covered with effective marketing practices. The operational difficulties encountered so far in effective marketing will altogether have a new look henceforth due to large number of players in the market. The professional skills to mobilize the business will have key role in competitive environment. With the increased participation by various segments, the role of other institutes will also increase considerably. Need and strategies for effective marketing of insurance services have been outlined in the unit.

11.9 SELF-ASSESSMENT QUESTIONS

1. Discuss the individual and family influences on buyer behaviour for financial services.
2. Explain the importance of branding in marketing of financial services with the help of suitable examples.
3. Explain the development of different types of bank branches and other models of delivery of banking service.
4. Explain briefly various methods of pricing financial products.
5. Define Promotion. What should be a 'Good Promotion Blend', for marketing banking services?
6. Explain with the help of examples how effective marketing can be useful in enhancing the insurance business.